Grafton Group plc
Half Year Report
For The Six Months Ended 30 June 2019

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£m[1]	H1 2019[2]	H1 2019 Pre IFRS 16	H1 2018 Restated[3]	Change[4]
Revenue – total	**1,483**	**1,483**	1,448	+2%
- Revenue – continuing operations	**1,438**	**1,438**	1,403	+2%
- Revenue – discontinued operations	**45**	**45**	45	+0%
Adjusted[5]				
Operating profit before property profit	**99.2**	**93.0**	88.0	+6%
Operating profit – continuing operations	**103.9**	**97.7**	92.4	+6%
Operating profit – discontinued operations	**0.6**	**0.4**	0.1	+300%
Operating profit – all operations	**104.5**	**98.1**	92.5	+6%
Profit before tax	**90.9**	**94.3**	90.0	+5%
Earnings per share – basic	**31.4p**	**32.6p**	30.8p	+6%
Statutory results				
Operating profit	**101.2**	**95.1**	90.0	+6%
Profit before tax	**88.2**	**91.6**	87.6	+5%
Earnings per share – basic	**30.5p**	**31.7p**	30.0p	+6%
Dividend	**6.5p**	**6.5p**	6.0p	+8%
Net debt	**540.5**	**0.1**	101.7	(£101.6m)
Adjusted operating margin pre property profit	**6.9%**	**6.5%**	6.3%	+20bps
Adjusted operating profit margin	**7.2%**	**6.8%**	6.6%	+20bps
Return on capital employed	**12.9%**	**15.0%**	14.0%	+100bps

[1] *Supplementary financial information in relation to Alternative Performance Measures (APMs) is set out on pages 43 to 54.*
[2] *A bridge between the pre IFRS 16 and the related IFRS impact is set out within the APM's and detail is also in Note 22.*
[3] *H1 2018 has now been restated as Belgium Merchanting is classified as a discontinued operation. Details are set out in the APM's.*
[4] *Change relates to H1 2018 v H1 2019 pre any IFRS 16 "Leases" impact.*
[5] *The term "Adjusted" means before exceptional items and amortisation of intangible assets arising on acquisitions in both periods.*

Highlights

- Revenue up 2% to £1.4 billion – 3% increase in constant currency
- Further positive progress towards medium term pre IFRS 16 financial objectives with adjusted operating margin increasing by 20 bps to 6.8% (2019 reported 7.2%) and ROCE up by 100bps to 15.0%
- Strong organic growth in Merchanting and Retailing businesses in Ireland
- Good growth in Netherlands and scale of business increased with Polvo acquisition
- Operating profit margin ahead in UK merchanting business in a softer market
- Conditional agreement to exit the Belgium business announced today – business reclassified as held for sale / discontinued operation
- Strong pre-IFRS 16 cash flow from operations of £118.9 million (2018: £109.7 million) (2019 reported £157.6 million)
- 8% increase in dividend in line with progressive dividend policy
- IFRS 16 applies from 1 January 2019 - implementation of accounting standard has a significant impact on the measurement and presentation of the financial statements but no economic impact on the Group.

Gavin Slark, Chief Executive Officer commented:

"*We made good strategic and operational progress in the first half of 2019 which supports the ongoing improvement in the underlying quality of our business. Despite the uncertainty in the U.K., the Group continues to benefit from the strength of Selco's market position and our higher returning, growth businesses in Ireland and The Netherlands. Our focus remains on delivering growth in shareholder value and a great experience for our customers and colleagues*."

Webcast Details

A results presentation for analysts and fund managers will be hosted by Gavin Slark and David Arnold today 30 August 2019 at 9.30 am (GMT) at the London Stock Exchange, 10 Paternoster Square, London EC4M 7LS. The results presentation can be viewed/downloaded at www.graftonplc.com and a live webcast of the results presentation can be accessed on www.graftonplc.com/webcasthy19. A recording of this webcast will be available for replay later today on the Group's website.

Enquiries:
Grafton Group plc + 353 1 216 0600
Gavin Slark, Chief Executive Officer
David Arnold, Chief Financial Officer

Murray + 353 1 498 0300
Pat Walsh

MHP Communications + 44 20 3128 8549
Andrew Jaques/Rachel Mann

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

Half Year Report
For the Six Months Ended 30 June 2019

Group Results

Grafton is pleased to report on a period of further growth and strategic development activity. The Merchanting and Retailing businesses in Ireland in particular were key contributors to growth with operating profit advancing by 11.7 per cent in constant currency. Good growth was also reported by the Netherlands merchanting business while the outcome in the UK merchanting and manufacturing businesses was satisfactory in a softer market.

The improved performance supported an increase in adjusted operating profit margin by 20 basis points to 6.8 per cent and an increase in return on capital employed by 100 basis points to 15.0 per cent.

Merchanting

The overall **UK** merchanting business realised modest growth in revenue and adjusted operating profit before property profit. Selco achieved a good advance in operating profit that was partly offset by competitive conditions in the traditional builders merchanting business. Uncertainty about the near term prospects and outlook for the UK economy and some reluctance by households to spend on home improvements contributed to weaker demand in the residential repair maintenance and improvement ("RMI") market.

The market leading merchanting business in **Ireland** continued to increase revenue organically driven by growth in the residential RMI market and continued growth in house building. Operating profit advanced by 12.5 per cent in constant currency and the operating profit margin before property profit increased by 40 basis points to 8.5 per cent.

The **Netherlands** business, which trades in the ironmongery, tools and fixings segment of the merchanting market, saw a continuation of positive trading conditions with some easing of the strong trends of recent years as growth in the economy and construction sector moderated as expected. Good growth was reported in operating profit and the operating profit margin increased by 20 basis points to 10.7 per cent.

Completion of the 51 branch Polvo acquisition on 1 July 2019 was a significant milestone in the strategic development of the Netherlands business and consolidates its leadership position in the market where it now trades from 113 branches.

The **Belgium** merchanting business increased revenue and profitability in the period and accounted for three per cent of Group revenue and 0.4 per cent of Group operating profit in the half year. We conducted a strategic review of our operations in Belgium in the context of the Group's allocation of capital and its future growth prospects. This resulted in a decision to divest and we initiated a process to sell the business. Today we announce that the Group has entered into a conditional agreement for the sale of the business which is expected to complete later this year. As a result, the net assets of the Belgium business have been classified as held for sale with the results shown as discontinued operations. The impact on the income statement was an exceptional charge of £26.0 million included in the result from discontinued operations.

Retailing

Woodie's, the market leader in the DIY, Home and Garden market in Ireland, benefitted from favourable trading conditions and a good response from its customers to the continued development of the Woodie's offering. The business reported double digit growth in operating profit and the operating profit margin increased by 60 basis points to 8.1 per cent.

Manufacturing

CPI EuroMix, the market leading mortar manufacturing business that operates nationally from ten plants in Great Britain, was a significant contributor to Group profitability. There was a small decline in operating profit compared to the exceptional growth reported for the first half of 2018 in a market that has positive long term prospects.

Property Profit

The Group realised a profit of £4.7 million (2018: £4.5 million) and cash proceeds of £8.2 million from the disposal of surplus properties in Ireland and the UK.

Cash Flow

The Group continued to be very cash generative with pre-IFRS 16 cashflow from operations of £118.9 million (2018: £109.7 million). The Group had pre-IFRS 16 net debt of £0.1 million at 30 June 2019 having started the year with net debt of £53.1 million. The Group's net debt increased on 1 July 2019 with the acquisition of the Polvo business in the Netherlands for £117.5 million (€131.0 million) on a debt and cash free basis and ended the period with a strong balance sheet.

Dividend

The interim dividend has been increased by 8.3 per cent to 6.50p from 6.00p. The increase is in line with the Board's progressive dividend policy which is based on increasing dividends as earnings grow.

Brexit

The central scenario for our forecasts is that there is a sensibly negotiated Brexit agreed between the UK and the EU though we expect to experience continued market uncertainty until a clear resolution is agreed. We will continue to manage stock levels as a principal tool to mitigate the potential risk of disruption. In the event of a 'hard' Brexit we would expect the UK and Irish macro economic environment to weaken in the short term compared to our central scenario.

Outlook

In the UK, there is a softer market backdrop and we therefore expect some continuing volume and pricing pressure in the merchanting market. As a consequence we remain focused on self-help initiatives.

Elsewhere, the outlook for the Irish economy remains positive and while some moderation in the pace of growth in consumer spending is expected following the strong performance of recent years, underlying trends in this geography remain positive. As a result, we anticipate continued growth in our strongly positioned merchanting and DIY businesses.

The overall outlook for the Netherlands economy also remains favourable with growth set to continue to moderate. The recent acquisition of Polvo provides an excellent opportunity to leverage the increased footprint of the combined branch networks.

Average daily like-for-like Group revenue increased by 3.0 per cent in July comprising growth of 1.4 per cent in UK Merchanting, 5.9 per cent in Irish Merchanting, 0.5 per cent in Netherlands merchanting, 16.9 per cent in retailing and a decline of 0.1 per cent in Manufacturing.

We have a strong balance sheet to support our growth plans and notwithstanding some near term market uncertainty we look to the future with confidence.

Operating Review – Continuing Operations

The net assets of the Belgium merchanting business have been classified as held for sale and the results are presented as discontinued operations, details of which are shown on page 10 and in Note 14. The 2018 figures have been restated to conform to the current year presentation.

Merchanting Segment* (90% of Group Revenue)

	H1 2019 £'m	H1 2019 Pre IFRS 16 £'m	H1 2018 Restated £'m	**Actual Change
Revenue	1,296.7	1,296.7	1,264.9	+2.5%
Adjusted operating profit before property profit	87.9	83.3	78.8	+5.6%
Adjusted operating profit margin before property profit	6.8%	6.4%	6.2%	+20bps
Adjusted operating profit	92.6	88.0	83.3	+5.6%
Adjusted operating profit margin	7.1%	6.8%	6.6%	+20bps

** Excludes Belgium Merchanting*
***Actual change represents the movement pre IFRS 16 adjustments*

The merchanting businesses in the UK, Ireland and the Netherlands contributed 90 per cent of Group revenue (2018: 90 per cent). Overall average daily like-for-like revenue was up by 3.9 per cent with trading conditions favourable in the merchanting markets in Ireland and the Netherlands and relatively flat in the UK.

UK Merchanting

	H1 2019 £'m	H1 2019 Pre IFRS 16 £'m	H1 2018 £'m	*Actual Change
Revenue	989.5	989.5	976.0	+1.4%
Adjusted operating profit before property profit	59.6	55.5	53.7	+3.3%
Adjusted operating profit margin before property profit	6.0%	5.6%	5.5%	+10bps
Adjusted operating profit	60.5	56.5	58.2	(2.9%)
Adjusted operating profit margin	6.1%	5.7%	6.0%	(30bps)

** Actual change represents the movement pre IFRS 16 adjustments*

Activity in the UK merchanting market was impacted by economic uncertainty which contributed to general weakness in UK house prices, property transactions and mortgage approvals.

The UK merchanting business benefitted from a strong start to the year with growth in average daily like-for-like revenue of 4.8 per cent in the four months to the end of April and a small contraction in May and June, measured against very strong growth of 5.8 per cent in the same period last year, leading to overall daily like-for-like revenue growth for the half year of 2.8 per cent. Materials price inflation is estimated at 2.0 per cent and volumes advanced by 0.8 per cent.

New branches generated revenue growth of 1.3 per cent (£12.9 million) and the Leyland SDM acquisition contributed incremental revenue growth of 0.6 per cent (£6.1million). The disposal of two small non-core businesses and branch consolidations reduced revenue by 2.6 per cent (£24.9 million) which together with an adjustment for one less trading day resulted in overall revenue growth of 1.4 per cent.

The gross margin was flat in competitive markets and the adjusted operating profit margin before property profit increased by 10 basis points to 5.6 per cent. As a consequence of lower property profits in the UK, the adjusted operating profit margin including property profit was 30 basis points lower at 5.7 per cent.

One less trading day in the half-year compared to the prior year reduced operating profit by circa £2.0 million.

Selco Builders Warehouse, the retail style merchanting model for trade and business customers, reported mid-single digit growth in revenue that reflected broadly flat volumes in the like-for-like business and incremental revenue from the opening of seven branches in 2018, six of which were opened in the first half of the year.

Demand in the RMI market was impacted by economic uncertainty which made households cautious about spending on discretionary improvement projects on their existing homes and on moving home, both of which are key drivers of RMI activity. The decline in house price in the Greater London Area, which accounted for 71 per cent of Selco's revenue in the period, also contributed to weakness in the RMI market.

A new Selco branch will be opened later this year in Kingston-Upon-Thames and the business is working on a pipeline of new branch opportunities that are expected to open in 2020 and beyond. Four of the longest established branches in the estate were upgraded in the first half. A new delivery-hub was opened in Edmonton to undertake deliveries for four branches in North East London which has freed-up branch capacity, improved branch health and safety standards and created a more positive customer experience. The large branch in Cricklewood was successfully relocated at the end of its lease in December 2018 and has traded in line with expectations for the half year.

A new "Click 'N' Deliver" service introduced in April for bulky building materials including sand, cement, timber and sheet materials complements the existing Click & Collect service.

Selco reported strong growth in operating profit due to a reduction in store opening costs, an increase in the gross margin and increased profitability from the store opening programme in prior years.

Leyland SDM, London's largest specialist decorators merchant that trades from a unique portfolio of 21 convenience led high street locations in central London, performed well in a relatively flat market. The incremental effect of the business being acquired on 18 February 2018 increased profitability in the half year. Targeted operational efficiencies, procurement gains and a reduction in overheads also contributed increased profitability and a solid increase in the operating profit margin. Development of the branch network in prominent locations in London will continue with the opening later this year of branches in Maida Vale and Streatham.

Buildbase had an encouraging start to the year before the market lost some momentum in May and June resulting in overall marginal growth in revenue for the half-year. The market remained highly competitive with pricing pressure, which was partly offset by procurement gains, negatively impacting the gross margin. Increased costs associated with implementing the new trading and back office ERP system and margin pressure resulted in operating profit finishing behind the prior year.

The back office modules of the new ERP system have been successfully implemented and the first branch has recently gone live with rollout to the remaining branches scheduled to occur on a phased basis over the next 18 to 24 months.

Plumbase made very good progress continuing the trend of recent years with a significant increase in operating profit. Revenue was lower due to a successful focus on the quality of earnings generated by the business leading to an increase in the gross margin. Growth in the operating margin also benefitted from performance improvement initiatives which saw a decline in overheads. Market conditions were challenging for the bathroom products distribution business which experienced lower revenue and profitability in a very competitive market.

Civils & Lintels, a distributor of heavyside building materials, continued to increase its exposure to the new housing market with good growth in volumes and also made gains in the steel and concrete lintels market. The new branch in Leeds which opened in the first half of 2018 successfully extended market coverage in the North of England. In Scotland, where the branches trade under the PDM brand, solid revenue gains were made from focusing on opportunities in the new housing market.

MacBlair, the Northern Ireland merchanting business made further progress increasing revenue and operating profit by focusing on the supply of core products and optimising procurement arrangements. Overall market conditions were positive with good revenue and profit advances made in the provincial branches.

TG Lynes, a leading distributor of commercial pipes and fittings in London, made good gains in its markets increasing revenue and operating profit. Its commercial heating, plumbing and mechanical services contractor customer base benefitted from a good level of activity in the residential, commercial and public sector new build and RMI markets.

Irish Merchanting

	H1 2019 £'m	H1 2019 Pre IFRS 16 £'m	H1 2018 £'m	*Actual Change	*Constant Currency Change
Revenue	226.2	226.2	212.1	+6.7%	+7.4%
Operating profit before property profit	19.3	19.2	17.1	+12.0%	+12.5%
Operating profit margin before property profit	8.5%	8.5%	8.1%	+40bps	
Operating profit	23.1	22.9	17.1	+34.1%	+34.4%
Operating profit margin	10.2%	10.1%	8.1%	+200bps	

** Actual change represents the movement pre IFRS 16 adjustments*

The merchanting business in Ireland continued to generate very good growth in revenue and operating profit. Average daily like-for-like revenue was up by 8.3 per cent in a market that continued to benefit from sound demand fundamentals. The business also gained from its strong national market position which is supported by high quality customer service, product expertise and an instinctive knowledge of local markets.

Growth in the Irish economy was primarily driven by foreign direct investment and growth in exports. Increased employment and incomes contributed to growth in spending in the residential RMI market by households who chose to remain in and renovate their existing homes and also by households who moved home.

House building continued to gradually improve and contributed to growth in revenue. The level of activity was however constrained by affordability and tight loan-to-income ratios for first-time buyers particularly in the Greater Dublin Area. Current trends in house building indicate that it will take several years longer than originally projected before housing supply and demand are more closely aligned due to the level of pent-up demand that has developed over a long period of housing under supply. This pent-up demand has been augmented by favourable demographics that have seen the population increase by 400,000 over the past ten years.

Growth in non-residential construction was focused on the hotels sector where high levels of occupancy attracted significant investment in new hotels and in the refurbishment of existing properties.

The new trade centre upgrade was rolled out to a further three branches in the half year and will be extended over the coming years on a phased basis to the entire estate of 40 branches.

The consolidation of the branch network onto a single trading system from four discrete systems was successfully completed. Customers now have greater visibility on pricing and can trade in all branches using a single account.

Operating profit (before property profit) rose by 12.5 per cent in constant currency to £19.2 million and the operating profit margin increased by 40 basis points to 8.5 per cent after absorbing a small mix related dilution in the gross margin and an increase in employee numbers to support the continued growth and development of the business.

Netherlands Merchanting

	H1 2019 £'m	H1 2019 Pre IFRS 16 £'m	H1 2018 £'m	*Actual Change	*Constant Currency Change
Revenue	80.9	80.9	76.8	+5.4%	+6.2%
Adjusted operating profit	9.0	8.6	8.1	+7.1%	+8.1%
Adjusted operating profit margin	11.1%	10.7%	10.5%	+20bps	

** Actual change represents the movement pre IFRS 16 adjustments*

The trading performance of the Netherlands business was favourable with good growth in revenue and operating profit driven by organic growth and acquisitions against the backdrop of moderating growth in the economy and construction sector.

An increase in like-for-like revenue of 3.1 per cent was supported by growth in private and social housing renovation and maintenance activity, strong growth with national account customers focused on development projects and growth in online revenue in response to the development work undertaken last year.

The two single branch acquisitions completed last year performed well and the two branches that were opened last year in Dordrecht and Almere made good progress establishing a market position in these high potential local markets.

The recent relocation of the Isero distribution centre to a new purpose built facility in Waddinxveen, approximately 20 kilometres North East of Rotterdam, strengthens the logistics and supply chain capability of the business with a doubling of capacity. The central management and support office functions have also relocated to this facility.

Operating profit rose by 8.1% in constant currency and the operating profit margin increased by 20 basis points to 10.7 per cent reflecting an improvement in the gross margin from procurement gains.

As previously announced, the Group completed the acquisition of Polvo, a distributor of ironmongery, tools and fixings from 51 branches, on 1 July 2019. This acquisition was a unique opportunity to acquire a leading business and brand that is a good fit with the Isero branch network. The acquisition of Polvo was a transformative transaction that consolidated Isero's leadership position in this segment of the market where the overall business now trades from 113 branches. Polvo's pre-acquisition trading was strong in the half-year to 30 June 2019.

Retail Segment (7% of Group Revenue)

	H1 2019 £'m	H1 2019 Pre IFRS 16 £'m	H1 2018 £'m	*Actual Change	*Constant Currency Change
Revenue	99.9	99.9	97.8	+2.2%	+2.9%
Operating profit	9.5	8.0	7.3	+9.8%	+10.0%
Operating profit margin	9.5%	8.1%	7.5%	+60bps	

** Actual change represents the movement pre IFRS 16 adjustments*

The Woodie's DIY, Home and Garden business made solid gains in the half year with like-for-like constant currency revenue growth of 2.9 per cent despite the very strong performance in the comparative period that saw growth of 13.4 per cent driven by exceptional demand for seasonal products. Strong current year gains in the DIY, Kitchens, Homeware and Home-style categories were partly offset by lower demand for gardening and other seasonal products.

The number of transactions increased by 1.0 per cent to almost 700,000 per month with range upgrades and changes in mix contributing to an increase of 1.9 per cent in the average spend.

The trading environment was generally positive and the business was well placed to benefit from growth in employment and real incomes. The increase in housing transactions and the housing stock in recent years also contributed to growth.

Increased product availability and improved website navigation and functionality facilitated growth in online revenue by 47 per cent, to 1.6 per cent of total revenue, building on the strong foundations for growth that were put in place last year.

Customers continued to respond positively to the store upgrade programme which has accelerated revenue growth in recent years. Two stores were upgraded in the half year taking the number upgraded to date to 29, out of a total estate of 35 stores. The upgraded stores represent 88 per cent of overall revenue.

Woodie's is currently at an advanced stage in upgrading its ERP system and will commence transitioning towards the end of the year. This development will deliver a number of operational improvements including the latest advances in retail technology at the point of sale and better visibility on stock holdings.

A stable gross margin and tight control of overheads enabled the business to optimise the benefit of revenue growth and increase operating profit by 10 per cent to £8.0 million. The operating profit margin increased by 60 basis points to 8.1 per cent following growth of 190 basis points in the first half of last year.

Manufacturing Segment (3% of Group Revenue)

	H1 2019 £'m	H1 2019 Pre IFRS 16 £'m	H1 2018 £'m	*Actual Change	*Constant Currency Change
Revenue	40.7	40.7	39.9	+2.1%	+2.1%
Operating profit	9.2	9.1	9.4	(2.6%)	(2.7%)
Operating profit margin	22.5%	22.4%	23.5%	(110bps)	

** Actual change represents the movement pre IFRS 16 adjustments*

CPI EuroMix consolidated its position as Britain's largest supplier of dry silo mortar. The business is the market leader in the supply of a quality range of mortars to a national, regional and local customer base from a network of ten strategically located plants. The distinctive white and red EuroMix dry mortar silos are a prominent feature on construction sites across the country and the number of silos on-site increased during the period.

Mid-single digit growth in the volume of mortar supplied to the new housing market, which accounted for three quarters of revenue, reflected regional variations in the level of demand and was partly offset by a one-off contract undertaken in the prior year. The fundamentals of the housing market continued to be positive due to strong underlying demand following a long period of undersupply, the availability of competitively priced mortgage finance and the Government's Help-to-Buy Scheme. There was strong growth in demand for bagged product for use in residential and commercial RMI and new build projects.

Increased raw material and environmental compliance costs contributed to the small decline in operating profit which is measured against exceptional profit growth in the same period last year.

Operating Review – Discontinued Operations

Belgium Merchanting

	H1 2019 £'m	H1 2019 Pre IFRS 16 £'m	H1 2018 £'m	*Actual Change	*Constant Currency Change
Revenue	45.3	45.3	45.2	+0.3%	+1.0%
Operating profit pre exceptional items	0.6	0.4	0.1	+397.5%	+370.7%
Operating profit margin	1.4%	0.9%	0.2%	+70bps	

** Actual change represents the movement pre IFRS 16 adjustments*

The Belgium merchanting business achieved good growth in like-for-like revenue that was largely offset by the impact of the disposal of the St. Vith branch in October 2018. More positive market conditions and the performance improvement initiatives implemented in 2018 contributed to the increase in operating profit.

As part of its continuous focus on portfolio management, the Group conducted a strategic review of the Belgium business in the context of the allocation of capital and future growth prospects of the business. This review resulted in a decision to divest the business on satisfactory terms, consistent with our strategy of orientating the Group towards structurally higher margin businesses with good long term growth prospects and the potential to generate more sustainable returns and optimise shareholder value.

The Group has entered into a conditional agreement with an affiliate of Aurelius Equity Opportunities SE & Co. KGaA, a private equity firm listed in Germany, to sell its Belgium merchanting business for an enterprise value of £11.0 million. The Group has retained freehold properties worth circa £12.5 million as part of the transaction that it expects to sell in due course. The overall business was valued at circa £28.0 million including £4.5 million realised from the disposal of the St. Vith branch in October 2018. Operating profit was £0.8 million in 2018 (2017: £0.9 million).

The transaction, which is expected to complete later this year, is conditional on carving-out the freehold property from the trading entities and on receiving approval from the Competition Authority in Belgium.

In view of its planned disposal, the assets and liabilities of the business have been re-classified as held for sale on the balance sheet at 30 June 2019 and a non-cash charge of £26.0 million, including costs of disposal, has been shown as an exceptional charge in the results from discontinued operations disclosed in Note 14 on page 34.

Financial Review

The Group achieved a positive outcome for the half year with both the operating profit margin and return on capital employed ahead of the prior year. The Group's strong financial position and balance sheet was supported by excellent cash generation. Pre-IFRS 16 cash flow from operations was £118.9 million (2018: £109.7million) and the Group ended the half year with pre-IFRS 16 net debt of £0.1 million having started the year with net debt of £53.1 million.

Revenue

Group revenue increased by 2.5 per cent to £1.44 billion (2018: £1.40 billion) and by 2.7 per cent in constant currency. Volume and price growth of 3.0 per cent in the like-for-like business increased revenue by £41.1 million. Acquisitions and new branches contributed revenue of £21.3 million helping to offset a revenue decline of £24.9 million from the disposal of two small non-core UK businesses in 2018 and branch consolidations. A currency translation loss due to sterling weakness against the euro reduced revenue by £2.7 million. There was one less trading day in the UK and Ireland in the half year.

Adjusted Operating Profit

Adjusted operating profit of £97.7 million (2018: £92.4 million) increased by 5.8 per cent due mainly to growth in the like-for-like merchanting businesses in the UK, Ireland and the Netherlands and in the retailing business in Ireland. There was also contribution from acquisitions in the UK and the Netherlands. Operating profit before property profit increased by 5.7 per cent to £93.0 million (2018: £88.0 million).

The adjusted operating profit margin increased by 20 basis points to 6.8 per cent and by 20 basis points to 6.5 per cent excluding property profit. The improvement was due to a positive operating margin outcome in the merchanting businesses in the UK, Ireland and the Netherlands and in the retailing business in Ireland.

Property

Cash proceeds of £8.2 million and a profit of £4.7 million were realised from the disposal of four surplus properties. Property profit for the full year is currently forecast at circa £5.5 million.

Net Finance Income and Expense

The pre-IFRS 16 net finance expense increased by £1.0 million to £3.5 million (2018: £2.5 million). This was primarily related to a £1.1 million increase in interest payable to £3.2 million (2018: £2.1 million). The increase was due to the issue of unsecured senior notes with ten and twelve year maturities in the US Private Placement market in September 2018 at an annual coupon of 2.5 per cent. These proceeds were used to refinance bank debt on which a lower interest rate was payable based on short term money market rates. The issue of these notes diversified the Group's sources of funding, considerably extended the maturity profile of debt and provided certainty over the cost of debt at an attractive rate over the ten and twelve year life of the notes. There was a reduction of £0.1 million in the foreign exchange translation loss and pension related financial expenses.

Taxation

The income tax expense of £15.6 million (2018: £16.2 million) is equivalent to an effective tax rate of 17.7 per cent on profit from continuing operations (2018: 18.5 per cent) and is based on the forecast rate for the year. This is a blended rate of corporation tax on profits in the various jurisdictions where the Group operates and is slightly lower than the rate envisaged at the start of 2019. The tax rate for the Group is most sensitive to changes in the UK rate of corporation tax which is currently 19 per cent with a two percentage point reduction to 17 per cent planned to take effect on 1 April 2020.

Capital Expenditure and Investment in Intangible Assets

Gross capital expenditure was £19.3 million (2018: £36.7 million) and there was also expenditure of £1.1 million (2018: £3.6 million) on intangible assets. Proceeds of £9.0 million (2018: £6.2 million) were received on disposal of fixed assets and the net investment on capital expenditure and intangible assets was £11.4 million (2018: £34.1 million).

Development capital expenditure of £7.5 million (2018: £22.3 million) was incurred on the new Isero distribution centre, upgrading Selco stores and the new delivery-hub in London, upgrading Woodie's and Chadwicks branches in Ireland and other branch upgrades and development projects.

Asset replacement capital expenditure of £11.8 million (2018: £14.4 million) compares to the pre-IFRS 16 depreciation charge for the period of £22.0 million and related principally to replacement of the distribution fleet that supports delivered revenue, replacement of equipment, forklifts, plant and tools for hire by customers and other assets required to operate the Group's branch network.

An investment of £1.1 million (2018: £3.6 million) was made on the new IT platform in Buildbase and on other software development projects.

Pensions

The IAS 19 deficit on defined benefit pension schemes was £20.5 million at 30 June 2019, an increase of £0.3 million from £20.2 million at 31 December 2018. The return on opening scheme assets of £230.7 million was £24.7 million (10.7%) for the six months. These gains were offset by changes in financial assumptions with the rates used to discount the liabilities of the UK scheme falling by 50 basis points to 2.4 per cent and of the Irish scheme by 60 basis points to 1.2 per cent. The overall impact of experience gains and changes to demographic assumptions was neutral.

Net Debt

The Group started the year with net debt of £53.1 million and ended the half-year with pre-IFRS 16 net debt of £0.1 million at 30 June 2019.

The Group remains in a very strong financial position with pre-IFRS 16 EBITDA interest cover of 37.6 times (Year ended 31 December 2018: 48.0 times).

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

Net debt increased on 1 July 2019 with the acquisition of Polvo in the Netherlands for £117.5 million (€131.0 million) and the Group retains a strong balance sheet following the acquisition.

Financing

The Group had bilateral loan facilities of £490.0 million with six relationship banks at the end of June 2019. The amount drawn on these facilities was £216.3 million. The Group also had debt obligations of £143.5 million from the issue of unsecured senior notes in the US Private Placement market, that had ten and twelve year maturities when issued in September 2018, at an average annual coupon of 2.5 per cent.

The average maturity of the committed bank facilities and unsecured senior notes at 30 June 2019 was 5.2 years.

The Group's key financing objective continues to be to ensure that it has the necessary liquidity and resources to support the short, medium and long term funding requirements of the business. At 30 June 2019 the Group had undrawn bank facilities of £273.7 million (31 December 2018: £356.8 million) and cash balances and deposits of £358.9 million (31 December 2018: £223.0 million). These resources together with strong cash flow from operations provide good liquidity and the capacity to fund investment in working capital, replacement assets and development activity including acquisitions.

The Group's gross debt is drawn in euros and provides a hedge against exchange rate risk on euro assets invested in the Group's businesses in Ireland and the Netherlands.

IFRS 16 Leases

On 1 January 2019, the Group implemented IFRS 16 Leases, which replaces IAS 17 Leases. The new standard brings most leases on-balance sheet for lessees and eliminates the distinction between operating and finance leases. Under IFRS 16, a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is treated in a similar way to a non-financial asset and is depreciated. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the incremental borrowing rate.

IFRS 16 has changed the measurement of many aspects of the Group's accounts including operating profit, earnings per share, net debt and return on capital employed.

All leases except for leases with a duration of less than one year and low value assets are recognised on the balance sheet as lease liabilities. The corresponding right of use asset is an amount equal to the lease liability on transition, adjusted for any prepaid or accrued lease payments and any onerous lease provision.

The Group has implemented IFRS 16 from 1 January 2019 by applying the modified retrospective approach meaning that the comparative figures in the financial statements for the year ended 31 December 2019 will not be restated to show the impact of IFRS 16.

The operating leases that are recorded on the balance sheet for the first time principally relate to merchanting and DIY branch properties, office buildings, cars and distribution vehicles and comprise 2,400 individual lease agreements. The Group has decided to reduce the complexity of implementation by availing of a number of practical expedients on transition on 1 January 2019.

On initial applicaton of IFRS 16, the Group recognised assets and liabilities for its leases previously classified as operating leases under IAS 17. This resulted in the recognition of right-of-use assets of £561.7 million and lease liabilities of £574.9 million. Further details of the impact of the initial application of IFRS 16 on 1 January 2019 are disclosed in note 22.

It should be noted that the overall impact on the Income Statement of adopting IFRS 16 will be neutral over the life of a lease but will result in a higher charge in the earlier years following implementation and a lower charge in the later years. The overall effect on profit before tax is expected to be neutral after approximately four to five years, then becoming positive moving towards the end of the leases. It will not change overall cashflows or the economic effect of the leases to which the Group is a party. There is no effect on Grafton's existing banking covenants as a result of the implementation of IFRS 16.

Shareholders' Equity

The Group's balance sheet strengthened with shareholders' equity up by £17.0 million. Profit after tax increased shareholders' equity by £46.9 million. The payment of dividends in the amount of £28.5 million and the buy-back of 664,961 shares to offset the dilutive effect of share awards at a cost of £6.1 million reduced shareholders' equity by £34.6 million. Other movements increased shareholders' equity by £4.7 million.

Return on Capital Employed

Return on Capital Employed increased by 100 basis points to 15.0 per cent (Year to 30 June 2018: 14.0 per cent). The increased returns were achieved from the growth in profitability and allocating development capital to acquisitions and development projects that are expected to meet demanding hurdle rates of return on capital employed.

Principal Risks and Uncertainties

The primary risks and uncertainties affecting the Group are set out on pages 48 to 51 of the 2018 Annual Report and will be updated in the 2019 Annual Report. These risks are expected to remain the same for the remainder of the year, subject to the comments in the outlook on Brexit.

Period End Financial Information

The consolidated period-end financial statements presented on pages 15 to 42 comprise:

- the Group condensed balance sheet as at 30 June 2019;

- the Group condensed income statement and Group condensed statement of comprehensive income for the six months to 30 June 2019;
- the Group condensed statement of cash flows for the six months to 30 June 2019;
- the Group condensed statement of changes in equity; and
- the explanatory notes to the condensed consolidated half year financial statements on pages 21 to 42.

Grafton Group plc

Group Condensed Income Statement
For the six months ended 30 June 2019

	Notes	**2019 (unaudited)** **£'000**	2018 (unaudited) Restated £'000
Revenue	**2**	**1,437,316**	1,402,535
Operating costs		**(1,340,826)**	(1,316,975)
Property profits	**3**	**4,737**	4,454
Operating profit		**101,227**	90,014
Finance expense	**4**	**(13,534)**	(2,919)
Finance income	**4**	**510**	460
Profit before tax		**88,203**	87,555
Income tax expense	**17**	**(15,581)**	(16,238)
Profit after tax for the financial period from continuing operations		**72,622**	71,317
(Loss)/profit after tax from discontinued operations	**14**	**(25,702)**	65
Profit after tax for the financial period		**46,920**	71,382
Profit attributable to:			
Owners of the Company		**46,920**	71,382
Profit attributable to:			
Continuing operations		**72,622**	71,317
Discontinued operations		**(25,702)**	65
Earnings per ordinary share (continuing operations) - basic	5	**30.5p**	30.0p
Earnings per ordinary share (continuing operations) - diluted	5	**30.5p**	30.0p
Earnings per ordinary share (discontinued operations) - basic	5	**(10.8p)**	-
Earnings per ordinary share (discontinued operations) - diluted	5	**(10.8p)**	-
Earnings per ordinary share (total) - basic		**19.7p**	30.0p
Earnings per ordinary share (total) - diluted		**19.7p**	30.0p

Grafton Group plc

Group Condensed Statement of Comprehensive Income
For the six months ended 30 June 2019

	Notes	**Six months to 30 June 2019 (Unaudited) £'000**	Six months to 30 June 2018 (Unaudited) £'000
Profit after tax for the financial period		**46,920**	71,382
Other comprehensive income			
Items that are or may be reclassified subsequently to the income statement			
Currency translation effects:			
- on foreign currency net investments		**1,649**	(47)
Fair value movement on cash flow hedges:			
- effective portion of changes in fair value of cash flow hedges		**(41)**	412
- net change in fair value of cash flow hedges transferred from equity		**151**	168
Deferred tax on cash flow hedges		**(9)**	(21)
		1,750	512
Items that will not be reclassified to the income statement			
Remeasurement (loss)/gain on Group defined benefit pension schemes	**13**	**(676)**	6,930
Deferred tax on Group defined benefit pension schemes	**13**	**383**	(1,228)
		(293)	5,702
Total other comprehensive income		**1,457**	6,214
Total comprehensive income for the financial period		**48,377**	77,596
Total comprehensive income attributable to:			
Owners of the Company		**48,377**	77,596
Total comprehensive income for the financial period		**48,377**	77,596

Grafton Group plc - Group Condensed Balance Sheet as at 30 June 2019

	Notes	30 June 2019 (Unaudited)	30 June 2018 (Unaudited)	31 Dec 2018 (Audited)
ASSETS		**£'000**	£'000	£'000
Non-current assets				
Goodwill	**15**	**637,553**	646,475	646,198
Intangible assets	**16**	**77,256**	80,488	79,809
Property, plant and equipment	**9**	**509,126**	518,915	521,631
Right-of-use asset	**8**	**525,457**	-	-
Investment properties	**9**	**13,786**	15,968	15,048
Deferred tax assets		**7,263**	9,441	9,395
Lease receivable	**10**	**2,423**	-	-
Retirement benefit assets	**13**	**1,714**	1,527	1,469
Other financial assets		**126**	126	123
Total non-current assets		**1,774,704**	1,272,940	1,273,673
Current assets				
Properties held for sale	**9**	**11,992**	12,171	11,595
Inventories	**10**	**344,093**	349,931	350,061
Trade and other receivables	**10**	**477,641**	496,291	451,245
Derivative financial instruments	**11**	**84**	362	49
Cash and cash equivalents	**11**	**358,926**	183,066	222,984
Total current assets		**1,192,736**	1,041,821	1,035,934
Assets of disposal group held for sale	**14**	**32,525**	-	-
Total assets		**2,999,965**	2,314,761	2,309,607
EQUITY				
Equity share capital		**8,514**	8,514	8,514
Share premium account		**213,452**	213,418	213,430
Capital redemption reserve		**621**	621	621
Revaluation reserve		**13,057**	13,237	13,146
Shares to be issued reserve		**9,520**	8,143	11,220
Cash flow hedge reserve		**58**	132	(43)
Foreign currency translation reserve		**80,929**	77,458	79,280
Retained earnings		**991,251**	914,540	974,271
Treasury shares held		**(3,897)**	(3,897)	(3,897)
Equity attributable to owners of the Parent		**1,313,505**	1,232,166	1,296,542
Total equity		**1,313,505**	1,232,166	1,296,542
LIABILITIES				
Non-current liabilities				
Interest-bearing loans and borrowings	**11**	**357,043**	282,190	273,476
Lease liabilities	**11**	**489,198**	1,922	1,774
Provisions		**16,066**	21,538	21,651
Retirement benefit obligations	**13**	**22,189**	16,842	21,632
Derivative financial instruments	**11**	**-**	263	-
Deferred tax liabilities	**17**	**40,446**	42,193	42,444
Total non-current liabilities		**924,942**	364,948	360,977
Current liabilities				
Interest-bearing loans and borrowings	**11**	**-**	238	332
Lease liabilities	**11**	**53,198**	465	435
Trade and other payables	**10**	**634,841**	673,598	608,659
Current income tax liabilities	**17**	**33,890**	33,377	33,036
Derivative financial instruments	**11**	**27**	-	103
Provisions		**9,471**	9,969	9,523
Total current liabilities		**731,427**	717,647	652,088
Liabilities of disposal group held for sale	**14**	**30,091**	-	-
Total liabilities		**1,686,460**	1,082,595	1,013,065
Total equity and liabilities		**2,999,965**	2,314,761	2,309,607

Grafton Group plc - Group Condensed Cash Flow Statement

For the six months ended 30 June 2019	Notes	**Six months to 30 June 2019 (Unaudited)**	Six months to 30 June 2018 Restated (Unaudited)
		£'000	£'000
Profit before taxation from continuing operations		**88,203**	87,555
(Loss)/profit before taxation from discontinued operations	**14**	**(25,562)**	57
Profit before taxation		**62,641**	87,612
Finance income		**(510)**	(460)
Finance expense		**13,768**	2,919
Operating profit		**75,899**	90,071
Depreciation	**8,9**	**54,170**	20,491
Amortisation of intangible assets	**16**	**3,680**	3,061
Share-based payments charge		**3,176**	3,046
Movement in provisions		**2,435**	(962)
Loss on sale of property, plant and equipment		**112**	322
Property profits		**(4,737)**	(4,454)
Asset impairment adjustments		**(169)**	-
Fair value adjustments	**14**	**16,788**	-
Goodwill impairment	**15**	**9,176**	-
Contributions to pension schemes in excess of IAS 19 charge		**(255)**	(1,484)
(Increase) in working capital	**10**	**(2,626)**	(416)
Cash generated from operations		**157,649**	109,675
Interest paid		**(13,478)**	(2,576)
Income taxes paid		**(14,196)**	(10,215)
Cash flows from operating activities		**129,975**	96,884
Investing activities			
Inflows			
Proceeds from sale of property, plant and equipment	**9**	**788**	5,864
Proceeds from sales of properties held for sale	**9**	**8,176**	350
Interest received		**368**	370
		9,332	6,584
Outflows			
Acquisition of subsidiary undertakings and businesses (net of cash)		-	(72,314)
Investment in intangible asset – computer software	**16**	**(1,118)**	(3,625)
Purchase of property, plant and equipment	**9**	**(19,297)**	(36,736)
		(20,415)	(112,675)
Cash flows from investing activities		**(11,083)**	(106,091)
Financing activities			
Inflows			
Proceeds from the issue of share capital		**22**	1,271
Proceeds from borrowings		**116,256**	64,091
		116,278	65,362
Outflows			
Repayment of borrowings		**(32,671)**	(102,433)
Dividends paid	**6**	**(28,532)**	(24,334)
Treasury share purchased		**(6,080)**	-
Payment on lease liabilities		**(29,202)**	(233)
		(96,485)	(127,000)
Cash flows from financing activities		**19,793**	(61,638)
Net increase/(decrease) in cash and cash equivalents		**138,685**	(70,845)
Cash and cash equivalents at 1 January		**222,984**	253,659
Net cash reclassified as held for sale	**14**	**(2,461)**	-
Effect of exchange rate fluctuations on cash held		**(282)**	252
Cash and cash equivalents at the end of the period		**358,926**	183,066
Cash and cash equivalents are broken down as follows:			
Cash at bank and short-term deposits		**358,926**	183,066

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 2019 (Unaudited)										
At 1 January 2019	8,514	213,430	621	13,146	11,220	(43)	79,280	974,271	(3,897)	1,296,542
Profit after tax for the financial period	-	-	-	-	-	-	-	46,920	-	46,920
Total other comprehensive income										
Remeasurement loss on pensions (net of tax)	-	-	-	-	-	-	-	(293)	-	(293)
Movement in cash flow hedge reserve (net of tax)	-	-	-	-	-	101	-	-	-	101
Currency translation effect on foreign currency net investments	-	-	-	-	-	-	1,649	-	-	1,649
Total other comprehensive income	-	-	-	-	-	101	1,649	(293)	-	1,457
Total comprehensive income	-	-	-	-	-	101	1,649	46,627	-	48,377
Transactions with owners of the Company recognised directly in equity										
Dividends paid	-	-	-	-	-	-	-	(28,532)	-	(28,532)
Issue of Grafton Units	-	22	-	-	-	-	-	-	-	22
Share based payments charge	-	-	-	-	3,176	-	-	-	-	3,176
Transfer from shares to be issued reserve	-	-	-	-	(4,876)	-	-	4,876	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	(6,080)	(6,080)
Cancellation of treasury shares	-	-	-	-	-	-	-	(6,080)	6,080	-
Transfer from revaluation reserve	-	-	-	(89)	-	-	-	89	-	-
	-	22	-	(89)	(1,700)	-	-	(29,647)	-	(31,414)
At 30 June 2019	8,514	213,452	621	13,057	9,520	58	80,929	991,251	(3,897)	1,313,505
Six months to 30 June 2018 (Unaudited)										
At 1 January 2018	8,494	212,167	621	13,327	8,744	(427)	77,505	858,053	(3,897)	1,174,587
Profit after tax for the financial period	-	-	-	-	-	-	-	71,382	-	71,382
Total other comprehensive income										
Remeasurement gain on pensions (net of tax)	-	-	-	-	-	-	-	5,702	-	5,702
Movement in cash flow hedge reserve (net of tax)	-	-	-	-	-	559	-	-	-	559
Currency translation effect on foreign currency net investments	-	-	-	-	-	-	(47)	-	-	(47)
Total other comprehensive income	-	-	-	-	-	559	(47)	5,702	-	6,214
Total comprehensive income	-	-	-	-	-	559	(47)	77,084	-	77,596
Transactions with owners of the Company recognised directly in equity										
Dividends paid	-	-	-	-	-	-	-	(24,334)	-	(24,334)
Issue of Grafton Units	20	1,251	-	-	-	-	-	-	-	1,271
Share based payments charge	-	-	-	-	3,046	-	-	-	-	3,046
Transfer from shares to be issued reserve	-	-	-	-	(3,647)	-	-	3,647	-	-
Transfer from revaluation reserve	-	-	-	(90)	-	-	-	90	-	-
	20	1,251	-	(90)	(601)	-	-	(20,597)	-	(20,017)
At 30 June 2018	8,514	213,418	621	13,237	8,143	132	77,458	914,540	(3,897)	1,232,166

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 2018 (Audited)										
At 1 January 2018	8,494	212,167	621	13,327	8,744	(427)	77,505	858,053	(3,897)	1,174,587
Profit after tax for the financial year	-	-	-	-	-	-	-	150,403	-	150,403
Total other comprehensive income										
Remeasurement gain on pensions (net of tax)	-	-	-	-	-	-	-	819	-	819
Movement in cash flow hedge reserve (net of tax)	-	-	-	-	-	384	-	-	-	384
Currency translation effect on foreign currency net investments	-	-	-	-	-	-	1,775	-	-	1,775
Total other comprehensive income	-	-	-	-	-	384	1,775	819	-	2,978
Total comprehensive income	-	-	-	-	-	384	1,775	151,222	-	153,381
Transactions with owners of the Company recognised directly in equity										
Dividends paid	-	-	-	-	-	-	-	(38,598)	-	(38,598)
Issue of Grafton Units	20	1,263	-	-	-	-	-	-	-	1,283
Share based payments charge	-	-	-	-	6,193	-	-	-	-	6,193
Tax on share based payments	-	-	-	-	(304)	-	-	-	-	(304)
Transfer from shares to be issued reserve	-	-	-	-	(3,413)	-	-	3,413	-	-
Transfer from revaluation reserve	-	-	-	(181)	-	-	-	181	-	-
	20	1,263	-	(181)	2,476	-	-	(35,004)	-	(31,426)
At 31 December 2018	8,514	213,430	621	13,146	11,220	(43)	79,280	974,271	(3,897)	1,296,542

Grafton Group plc

Notes to Condensed Consolidated Half Year Financial Statements for the six months ended 30 June 2019

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

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

The condensed consolidated half year financial statements for the six months ended 30 June 2019 are unaudited but have been reviewed by the auditor whose report is set out on pages 56 and 57.

The financial information presented in this report has been prepared in accordance with *IAS 34 Interim Financial Reporting* as adopted by the European Union. These condensed consolidated half year financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements in respect of the year ended 31 December 2018 that are available on the Company's website www.graftonplc.com.

The condensed consolidated half year financial statements presented do not constitute full statutory accounts. The financial information included in this report in relation to the year ended 31 December 2018 does not comprise statutory annual financial statements within the meaning of section 295 of the Companies Act 2014. The 2018 annual financial statements have been filed with the Registrar of Companies and the audit report thereon was unqualified and did not contain any matters to which attention was drawn by way of emphasis.

Basis of Preparation, Accounting Policies and Estimates

(a) Basis of Preparation and Accounting Policies

The condensed consolidated half year financial statements have been prepared in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007, the related Transparency Rules of the Central Bank of Ireland and with *IAS 34 Interim Financial Reporting* as adopted by the European Union. They do not include all the information and disclosures necessary for a complete set of IFRS compliant financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes to the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended 31 December 2018.

The accounting policies applied by the Group in the condensed consolidated half year financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2018, except for those noted below.

Having made enquiries, the Directors have a reasonable expectation that Grafton Group plc, and the Group as a whole, have adequate resources to continue in operational existence for the foreseeable future. Having reassessed the principal risks, the directors considered it appropriate to adopt the going concern basis of accounting in preparing its condensed interim financial statements.

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

1. General Information (continued)

Basis of Preparation, Accounting Policies and Estimates (continued)

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

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

(b) Estimates

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

In preparing these condensed consolidated half year financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2018, save for the significant judgements relating to the lease term and discount rate referred to below in relation to the adoption of IFRS 16.

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 2019

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

IFRS 16 introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases, requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, with a practical expedient for short-term leases and leases of low value assets.

The Group has applied IFRS 16 using the modified retrospective approach, without restatement of the comparative information from 1 January 2019. In respect of those leases the Group previously treated as operating leases, the Group has elected to measure its right of use assets arising from leases using the approach set out in IFRS 16.C8(b)(ii).

The Group has a large number of property, vehicle and equipment leases as well as a small number of leases where the Group acts as a lessor. The standard has a material impact on the Group with the recognition of lease liabilities and right of use assets, however the overall impact on the Income Statement of adopting IFRS 16 will be neutral over the life of a lease but will result in a higher charge in the earlier years following implementation and a lower charge in the later years.

Further details on the impact of adopting IFRS 16 are set out in note 22 to these financial statements and bridges are contained within the APM's.

Identification of leases

The identification of leases involves judgement as IFRS 16 defines a lease as a contract (or part of a contract) that, for a period of time in exchange for consideration, conveys the right to:

- control an identified asset;
- obtain substantially all economic benefits from use of the asset; and
- direct the use of the asset

The Group has availed of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and the guidance in IFRIC 4 will continue to be applied to those leases entered into or modified before 1 January 2019.

1. General Information (continued)

Impacts of standards effective from 1 January 2019 (continued)

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

Lease term

The lease term is the non-cancellable period for which the Group has the right to use an underlying asset together with:

- periods covered by an option to extend the lease if the Group is reasonably certain to exercise that option; and
- periods covered by an option to terminate the lease if the Group is reasonably certain not to exercise that option.

This assessment involves the exercise of judgement by the Group.

Initial measurement of lease liability

The lease liability is initially measured at the present value of the lease payments that are payable for the lease term, discounted using the incremental borrowing rate. The Group's weighted average (by lease liability) incremental borrowing rate applied to lease liabilities as at 1 January 2019 was 3.5%.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments)
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees *(e.g. if the fair value of the asset at the end of the lease term is below an agreed amount, the lessee would pay to the lessor an amount equal to the difference between the fair value and agreed amount);*
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability does not include variable elements which are dependent on external factors, e.g. payments that are based on turnover. Instead, such variable elements are recognised directly in the income statement.

Judgements applied include determining the lease term for those leases with termination or extension options and the discount rate used which is based on incremental borrowing rate. Such judgements could impact the lease term and significantly the resultant lease liability and right of use asset recognised.

Where a lease agreement contains a clause to restore the asset to a specified condition i.e. dilapidation costs, the Group recognises a provision for dilapidations under IAS 37 in its statement of financial position.

Initial measurement of right of use asset

The right-of-use asset comprises the amount of the initial measurement of the lease liability, adjusted for:

- any lease payments made at or before the commencement date, less any lease incentives
- any initial direct costs incurred by the Group

In addition, where the Group subleases a headlease (or part thereof) to a third party and such sublease is deemed by the Group to be a finance sublease, the right of use asset relating to sublease is derecognised and a finance lease receivable is recognised.

1. General Information (continued)

Impacts of standards effective from 1 January 2019 (continued)

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

Subsequent measurement of lease liability

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Group did not make any material adjustments outlined above during the periods presented.

Subsequent measurement of right of use asset

After initial measurement, the right of use assets are measured at cost less accumulated depreciation, adjusted for:

- any impairment losses in accordance with IAS 36 Impairment of Assets
- any remeasurement of the lease liability.

Right-of-use assets are depreciated over the shorter period of the lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset.

Lease modifications

A lease modification is a change to the original terms and conditions of the lease. The effective date of the modification is deemed to be the date when both parties agree to a lease modification.

A lease modification is accounted for as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the lease increases by an amount commensurate with the standalone price for the increase in scope of the lease.

If both criteria are met, the Group adopts the accounting policy on the initial recognition and measurement of lease liabilities and right-of-use assets.

If a change in the lease terms does not meet the test outlined above, the Group must modify the initially recognised components of the lease contract.

1. General Information (continued)

Impacts of standards effective from 1 January 2019 (continued)

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

Sublease accounting

Where the Group acts as a lessor, the sublease is classified as a finance lease or an operating lease.

A lease is deemed to be a finance lease where the lease transfers substantially all the risks and rewards incidental to the ownership of the underlying asset. Otherwise, the lease is deemed to be an operating lease.

Where the Group subleases an asset, it accounts for its interests in the head lease and the sublease separately. If the head lease is not a short-term lease or low-value lease and the sublease is deemed to be a finance lease, the Group recognises a lease liability relating to the head lease but does not recognise a corresponding right of use asset. Instead, the Group recognises a finance lease debtor relating to the sublease.

IFRIC 23 – Uncertainty over Income Tax Treatments (effective date: beginning 1 January 2019)

This IFRIC did not have a material impact on the Group in the current period.

Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement (effective date: beginning 1 January 2019)

This amendment did not have a material impact on the Group in the current period.

2. Segmental Analysis

The amount of revenue and operating profit under the Group's reportable segments of Merchanting, Retailing and Manufacturing is shown below. Segment profit measure is operating profit before exceptional items and amortisation of intangible assets arising on acquisitions. The impact of IFRS 16 "Leases" on the individual CGU's is set out in Note 22 and within the APM's.

	Six months to 30 June 2019 (Unaudited) £'000	**Six months to 30 June 2019 (Unaudited) Pre-IFRS 16 £'000**	Six months to 30 June 2018 (Unaudited) Restated £'000
Revenue			
UK merchanting	**989,533**	**989,533**	976,008
Ireland merchanting	**226,210**	**226,210**	212,077
Netherlands merchanting	**80,945**	**80,945**	76,817
Total merchanting - continuing	**1,296,688**	**1,296,688**	1,264,902
Retailing	**99,924**	**99,924**	97,753
Manufacturing	**47,391**	**47,391**	46,117
Less: inter-segment revenue - manufacturing	**(6,687)**	**(6,687)**	(6,237)
Total revenue from continuing operations	**1,437,316**	**1,437,316**	1,402,535
Segmental operating profit before exceptional items and intangible amortisation arising on acquisitions			
UK merchanting	**59,570**	**55,486**	53,700
Ireland merchanting	**19,330**	**19,151**	17,092
Netherlands merchanting	**8,959**	**8,629**	8,057
Total merchanting – continuing	**87,859**	**83,266**	78,849
Retailing	**9,524**	**8,045**	7,326
Manufacturing	**9,156**	**9,123**	9,367
	106,539	**100,434**	95,542
Reconciliation to consolidated operating profit			
Central activities	**(7,383)**	**(7,434)**	(7,580)
	99,156	**93,000**	87,962
Property profits	**4,737**	**4,737**	4,454
Operating profit before exceptional items and intangible amortisation arising on acquisitions	**103,893**	**97,737**	92,416
Amortisation of intangible assets arising on acquisitions	**(2,666)**	**(2,666)**	(2,402)
Operating profit	**101,227**	**95,071**	90,014
Finance expense	**(13,534)**	**(3,989)**	(2,919)
Finance income	**510**	**510**	460
Profit before tax	**88,203**	**91,592**	87,555
Income tax expense	**(15,581)**	**(16,251)**	(16,238)
Profit after tax for the financial period from continuing operations	**72,622**	**75,341**	71,317
(Loss)/profit after tax from discontinued operations	**(25,702)**	**(25,720)**	65
Profit after tax for the financial period	**46,920**	**49,621**	71,382

2. Segmental Analysis (continued)

The amount of revenue by geographic area is as follows:

	Six months to 30 June 2019 (Unaudited) £'000	Six months to 30 June 2018 (Unaudited) Restated £'000
Revenue*		
United Kingdom	**1,027,912**	1,013,732
Ireland	**328,459**	311,986
Netherlands	**80,945**	76,817
Total revenue – continuing operations	**1,437,316**	1,402,535

*Service revenue, which is recognised over time, amounted to £16.2 million for the period (2018: £19.5 million)

Segment assets and liabilities for June 2019 increased as a result of the adoptiong of IFRS 16 "Leases". Lease liabilities are now included in segment liabilities, whereas finance lease liabilities were previously excluded from segment liabilities.

	30 June 2019 (Unaudited) £'000	30 June 2018 (Unaudited) £'000
Segment assets		
Merchanting	**2,324,539**	2,010,452
Retailing	**223,677**	61,416
Manufacturing	**51,111**	48,371
	2,599,327	2,120,239
Unallocated assets		
Deferred tax assets	**7,263**	9,441
Assets of disposal group held for sale	**32,525**	-
Retirement benefit assets	**1,714**	1,527
Other financial assets	**126**	126
Cash and cash equivalents	**358,926**	183,066
Derivative financial instruments (current)	**84**	362
Total assets	**2,999,965**	2,314,761

	30 June 2019 (Unaudited) £'000	30 June 2018 (Unaudited) £'000
Segment liabilities		
Merchanting	**966,323**	628,061
Retailing	**214,668**	55,688
Manufacturing	**21,783**	21,356
	1,202,774	705,105
Unallocated liabilities		
Interest bearing loans and borrowings (current and non-current)	**357,043**	282,606
Liabilities of disposal group held for sale	**30,091**	-
Finance lease liabilities	**-**	2,209
Retirement benefit obligations	**22,189**	16,842
Deferred tax liabilities	**40,446**	42,193
Current income tax liabilities	**33,890**	33,377
Derivative financial instruments (non-current)	**27**	263
Total liabilities	**1,686,460**	1,082,595

3. Operating Profit

The property profit of £4.7 million (2018: £4.5 million) relates to the disposal of two UK properties and two Irish properties (2018: two UK properties).

4. Finance Expense and Finance Income

	Six months to 30 June 2019 (Unaudited)		Six months to 30 June 2018 (Unaudited) Restated	
	£'000		£'000	
Finance expense				
Interest on bank loans, US senior notes and overdrafts	**3,580**	*	2,415	*
Net change in fair value of cash flow hedges transferred from equity	**151**		168	
Interest on lease liabilities	**9,593**		-	
Interest on obligations under finance leases	**-**		82	
Net finance cost on pension scheme obligations	**210**		254	
	13,534		2,919	
Finance income				
Interest income on bank deposits	**(368)**	*	(370)	*
Foreign exchange gain	**(142)**		(90)	
	(510)		(460)	
Net finance expense	**13,024**		2,459	

* Net bank and US senior note interest of £3.2 million (2018: £2.1 million).

5. Earnings per Share

The computation of basic, diluted and underlying earnings per share is set out below. The pre-IFRS 16 earnings per share computation is set out within the APM's.

	Half Year 30 June 2019 (Unaudited)	Half Year 30 June 2018 (Unaudited) Restated
	£'000	£'000
Numerator for basic, adjusted and diluted earnings per share:		
Profit after tax for the financial period from continuing operations	**72,622**	71,317
(Loss)/profit after tax for the financial period from discontinued operations	**(25,702)**	65
Numerator for basic and diluted earnings per share	**46,920**	71,382
Profit after tax for the financial period from continuing operations	**72,622**	71,317
Amortisation of intangible assets arising on acquisitions	**2,666**	2,402
Tax relating to amortisation of intangible assets arising on acquisitions	**(532)**	(487)
Numerator for adjusted earnings per share	**74,756**	73,232
	Number of Grafton Units	Number of Grafton Units
Denominator for basic and adjusted earnings per share:		
Weighted average number of Grafton Units in issue	**237,778,336**	237,626,579
Dilutive effect of options and awards	**659,376**	561,395
Denominator for diluted earnings per share	**238,437,712**	238,187,974
Earnings per share (pence) – from continuing operations		
- Basic	**30.5**	30.0
- Diluted	**30.5**	30.0
Earnings per share (pence) – from discontinued operations		
- Basic	**(10.8)**	-
- Diluted	**(10.8)**	-
Adjusted earnings per share (pence) – from continuing operations		
- Basic	**31.4**	30.8
- Diluted	**31.4**	30.8

6. Dividends

The payment in 2019 of a second interim dividend for 2018 of 12.00 pence on the 'C' Ordinary shares in Grafton Group (UK) plc from UK-sourced income amounted to £28.5 million (2018: £24.3 million).

An interim dividend for 2019 of 6.5 pence per share will be paid on the 'C' Ordinary Shares in Grafton Group (UK) plc from UK-sourced income to all holders of Grafton Units on the Company's Register of Members at the close of business on 27 September 2019 (the 'Record Date'). The cash consideration will be paid on 11 October 2019. A liability in respect of the interim dividend has not been recognised at 30 June 2019, as there was no present obligation to pay the dividend at the half-year.

7. Exchange Rates

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

The average sterling/euro rate of exchange for the six months ended 30 June 2019 was Stg87.36p (six months to 30 June 2018: Stg87.98p). The sterling/euro exchange rate at 30 June 2019 was Stg89.66p (30 June 2018: Stg88.61p and 31 December 2018: Stg89.45p).

8. Right-Of-Use Asset

	Right-of-use asset £'000
Recognised at 1 January 2019	**561,684**
Additions	**14,179**
Depreciation	**(32,290)**
Transfer to non-current assets held for sale (Note 14)	**(9,777)**
Currency translation adjustment	**(8,339)**
As at 30 June 2019	**525,457**

Initial guidance indicated that the opening right-of-use asset would be within the range of £565 million to £585 million at transition. The variance to the above opening position relates to the offset of the opening onerous lease provisions (£8.2 million) and the opening prepayments and accruals of net £5.0 million.

Further detail on the impact of IFRS 16 "Leases" is set in within the APM's and also in Note 22.

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 2019	**521,631**	**11,595**	**15,048**
Additions	**19,297**	**-**	**-**
Depreciation	**(21,880)**	**-**	**-**
Disposals	**(1,170)**	**(3,169)**	**-**
Impairment charge	**(118)**		**-**
Transfer to properties held for sale	**(2,411)**	**3,538**	**(1,127)**
Transfer to non-current assets held for sale (Note 14)	**(4,114)**	**-**	**(159)**
Derecognition of finance lease asset at 1 Jan 2019	**(2,541)**	**-**	**-**
Currency translation adjustment	**432**	**28**	**24**
As at 30 June 2019	**509,126**	**11,992**	**13,786**

10. Movement in Working Capital

Current	Inventories £'000	Trade and other receivables £'000	Trade and other payables £'000	Total £'000
At 1 January 2019	**350,061**	**451,245**	**(608,659)**	**192,647**
Currency translation adjustment	**308**	**296**	**(692)**	**(88)**
Transfer to non-current assets held for sale (Note 14)	**(14,752)**	**(16,979)**	**18,897**	**(12,834)**
Lease receivable under IFRS 16*	**-**	**301**	**-**	**301**
IFRS 16 impact/movement in 2019	**-**	**(7,682)**	**11,923**	**4,241**
Working capital movement in 2019	**8,476**	**50,460**	**(56,310)**	**2,626**
At 30 June 2019	**344,093**	**477,641**	**(634,841)**	**186,893**
Non-current				
Lease receivable under IFRS 16*	**-**	**2,423**	**-**	**2,423**

*Lease receivable amounts are shown in non-current assets of £2.4 million (2018: £nil) and current assets of £0.3 million (2018:£nil).

11. Interest-Bearing Loans, Borrowings and Net Debt

	30 June 2019 £'000	30 June 2018 £'000	31 Dec 2018 £'000
Non-current liabilities			
Bank loans	**214,338**	282,190	131,138
US senior notes	**142,705**	-	142,338
Total non-current interest-bearing loans and borrowings	**357,043**	282,190	273,476
Current liabilities			
Bank loans	**-**	238	332
Total current interest-bearing loans and borrowings	**-**	238	332
Leases			
Included in non-current liabilities	**489,198**	1,922	1,774
Included in current liabilities	**53,198**	465	435
Total leases	**542,396**	2,387	2,209
Derivatives			
Included in non-current liabilities	**-**	263	-
Included in current liabilities	**27**	-	103
Included in current assets	**(84)**	(362)	(49)
Total derivatives	**(57)**	(99)	54
Cash and cash equivalents	**(358,926)**	(183,066)	(222,984)
Net debt	**540,456**	101,650	53,087

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

The following table shows the fair value of financial assets and liabilities including their level in the fair value hierarchy. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	30 June 2019 £'000	31 Dec 2018 £'000
Assets/liabilities measured at fair value		
Designated as hedging instruments		
Interest rate swaps and other derivatives (Level 2)	**(57)**	54
Liabilities not measured at fair value		
Liabilities at amortised cost		
Bank loans	**216,347**	133,911
US senior notes	**143,456**	143,120
Leases	**542,396**	2,209
	902,199	279,240

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

Financial assets and liabilities carried at fair value
All of the Group's financial assets and liabilities which are carried at fair value are classified as Level 2 in the fair value hierarchy. There have been no transfers between levels in the current period. Fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to valuation techniques used. The fair values of interest rate swaps 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

The impact of IFRS 16 on net debt is also set out within the APM's.	**30 June 2019 £'000**	30 June 2018 £'000
Net increase/(decrease) in cash and cash equivalents	**138,685**	(70,845)
Net cash reclassified as held for sale	**(2,461)**	-
Net movement in derivative financial instruments	**111**	583
Bank loans and loan notes acquired with subsidiaries	**-**	(7,386)
Movement in debt and lease financing	**(623,774)**	38,574
Change in net debt resulting from cash flows	**(487,439)**	(39,074)
Currency translation adjustment	**70**	330
Movement in net debt in the period	**(487,369)**	(38,744)
Net debt at 1 January	**(53,087)**	(62,906)
Net debt at end of the period	**(540,456)**	(101,650)
Gearing	**41%**	8%

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 2019	At 31 Dec 2018	**At 30 June 2019**	At 31 Dec 2018
Rate of increase in salaries	**2.20%** *	2.40%*	**0.00%** **	0.00%**
Rate of increase of pensions in payment	**-**	-	**3.10%**	3.10%
Discount rate	**1.20%**	1.80%	**2.40%**	2.90%
Inflation	**1.00%**	1.20%	**2.10%** ***	2.10%***

*2.20% applies from 2 January 2020 (31 December 2018: 2.40% from 2 January 2019)
** Pensionable salaries are not adjusted for inflation
*** The inflation assumption shown for the UK is based on the Consumer Price Index (CPI)

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 2019	Year to 31 Dec 2018	**Half year to 30 June 2019**	Year to 31 Dec 2018	**Half year to 30 June 2019**	Year to 31 Dec 2018
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
At 1 January	**230,671**	239,363	**(250,834)**	(262,842)	**(20,163)**	(23,479)
Transfer to non-current assets held for sale (Note 14)	**-**	-	**294**	-	**294**	-
Interest income on plan assets	**2,682**	5,328	**-**	-	**2,682**	5,328
Contributions by employer	**1,517**	5,499	**-**	-	**1,517**	5,499
Contributions by members	**315**	651	**(315)**	(651)	**-**	-
Benefit payments	**(4,225)**	(8,399)	**4,225**	8,399	**-**	-
Current service cost	**-**	-	**(1,245)**	(2,764)	**(1,245)**	(2,764)
Past service credit	**-**	-	**-**	34	**-**	34
Other long term benefit (expense)	**-**	-	**(31)**	(33)	**(31)**	(33)
Interest cost on scheme liabilities	**-**	-	**(2,892)**	(5,831)	**(2,892)**	(5,831)
Remeasurements						
Actuarial gains/(loss) from:						
-experience variations	**-**	-	**1,650**	6,270	**1,650**	6,270
-financial assumptions	**-**	-	**(23,212)**	7,848	**(23,212)**	7,848
-demographic assumptions	**-**	-	**(1,118)**	(244)	**(1,118)**	(244)
Return on plan assets excluding interest income	**22,004**	(12,669)	**-**	-	**22,004**	(12,669)
Translation adjustment	**396**	898	**(357)**	(1,020)	**39**	(122)
At 30 June / 31 December	**253,360**	230,671	**(273,835)**	(250,834)	**(20,475)**	(20,163)
Related deferred tax asset (net)					**3,160**	2,926
Net pension liability					**(17,315)**	(17,237)

13. Retirement Benefits (continued)

The net pension scheme deficit of £20.5 million is shown in the Group balance sheet as retirement benefit obligations (non-current liabilities) of £22.2 million and retirement benefit assets (non-current assets) of £1.7 million. £12.2 million of the retirement benefit obligations relates to schemes in Ireland and the Netherlands and £10.0 million relates to one UK scheme. £1.1 million of the retirement benefit asset relates to a second UK scheme and £0.6 million is one scheme in Ireland.

The 2018 net pension scheme deficit of £20.2 million is shown in the Group balance sheet as retirement benefit obligations (non-current liabilities) of £21.6 million and retirement benefit assets (non-current assets) of £1.5 million. £15.0 million of the retirement benefit obligations relates to schemes in Ireland, Belgium and the Netherlands and £6.6 million relates to one UK scheme. £1.1 million of the retirement benefit asset relates to a second UK scheme and £0.4 million to one scheme in Ireland.

14. Non-Current Assets Held For Sale and Discontinued Operations

The Group conducted a strategic review of its operations in Belgium in the context of the Group's allocation and reallocation of capital. This resulted in a decision to divest of the business and a process was initiated to dispose of the operations. The Group has now entered into a conditional agreement for the sale of the business which is expected to complete later this year. Therefore, the assets and liabilities of the Belgium operations have been presented as held for sale and the Belgium Group has been reported as a discontinued operation as it available for immediate sale in its present condition and the Directors anticipate that the sale is highly probable.

The related goodwill allocated to the Belgium Group has been written off in the period (£9.2 million - Note 15). The write down to fair value of the assets, less costs to sell (£16.8 million). Together, this has resulted in an overall net loss of £26.0 million which has been recognised as Exceptional Items within the Income Statement of the discontinued operation.

Assets of disposal group classified as held for sale

	Transferred to held for sale £'000	Fair value Adjustment £'000	Total assets transferred £'000
Property, plant and equipment	4,114	(4,114)	-
Right-of-use assets	9,777	(9,777)	-
Investment property	159	-	159
Inventory	14,752	(2,897)	11,855
Trade and other receivables	16,979	-	16,979
Cash and cash equivalents	3,532	-	3,532
Total assets held for sale	49,313	(16,788)	32,525

Liabilities of disposal group classified as held for sale

	£'000
Trade and other payables	(18,897)
Lease liabilities	(9,829)
Loans and borrowings	(1,071)
Pension liability	(294)
Total liabilities held for sale	(30,091)

14. Non-Current Assets Held For Sale and Discontinued Operations (continued)

Net cash movement on transfer to held for sale

	£'000
Cash and cash equivalents	**3,532**
Loans and borrowings	**(1,071)**
Total cash flow movement	**2,461**

Exceptional items recognised in the period within the discontinued operation

	£'000
Fair value adjustment to assets held for sale	**16,788**
Goodwill impairment (note 15)	**9,176**
Total exceptional items recognised	**25,964**

Results from discontinued operations

	30 June 2019 (unaudited) £'000	30 June 2018 (unaudited) Reported £'000	31 December 2018 (audited) Reported £'000
Revenue	45,290	45,168	91,581
Operating costs	(44,654)	(45,087)	(90,782)
Operating profit pre exceptional items	636	81	799
Exceptional items (see above)	(25,964)	-	-
Operating (loss)/profit	(25,328)	81	799
Net finance costs	(234)	(24)	(48)
(Loss)/profit before tax	(25,562)	57	751
Income tax	(140)	8	578
(Loss)/profit after tax for the financial period	(25,702)	65	1,329

Cash flows from discontinued operations

	30 June 2019* £'000	30 June 2018 £'000	31 December 2018 £'000
Net cash flow from operating activities	(2,094)	2,925	(106)
Net cash flow from investing activities	(700)	(1,950)	(3,279)
Net cash flow from financing activities	(190)	(275)	(562)
Net cash flow from discontinued operations	(2,984)	700	(3,947)

**pre IFRS 16 impact*

14. Non-Current Assets Held For Sale and Discontinued Operations (continued)

The overall impact on the Group income statement for June 2019 and June 2018 is set out below.

Impact on the Group Condensed Income Statement

For the six months ended 30 June 2019

	2019 (unaudited) Continuing £'000	2019 (unaudited) Discontinued £'000	2019 (unaudited) Total £'000
Revenue	1,437,316	45,290	1,482,606
Operating costs	(1,340,826)	(44,654)	(1,385,480)
Operating profit before property profits	96,490	636	97,126
Property profits	4,737	-	4,737
Operating profit before exceptional items	101,227	636	101,863
Exceptional items	-	(25,964)	(25,964)
Operating profit	101,227	(25,328)	75,899
Finance expense	(13,534)	(234)	(13,768)
Finance income	510	-	510
Profit before tax	88,203	(25,562)	62,641
Income tax expense	(15,581)	(140)	(15,721)
Profit after tax for the financial period	72,622	(25,702)	46,920

14. Non-Current Assets Held For Sale and Discontinued Operations (continued)

Impact on the Group Condensed Income Statement

For the six months ended 30 June 2018

	2018 (unaudited) Continuing £'000	2018 (unaudited) Discontinued £'000	2018 (unaudited) Total £'000
Revenue	1,402,535	45,168	1,447,703
Operating costs	(1,316,975)	(45,087)	(1,362,062)
Operating profit before property profits	85,560	81	85,641
Property profits	4,454	-	4,454
Operating profit	90,014	81	90,095
Finance expense	(2,919)	(24)	(2,943)
Finance income	460	-	460
Profit before tax	87,555	57	87,612
Income tax expense	(16,238)	8	(16,230)
Profit after tax for the financial period	71,317	65	71,382

15. Goodwill

Goodwill is subject to impairment testing on an annual basis and more frequently if an indicator of impairment is considered to exist. The Belgium Group has been classified as held for sale in the current period and, as a result, the related goodwill has been written off in the period.

	Goodwill £'000
Net Book Value	
As at 1 January 2019	**646,198**
Written off in the period (note 14)	**(9,176)**
Currency translation adjustment	**531**
As at 30 June 2019	**637,553**

16. Intangible Assets

	Computer Software £'000	Trade Names £'000	Customer Relationships £'000	Total £'000
Net Book Value				
As at 1 January 2019	**36,766**	**4,129**	**38,914**	**79,809**
Additions	**1,118**	**-**	**-**	**1,118**
Amortisation	**(1,014)**	**(264)**	**(2,402)**	**(3,680)**
Currency translation adjustment	**-**	**-**	**9**	**9**
As at 30 June 2019	**36,870**	**3,865**	**36,521**	**77,256**

The computer software asset of £36.9 million at 30 June 2019 (December 2018: £36.8 million) primarily reflects the cost of the Group's investment on upgrading the IT systems and infrastructure that supports a number of UK businesses as part of a multi-year programme of investment. A number of these systems are not yet available for use in the business and are therefore not amortised.

The amortisation expense of £3.7 million (H1 2018: £3.1 million) has been charged in 'operating costs' in the income statement. Amortisation on acquired intangibles amounted to £2.7 million (H1 2018: £2.4 million).

17. Taxation

The income tax expense of £15.6 million (2018: £16.2 million) is equivalent to an effective tax rate of 17.7 per cent (2018: 18.5 per cent). The effective tax rate forecast for the year is 17.7 per cent (2018: 18.5 per cent). The rate is based on the prevailing rates of corporation tax and the mix of profits between the UK, Ireland and the Netherlands. The tax rate is impacted by the disallowance of a tax deduction for certain overheads including depreciation on property. The tax rate for the Group is most sensitive to changes in the UK rate of corporation tax where the highest proportion of Group profits are earned. The current UK rate is 19 per cent and a two percentage point reduction to 17 per cent will take effect on 1 April 2020.

The liability shown for current taxation includes a liability for tax uncertainties and is based on the Directors' single best estimate of the probable outflow of economic resources that will be required. As with all estimates, the actual outcome may be different to the current estimate.

Accounting estimates and judgements

Management is required to make judgements and estimates in relation to taxation provisions and exposures. The Group is party to transactions, in the ordinary course of business, for which the ultimate tax determination may be uncertain. As the Group is subject to taxation in a number of jurisdictions, an open dialogue is maintained with Revenue Authorities with a view to the timely agreement of tax returns. The amounts provided/recognised for tax are based on management's estimate having taken appropriate professional advice. If the final determination of these matters is different from the amounts that were initially recorded such differences could materially impact the income tax and deferred tax provisions and assets in the period in which the determination was made.

Deferred tax

At 30 June 2019, there were unrecognised deferred tax assets in relation to capital losses of £1.7 million (31 December 2018: £1.9 million), trading losses of £2.3 million (31 December 2018: £3.3 million) and deductible temporary differences of £2.6 million (31 December 2018: £2.6 million).

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

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 2018 Annual Report that materially affected the financial position or the performance of the Group during the period to 30 June 2019.

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

LTIP awards were made over 885,484 Grafton Units on 12 April 2019. The fair value of the awards of £6.8 million, which are subject to vesting conditions, will be charged to the income statement over the vesting period of three years. The 2018 Annual Report discloses details of the LTIP scheme.

20. Issue of Shares

During the year 664,961 Grafton Units were issued under the 2011 Grafton Group Long Term Incentive Plan (LTIP) on the vesting of the 2016 grant. A further 3,181 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

On 1 July 2019, the Group acquired Polvo BV ("Polvo") from the privately owned Pallieter Group for €131.0 million on a debt and cash free basis. Polvo is one of the top three leading businesses in the specialist ironmongery, tools, ventilation systems, fixings and related products market in the Netherlands. It trades from 51 branches and is an excellent geographic fit with the Group's Isero branch network. The business will be incorporated in the merchanting segment.

Polvo reported revenue of €127.3 million and adjusted operating profit of €10.6 million for the year ended 31 December 2018. Gross assets were €64 million at 31 December 2018. The purchase consideration of €131.0 million includes €15.0 million for nine freehold properties and was funded from the Group's cash resources and loan facilities. 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 2019 that would require adjustment to or disclosure in this report.

22. Transition to IFRS 16 "Leases"

Summary

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

The Group has applied IFRS 16 using the modified retrospective approach, without restatement of the comparative information. In respect of those leases the Group previously treated as operating leases, the Group has elected to measure its right of use assets arising from property leases using the approach set out in IFRS 16.C8(b)(ii). Under IFRS 16.C8(b)(ii) right of use assets are set equal to the lease liability, adjusted for prepaid or accrued lease payments, including un-amortised lease incentives.

Impact of IFRS 16 - As a lessee

On initial application of IFRS 16 for operating leases, right-of-use assets were generally measured at the present value of the future lease payments. The Group's weighted average (by lease liability) incremental borrowing rate applied to lease liabilities as at 1 January 2019 was 3.5%.

22. Transition to IFRS 16 “Leases” (continued)

As part of the Group’s adoption of IFRS 16 the Group has elected to use the following practical expedients:

- a single discount rate has been applied to portfolios of leases with reasonably similar characteristics;
- accounting for short-term leases (leases less than 12 month) or low value asset leases (i.e. where the value of the underlying asset when new is less than £4,000) by recognising the lease payments as an operating expense on a straight-line basis over the term of the lease;
- right-of-use asset has been reduced by the carrying amount of the onerous lease provision at 31 December 2018 instead of performing impairment reviews under IAS 36; and
- hindsight has been used in determining the lease term.

Lease incentives (e.g. rent-free periods) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive liability, amortised as a reduction of rental expenses on a straight-line basis.

Under IFRS 16:

- right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This replaces the previous requirement to recognise a provision for onerous lease contracts.
- the Group recognises depreciation of right-of-use assets and interest on lease liabilities in the Group Income Statement. Under IAS 17, operating leases previously gave rise to a straight-line expense in the Group Income Statement.
- the Group separates the total amount of cash paid for leases that are on balance sheet into a principal portion (presented within financing activities) and an interest portion (presented within operating activities) in the Group Cash Flow Statement. Under IAS 17 operating lease payments were presented as operating cash outflows.

Contracts that qualified as leases as defined by IFRS 16 related primarily to property, motor vehicles and office equipment. On transition to IFRS 16, the principal impacts were the recognition of right-of-use assets of £561.7 million and lease liabilities of £574.9 million.

Impact of IFRS 16 - As a lessor

The Group was only required to make adjustments on transition to IFRS 16 for leases where it subleases a headlease. At the date of initial application, the Group reassessed subleases that were classified as operating leases under IAS 17 to determine whether these should be reclassified under IFRS 16. The Group concluded that the subleases in existence require classification as finance leases under IFRS 16 and as a result £2.7 million was recognised as finance lease receivables.

Impact of IFRS 16 – Former finance leases

The main differences between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Group recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. This change did not have an effect on the Group’s Financial Statements.

22. Transition to IFRS 16 "Leases" (continued)

Financial Impact – Opening statement of financial position

The table below reconciles the relevant assets and liabilities under IAS 17 at 31 December 2018 to those under IFRS 16 at 1 January 2019:

ASSETS	31 December 2018 (Audited) Pre-IFRS 16 Impact £'000	1 January 2019 (Unaudited) IFRS 16 Impact £'000	1 January 2019 (Unaudited) Post-IFRS 16 Impact £'000
Non-current assets			
Property, plant and equipment	521,631	**(2,541)**	519,090
Right-of-use asset*	-	**563,916**	563,916
Total non-current assets	521,631	**561,375**	1,083,006
Current assets			
Trade and other receivables	451,245	**(7,869)**	443,379
Total current assets	451,245	**(7,869)**	443,379
Total assets	972,876	**553,506**	1,526,385
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	275,250	**(1,774)**	273,476
Lease liabilities	-	**525,495**	525,495
Provisions	21,651	**(6,521)**	15,131
Total non-current liabilities	296,901	**517,200**	814,102
Current liabilities			
Interest-bearing loans and borrowings	767	**(435)**	332
Lease liabilities	-	**49,387**	49,387
Trade and other payables	608,659	**(10,992)**	597,667
Provisions	9,523	**(1,654)**	7,870
Total current liabilities	618,949	**36,306**	655,256
Total liabilities	915,850	**553,506**	1,469,358

**Right-of-use asset IFRS 16 impact reflects £561.7 million plus £2.2 million right-of-use asset which is subsequently derecognised as a finance lease receivable*

Of the total right-of-use assets of £561.7 million recognised at 1 January 2019 is comprised as follows:

	£'000
Property and land leases	**546,497**
Vehicles	**14,604**
Other assets	**583**
Total right-of-use asset recognised at 1 Jan 2019	**561,684**

22. Transition to IFRS 16 "Leases" (continued)

Financial Impact – Reconciliation of operating lease commitments at 31 December 2018

The table below reconciles the Group's operating lease obligations at 31 December 2018 to the lease obligations recognised on initial application of IFRS 16 at 1 January 2019.

	£'000
Operating lease commitments at 31 December 2018	**718,414**
Additional operating leases identified at 31 December 2018	19,793
Difference due to extensions, terminations etc.	16,463
Other adjustments to operating lease commitments	(756)
Restated 31 December 2018 operating lease commitments	**753,914**
Impact of discounting on leases	(181,241)
Discounted operating leases	**572,673**
Finance lease liability at 31 December 2018	2,209
IFRS 16 lease liability at 1 January 2019	**574,882**

23. Board Approval

These condensed consolidated half year financial statements were approved by the Board of Grafton Group plc on 29 August 2019**.**

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 2018 are available in the 2018 Annual Report and the 2018 Half Year Report subject to restatement for discontinued operations.

Note: *Belgium Merchanting is now classified as a discontinued operation, the sales and operating profit are excluded from the Group reported operating profit. The 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.
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	Earnings before exceptional items, net finance expense, income tax expense, depreciation and amortisation of intangible assets arising on acquisitions. EBITDA (rolling 12 months) is EBITDA for the previous 12 months.
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.
Like-for-like revenue	Like-for-like revenue is a measure of underlying revenue performance for a selected period. Branches contribute to like-for-like revenue once they have been trading for more than twelve months. Acquisitions contribute to like-for-like revenue once they have been part of the Group for more than 12 months. When branches close, or where a business is disposed of, revenue from the date of closure, for a period of 12 months, is excluded from the prior year result.
Operating profit/EBITA margin	Profit before net finance expense and income tax expense as a percentage of revenue.
Return on Capital Employed	Adjusted operating profit divided by average capital employed (where capital employed is the sum of total equity and net debt at each period end) times 100.

Adjusted Operating Profit/EBITA before Property Profit

	Six months to 30 June 2019 Reported £'000	Six months to 30 June 2019 Pre IFRS 16 Impact £'000	Six months to 30 June 2018 Restated £'000
Revenue - continuing	1,437.3	1,437.3	1,402.5
Operating profit	101.2	95.1	90.0
Property profit	(4.7)	(4.7)	(4.5)
Amortisation of intangible assets arising on acquisitions	2.7	2.7	2.4
Adjusted operating profit/EBITA before property profit	99.2	93.0	88.0
Adjusted operating profit/EBITA margin before property profit	6.9%	6.5%	6.3%

Operating Profit/EBITA Margin

	Six months to 30 June 2019 Reported £'000	Six months to 30 June 2019 Pre IFRS 16 Impact £'000	Six months to 30 June 2018 Restated £'000
Revenue - continuing	1,437.3	1,437.3	1,402.5
Operating profit	101.2	95.1	90.0
Operating profit/EBITA margin	7.0%	6.6%	6.4%

Adjusted Operating Profit/EBITA

	Six months to 30 June 2019 Reported £'000	Six months to 30 June 2019 Pre IFRS 16 Impact £'000	Six months to 30 June 2018 Restated £'000
Revenue - continuing	1,437.3	1,437.3	1,402.5
Operating profit	101.2	95.1	90.0
Amortisation of intangible assets arising on acquisitions	2.7	2.7	2.4
Adjusted operating profit/EBITA	103.9	97.7	92.4
Adjusted operating profit/EBITA margin	7.2%	6.8%	6.6%

Adjusted Profit before Tax

	Six months to 30 June 2019 Reported £'000	Six months to 30 June 2019 Pre IFRS 16 Impact £'000	Six months to 30 June 2018 Restated £'000
Profit before tax	88.2	91.6	87.6
Amortisation of intangible assets arising on acquisitions	2.7	2.7	2.4
Adjusted profit before tax	90.9	94.3	90.0

Adjusted Profit after Tax

	Six months to 30 June 2019 Reported £'000	Six months to 30 June 2019 Pre IFRS 16 Impact £'000	Six months to 30 June 2018 Restated £'000
Profit after tax	72.6	75.3	71.3
Amortisation of intangible assets arising on acquisitions	2.7	2.7	2.4
Releated tax on amortisation of intangible assets arising on acquisitions	(0.5)	(0.5)	(0.5)
Adjusted profit after tax	74.8	77.5	73.2

Reconciliation of Profit to EBITDA

	Six months to 30 June 2019 Reported £'000	Six months to 30 June 2019 Pre IFRS 16 Impact £'000	Six months to 30 June 2018 Restated £'000
Profit after tax	72.6	75.3	71.3
Net finance expense	13.0	3.5	2.5
Income tax expense	15.6	16.3	16.2
Depreciation	54.2	22.0	20.5
Intangible asset amortisation	3.7	3.7	3.1
EBITDA	159.1	120.8	113.6

Net Debt to EBITDA

	Six months to 30 June 2019 Pre IFRS 16 Impact £'000	Six months to 30 June 2018 Restated £'000
EBITDA (rolling 12 months)	242.9	219.5
Net debt	0.1	101.7
Net debt to EBITDA – times	0.00	0.46

EBITDA Interest Cover

	Six months to 30 June 2019 Reported £'000	Six months to 30 June 2019 Pre IFRS 16 Impact £'000	Six months to 30 June 2018 Restated £'000
EBITDA	159.1	120.8	113.6
Net bank/loan note interest	3.2	3.2	2.0
EBITDA interest cover – times	49.6	37.6	55.5

Gearing

	30 June 2019 Reported £'000	30 June 2019 Pre IFRS 16 Impact £'000	30 June 2018 Restated £'000
Total equity	1,313.5	1,315.6	1,232.2
Group net debt	540.5	0.1	101.7
Gearing	41%	0%	8%

Return on Capital Employed

	Six months to 30 June 2019 Pre IFRS 16 Impact £'000	Six months to 30 June 2018 Restated £'000
Operating profit (rolling 12 months)	191.7	173.3
Exceptional items (rolling)	1.9	-
Amortisation of intangible assets arising on acquisitions (rolling)	5.4	3.8
Adjusted operating profit (rolling 12 months)	199.0	177.1
Total equity – current period end	1,315.6	1,232.2
Net debt – current period end	0.1	101.7
Capital employed – current period end	1,315.6	1,333.8
Total equity – prior period end	1,232.2	1,121.4
Net debt – prior period end	101.7	80.2
Capital employed – prior period end	1,333.8	1,201.6
Average capital employed	1,324.7	1,267.7
Return on capital employed	15.0%	14.0%

Capital Turn

	Six months to 30 June 2019 Pre IFRS 16 Impact £'000	Six months to 30 June 2018 Restated £'000
Revenue H2 prior period	1,458.6	1,377.2
Revenue H1 current period	1,437.3	1,402.5
Total revenue for previous 12 months	2,895.9	2,779.7
Average capital employed	1,324.7	1,267.7
Capital turn - times	2.2	2.2

Return on capital employed and capital turn for the year to 30 June 2019 are not measured on a post IFRS 16 basis because the comparative information for 2018 is not restated. This information will be provided in the Final Results for the Year Ended 31 December 2019.

Supplementary Financial Information

Alternative Performance Measures

Impact of IFRS 16 "Leases" & Discontinued Operations on the Group Income Statement

	2019 (Unaudited) Pre adjusted	2019 (Unaudited) Discontinued operations	2019 (Unaudited) Continuing	2019 (Unaudited) IFRS 16 *(see below)*	2019 (Unaudited) Reported
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Revenue	1,482,606	(45,290)	1,437,316	-	**1,437,316**
Operating costs	(1,391,869)	44,887	(1,346,982)	6,156	**(1,340,826)**
Operating profit before property profits	90,737	(403)	90,334	6,156	**96,490**
Property profits	4,737	-	4,737	-	**4,737**
Operating profit before exceptional items	95,474	(403)	95,071	6,156	**101,227**
Exceptional items	(25,964)	25,964	-	-	**-**
Operating profit	69,510	25,561	95,071	6,156	**101,227**
Finance expense	(4,008)	19	(3,989)	(9,545)	**(13,534)**
Finance income	510	-	510	-	**510**
Profit before tax	66,012	25,580	91,592	(3,389)	**88,203**
Income tax expense	(16,391)	140	(16,251)	670	**(15,581)**
Profit after tax for the financial period from continuing operations	49,621	25,720	75,341	(2,719)	**72,622**
Result from discontinued operations	-	(25,720)	(25,720)	18	**(25,702)**
Profit after tax for the financial period	49,621	-	49,621	(2,701)	**46,920**

Supplementary Financial Information

Alternative Performance Measures

Overall impact of IFRS 16 "Leases"

Group Condensed Income Statement
For the six months ended 30 June 2019

	2019 (Unaudited) Pre IFRS 16 Impact £'000	2019 (Unaudited) IFRS 16 Impact £'000	2019 (Unaudited) Reported £'000
Revenue	1,437,316	**-**	1,437,316
Operating costs	(1,346,982)	**6,156**	(1,340,826)
Operating profit before property profits	90,334	**6,156**	96,490
Property profits	4,737	**-**	4,737
Operating profit	95,071	**6,156**	101,227
Finance expense	(3,989)	**(9,545)**	(13,534)
Finance income	510	**-**	510
Profit before tax	91,592	**(3,389)**	88,203
Income tax expense	(16,251)	**670**	(15,581)
Profit after tax for the financial period from continuing operations	75,341	**(2,719)**	72,622
Result from discontinued operations	(25,720)	**18**	(25,702)
Profit after tax for the financial period	49,621	**(2,701)**	46,920
Profit attributable to:			
Owners of the Company	49,621	**(2,701)**	46,920
Earnings per ordinary share - basic	31.7p	**(1.1p)**	30.5p
Earnings per ordinary share - diluted	31.6p	**(1.1p)**	30.5p

Group Condensed Balance Sheet as at 30 June 2019

ASSETS	30 June 2019 (Unaudited) Pre IFRS 16 Impact £'000	30 June 2019 (Unaudited) IFRS 16 Impact £'000	30 June 2019 (Unaudited) Reported £'000
Non-current assets			
Goodwill	637,553	-	637,553
Intangible assets	77,256	-	77,256
Property, plant and equipment	511,535	**(2,409)**	509,126
Right-of-use asset	-	**525,457**	525,457
Investment properties	13,786	-	13,786
Deferred tax assets	7,086	**177**	7,263
Lease receivable	-	**2,423**	2,423
Retirement benefit assets	1,714	-	1,714
Other financial assets	126	-	126
Total non-current assets	1,249,056	**525,648**	1,774,704
Current assets			
Properties held for sale	11,992	-	11,992
Inventories	344,093	-	344,093
Trade and other receivables	485,022	**(7,381)**	477,641
Derivative financial instruments	84	-	84
Cash and cash equivalents	358,926	-	358,926
Total current assets	1,200,117	**(7,381)**	1,192,736
Assets of disposal group held for sale	22,748	**9,777**	32,525
Total assets	**2,471,921**	**528,044**	**2,999,965**
EQUITY			
Equity share capital	8,514	-	8,514
Share premium account	213,452	-	213,452
Capital redemption reserve	621	-	621
Revaluation reserve	13,057	-	13,057
Shares to be issued reserve	9,520	-	9,520
Cash flow hedge reserve	58	-	58
Foreign currency translation reserve	80,307	**622**	80,929
Retained earnings (prior years)	974,271	-	974,271
Retained earnings (current year)	19,681	**(2,701)**	16,980
Treasury shares held	(3,897)	-	(3,897)
Total equity	1,315,584	**(2,079)**	1,313,505
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	357,043	-	357,043
Lease liabilities	1,583	**487,615**	489,198
Provisions	22,068	**(6,002)**	16,066
Retirement benefit obligations	22,189	-	22,189
Deferred tax liabilities	40,446	-	40,446
Total non-current liabilities	443,329	**481,613**	924,942
Current liabilities			
Lease liabilities	416	**52,782**	53,198
Trade and other payables	646,764	**(11,923)**	634,841
Current income tax liabilities	34,383	**(493)**	33,890
Derivative financial instruments	27	-	27
Provisions	11,156	**(1,685)**	9,471
Total current liabilities	692,746	**38,681**	731,427
Liabilities of disposal group held for sale	20,262	**9,829**	30,091
Total liabilities	1,156,337	**530,123**	1,686,460
Total equity and liabilities	**2,471,921**	**528,044**	**2,999,965**

Group Condensed Cash Flow Statement

	Six months to 30 June 2019 (Unaudited) Pre IFRS 16 Impact £'000	Six months to 30 June 2019 (Unaudited) IFRS 16 Impact £'000	Six months to 30 June 2019 (Unaudited) Reported £'000
Profit before taxation from continuing operations	91,592	**(3,389)**	88,203
(Loss) before taxation from discontinued operations	(25,580)	**18**	(25,562)
Profit before taxation	66,012	**(3,371)**	62,641
Finance income	(510)	**-**	(510)
Finance expense *(continuing and discontinued)*	4,008	**9,760**	13,768
Operating profit	69,510	**6,389**	75,899
Depreciation	22,012	**32,158**	54,170
Amortisation of intangible assets	3,680	**-**	3,680
Share-based payments charge	3,176	**-**	3,176
Movement in provisions	1,941	**494**	2,435
Loss on sale of property, plant and equipment	112	**-**	112
Property profit	(4,737)	**-**	(4,737)
Asset impairment / fair value adjustments	16,906	**(287)**	16,619
Goodwill impairment	9,176	**-**	9,176
Contributions to pension schemes in excess of IAS 19 charge	(255)	**-**	(255)
(Increase)/decrease in working capital	(2,626)	**-**	(2,626)
Cash generated from operations	118,895	**38,754**	157,649
Interest paid *(continuing and discontinued)*	(3,718)	**(9,760)**	(13,478)
Income taxes paid	(14,196)	**-**	(14,196)
Cash flows from operating activities	100,981	**28,994**	129,975
Investing activities			
Inflows			
Proceeds from sale of property, plant and equipment	788	-	788
Proceeds from sales of properties held for sale	8,176	-	8,176
Interest received	368	-	368
	9,332	-	9,332
Outflows			
Investment in intangible asset – computer software	(1,118)	-	(1,118)
Purchase of property, plant and equipment	(19,297)	-	(19,297)
	(20,415)	-	(20,415)
Cash flows from investing activities	(11,083)	-	(11,083)
Financing activities			
Inflows			
Proceeds from the issue of share capital	22	-	22
Proceeds from borrowings	116,256	-	116,256
	116,278	-	116,278
Outflows			
Repayment of borrowings	(32,671)	-	(32,671)
Dividends paid	(28,532)	-	(28,532)
Treasury shares purchased	(6,080)	-	(6,080)
Payment on lease liabilities	(208)	**(28,994)**	(29,202)
	(67,491)	**(28,994)**	(96,485)
Cash flows from financing activities	48,787	**(28,994)**	19,793
Net increase in cash and cash equivalents	138,685	-	138,685
Cash and cash equivalents at 1 January	222,984	-	222,984
Net debt reclassified as held for sale	(2,461)		(2,461)
Effect of exchange rate fluctuations on cash held	(282)	-	(282)
Cash and cash equivalents at the end of the period	358,926	-	358,926

Reconciliation of Net Cash Flow to Movement in Net Debt

	30 June 2019 (Unaudited) Pre IFRS 16 Impact £'000	30 June 2019 (Unaudited) IFRS 16 Impact £'000	30 June 2019 (Unaudited) Reported £'000
Net increase in cash and cash equivalents	138,685	-	138,685
Net debt reclassified as held for sale	(2,461)	-	(2,461)
Net movement in derivative financial instruments	111	-	111
Movement in debt and lease financing	(83,377)	**(540,397)**	(623,774)
Change in net debt resulting from cash flows	52,958	**(540,397)**	(487,439)
Currency translation adjustment	70	-	70
Movement in net debt in the period	53,028	**(540,397)**	(487,369)
Net debt at 1 January	(53,087)	-	(53,087)
Net debt at end of the period	**(59)**	**(540,397)**	**(540,456)**

Segmental Analysis

	30 June 2019 (Unaudited) Pre IFRS 16 Impact £'000	30 June 2019 (Unaudited) IFRS 16 Impact £'000	30 June 2019 (Unaudited) Reported £'000
Revenue			
UK merchanting	989,533	-	989,533
Ireland merchanting	226,210	-	226,210
Netherlands merchanting	80,945	-	80,945
Total merchanting	1,296,688	-	1,296,688
Retailing	99,924	-	99,924
Manufacturing	47,391	-	47,391
Less: Inter-segment revenue - manufacturing	(6,687)	-	(6,687)
Total revenue	1,437,316	-	1,437,316
Segmental operating profit before exceptional items and intangible amortisation arising on acquisitions			
UK merchanting	55,486	4,084	59,570
Ireland merchanting	19,151	179	19,330
Netherlands merchanting	8,629	330	8,959
Total merchanting	83,266	4,593	87,859
Retailing	8,045	1,479	9,524
Manufacturing	9,123	33	9,156
	100,434	6,105	106,539
Reconciliation to consolidated operating profit			
Central activities	(7,434)	51	(7,383)
	93,000	6,156	99,156
Property profits	4,737	-	4,737
Operating profit before exceptional items and intangible amortisation arising on acquisitions	97,737	6,156	103,893
Amortisation of intangible assets arising on acquisitions	(2,666)	-	(2,666)
Operating profit	95,071	6,156	101,227
Finance expense	(3,989)	(9,545)	(13,534)
Finance income	510	-	510
Profit before tax	91,592	(3,389)	88,203
Income tax expense	(16,251)	670	(15,581)
Profit after tax for the financial period from continuing operations	75,341	(2,719)	72,622
Result from discontinued operations	(25,720)	18	(25,702)
Profit after tax for the financial period	**49,621**	**(2,701)**	**46,920**

Earnings per Share

	30 June 2019 (Unaudited) Pre IFRS 16 Impact £'000	30 June 2019 (Unaudited) IFRS 16 Impact £'000	30 June 2019 (Unaudited) Reported £'000
Numerator for basic, adjusted and diluted earnings per share:			
Profit after tax for the financial period from continuing operations	75,341	(2,719)	72,622
(Loss) after tax for the financial period from discontinued operations	(25,720)	18	(25,702)
Numerator for basic and diluted earnings per share	49,621	(2,701)	46,920
Profit after tax for the financial period from continuing operations	75,341	(2,719)	72,622
Amortisation of intangible assets arising on acquisitions	2,666	-	2,666
Tax relating to amortisation of intangible assets arising on acquisitions	(532)	-	(532)
Numerator for adjusted earnings per share - continuing	77,475	(2,719)	74,756
	Number of Grafton Units	**Number of Grafton Units**	**Number of Grafton Units**
Denominator for basic and adjusted earnings per share:			
Weighted average number of Grafton Units in issue	237,778,336	-	237,778,336
Dilutive effect of options and awards	659,376	-	659,376
Denominator for diluted earnings per share	238,437,712	-	238,437,712
Earnings per share (pence) – from continuing operations			
- Basic	31.7	(1.1)	30.5
- Diluted	31.6	(1.1)	30.5
Earnings per share (pence) – from discontinued operations			
- Basic	(10.8)	0.0	(10.8)
- Diluted	(10.8)	0.0	(10.8)
Adjusted earnings per share (pence) – from continuing operations			
- Basic	32.6	(1.1)	31.4
- Diluted	32.5	(1.1)	31.4

Responsibility Statement in Respect of the Six Months Ended 30 June 2019

The Directors, whose names and functions are listed on pages 64 and 65 in the Group's 2018 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 2019 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 2019, 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") as set out on pages 15 to 42 and as defined below, in the Half Year Report of Grafton Group Plc for the six month period ended 30 June 2019. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Transparency (Directive 2004/109/EC) Regulations 2007 and the Transparency Rules of the Central Bank of Ireland.

What we have reviewed

The interim financial statements, comprise:

- the Group Condensed Balance Sheet as at 30 June 2019;
- the Group Condensed Income Statement and Group Condensed Statement of Comprehensive Income for the period then ended;
- the Group Condensed Cash Flow Statement for the period then ended;
- the Group Condensed Statement of Changes in Equity for the period then ended; and
- the Notes to the Condensed Consolidated Half Year Financial Statements on pages 21 to 42.

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

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

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 Transparency (Directive 2004/109/EC) Regulations 2007 and the Transparency Rules of the Central Bank of Ireland.

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

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
29 August 2019
Dublin, Ireland

Notes:

(a) The maintenance and integrity of the Grafton Group plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

(b) Legislation in the Republic of Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.