# Grafton Group plc
# Half Year Report
# For The Six Months Ended 30 June 2017

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| £m* | H1 2017 | H1 2016 | Change |
|---|---|---|---|
| Revenue | **1,339** | 1,228 | +9% |
| **Adjusted**** | | | |
| Operating profit before property profit | **77.0** | 64.8 | +19% |
| Operating profit | **79.1** | 68.4 | +16% |
| Profit before tax | **75.4** | 65.0 | +16% |
| Earnings per share – basic | **25.9p** | 22.3p | +16% |
| **Statutory results** | | | |
| Operating profit | **77.7** | 66.1 | +18% |
| Profit before tax | **74.1** | 62.8 | +18% |
| Earnings per share – basic | **25.5p** | 21.5p | +19% |
| Dividend | **5.25p** | 4.75p | +11% |
| Net debt | **80.2** | 95.7 | (15.5) |
| Adjusted operating margin before property profit | **5.8%** | 5.3% | +50bps |
| Return on capital employed | **13.2%** | 12.5%^ | +70bps |

**Additional information in relation to Alternative Performance Measures (APMs) is set out on pages 31 to 34.*
***The term "Adjusted" means before amortisation of intangible assets arising on acquisitions in both periods and before exceptional items in 2016.*
*^ Being the full year return on capital employed for 2016*

## Highlights

- Revenue up 9% to £1.3 billion – 6% increase in constant currency
- Adjusted operating profit before property profit up 19% to £77.0 million (2016: £64.8 million)
- Strong organic growth in the Irish Merchanting, Woodie's DIY and Mortar Manufacturing businesses
- Increase in scale and profitability of the Netherlands merchanting business
- Recovery in profitability in traditional UK Merchanting business
- Continued successful investment in Selco with the opening of nine branches in the year to date and at least two more due to open by the year end
- Another period of strong cash generation with net debt declining to £80.2 million at 30 June 2017 - gearing of 7%
- Continued investment to support future profit growth with £68.6 million deployed on acquisitions and capital expenditure
- 11% increase in dividend in line with progressive dividend policy

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

*"We are pleased to report that all geographies contributed to strong growth in revenue and double digit growth in profits and earnings per share in the first half. This encouraging outcome leaves us well placed to deliver our full year expectations."*

**Webcast Details**

A results presentation for analysts and fund managers will be hosted by Gavin Slark and David Arnold today 31 August 2017 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 http://www.graftonplc.com/webcast/HY2017. A recording of this webcast will be available for replay later today on the Group's website.

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

# Half Year Report
# For the Six Months Ended 30 June 2017

## Group Results

Grafton had a very good first half driven principally by organic growth across the Group's businesses. There was a significant improvement in all key measures of financial performance in the period, with a notable increase in return on capital employed to 13.2 per cent.

The UK merchanting business increased profit and performed well through the half year. The Selco builders merchanting model continued to be the focus for development capital in the UK with the opening of nine new branches so far this year. The traditional UK merchanting business reported good growth in profit and benefitted from the restructuring implemented in the last quarter of 2016.

The market leading merchanting business in Ireland delivered a strong improvement in profit in a favourable market that saw good growth in demand in the residential RMI market and a recovery in house building and commercial construction that gained momentum in the period. The branch network was expanded with the opening of three new branches in Dublin. The operating profit margin before property profit increased by 120 basis points to 8.0 per cent.

Increased investment in the Netherlands merchanting business combined with positive market conditions delivered good growth in profit. The 14 branch Gunters en Meuser acquisition, completed in January of this year, made a good contribution to the first half performance.

The performance of the Belgium merchanting business improved in a weak market in response to a range of measures to increase profitability.

The Woodie's DIY retailing business in Ireland delivered strong growth in profitability as customers responded positively to the improved shopping experience in its stores. The operating profit margin advanced by 140 basis points to 5.6 per cent.

CPI EuroMix, the market leading UK mortar business, increased volumes supplied to the house building market. Profit was well ahead of the prior year and the operating profit margin for the division increased by 230 basis points to 21.4 per cent.

The Group continued to be in a strong financial position and was very cash generative in the period with cash flow from operations of £107.4 million. Net debt fell to £80.2 million from £96.3 million at 31 December 2016 and net worth (total equity) exceeded £1.1 billion.

## Dividend

The interim dividend has been increased by 11 per cent to 5.25p from 4.75p. This increase is in line with the Board's progressive dividend policy which is based on increasing dividends as earnings grow. Strong earnings growth has provided scope for a significant increase in the dividend while also increasing dividend cover.

## Outlook

Recent softer trends in the UK economy are likely to be sustained over the remainder of the year. The strength of housing starts should support house building activity while the residential RMI market is expected to be broadly flat with continuing competitive pricing conditions. Expansion of the Selco branch network reflects our confidence in the medium term outlook for the UK economy.

The outlook for the Irish economy is positive with the pace of growth projected to remain strong and to provide a favourable trading environment. Growth in employment and incomes should continue to be supportive of household spending in the residential RMI and DIY markets. The new housing and non-residential new build markets are still in the relatively early stages of a recovery that is expected to gather pace in response to strong underlying demand.

Recent strong growth in the Netherlands economy is forecast to continue with the Dutch merchanting business expected to benefit. While modest growth is forecast for the Belgian economy, our focus remains on self-help initiatives to restore profitability.

Average daily like-for-like revenue growth in the period from 1 July to 27 August 2017 was 6.5 per cent for the Group. Average daily like-for-like growth was 5.5 per cent in the UK merchanting business measured against marginally positive growth for the same period last year, 9.3 per cent in the Irish merchanting business and 5.9 per cent in the Netherlands merchanting business. Average daily like-for-like revenue was down 2.7 per cent in the Belgian merchanting business and was up by 10.8 per cent in the retailing business in Ireland and by 20.3 per cent in the manufacturing business.

Grafton has a high quality portfolio of businesses with strong market positions that provide an excellent platform for growing shareholder value over the remainder of the year and beyond.

## Operating Review

## Merchanting Segment (91% of Group Revenue)

| | H1 2017 £'m | H1 2016 £'m | Actual Change |
|---|---|---|---|
| Revenue | 1,221.4 | 1,124.9 | +8.6% |
| Adjusted operating profit before property profit | 72.5 | 62.2 | +16.5% |
| Adjusted operating profit margin before property profit | 5.9% | 5.5% | +40bps |
| Adjusted operating profit | 74.6 | 65.8 | +13.4% |
| Adjusted operating profit margin | 6.1% | 5.8% | +30bps |

The Group operates merchanting businesses in the UK, Ireland, the Netherlands and Belgium. Overall average daily like-for-like revenue in the Merchanting segment increased by 5.6 per cent and the operating profit margin before property profit was ahead by 40 basis points.

### UK Merchanting

| | H1 2017 £'m | H1 2016 £'m | Actual Change |
|---|---|---|---|
| Revenue | 919.5 | 884.0 | +4.0% |
| Adjusted operating profit before property profit | 50.1 | 46.9 | +6.8% |
| Adjusted operating profit margin before property profit | 5.5% | 5.3% | +20bps |
| Adjusted operating profit | 51.1 | 50.5 | +1.2% |
| Adjusted operating profit margin | 5.6% | 5.7% | (10bps) |

Like-for-like revenue growth of 4.5 per cent was driven by supplier price increases and modest growth in volumes. Price inflation was estimated at 2.5 per cent and like-for-like merchanting volumes increased by an estimated 2.0 per cent. New branches and implants increased revenue by 2.7 per cent and there was a reduction in revenue by 3.1 per cent due to the closure of 47 branches in Plumbase and the Contracts businesses in the last quarter of the 2016.

The UK merchanting gross margin increased by 30 basis points due primarily to favourable mix changes related to revenue growth in Selco. The operating profit margin increased by 20 basis points to 5.5 per cent and would have recorded an increase of 50 basis points but for the increase in Selco branch opening costs of £2.7 million.

**Selco Builders Warehouse** reported double-digit revenue growth driven principally by the rollout of new branches and consolidated its position as the UK's fourth largest and fastest growing general builders merchanting model. Selco's unique self-select retail style model is tailored to service trade and business customers operating in the more resilient residential RMI market.

The pace of like-for-like revenue growth was strong in the regions and moderated in the Greater London Area. The opening of new branches within and outside the M25 in London gave customers more convenient trading options and created capacity in a number of branches that have been trading at record levels of activity over recent years.

Five new branches were opened in the half year in Beckton, Crayford, Guildford, Camberley and Cardiff where the business already has a successful branch. Since the period end, four branches were opened in Thurrock, Warrington, Poole and Basildon. Selco now trades from 56 branches and remains on course to open at least eleven new branches in the current year.

Revenue increased from the Click and Collect and Selco Direct on-line services that provide an ongoing opportunity to grow on-line revenue as customers shopping behaviour continues to evolve and increasingly combines both in-branch and on-line channels.

**Buildbase** achieved improved results in a general merchanting market that saw significant price increases by suppliers related to sterling exchange rate weakness and the effects of increased commodity prices.

A range of margin management initiatives were implemented across the business in response to intense competition and pricing pressure in key product categories. Overheads were well controlled across a stable branch network aided by cost cutting measures implemented late last year. Buildbase delivered a good performance in a challenging environment reporting good growth in operating profit and operating margin.

Revenue and profit from the Electricbase implants continued to increase while the outturn in the Hirebase implants was steady following several years of strong growth in a mixed hire market.

**Plumbase** revenue was lower due to the closure of branches last year following a strategic review of the business. Like-for-like revenue increased by 4.9 per cent. The overall result for the period saw an increase in operating profit from a low base due to improvements in operating efficiency, rationalisation of the branch network, customer initiatives and margin management. The bathroom distribution business delivered good profitability and operating margin.

**Buildbase Civils**, a distributor of heavyside materials primarily to the residential new build and infrastructure markets, recovered strongly under new management. Strong revenue growth was supported by increased demand in the new housing market for groundworks materials and lintels. There was a strong advance in operating profit that also benefitted from last year's restructuring.

**TG Lynes**, a leading distributor to the mechanical services market in London and the South East, strengthened its market position and increased revenue and operating profit. There was good demand from building services contractors engaged in refurbishment and new build projects in the commercial, public sector and residential markets. The small network of Plumbase Industrial branches that also operate in this market achieved improved results.

**MacBlair**, the Northern Ireland merchanting business, reported improved revenue and profit following investment in recent years. Good gains were made in the general merchanting branches partly offsetting tighter trading conditions in the architectural ironmongery division. The refurbished flagship branch in Belfast and the relocated branch in Lisburn performed well.

## Irish Merchanting

| | H1 2017 £'m | H1 2016 £'m | Actual Change | Constant Currency Change |
|---|---|---|---|---|
| Revenue | 193.0 | 158.3 | +21.9% | +10.6% |
| Operating profit before property profit | 15.4 | 10.7 | +44.1% | +30.4% |
| Operating profit margin before property profit | 8.0% | 6.8% | +120bps | |
| Operating profit | 16.5 | 10.7 | +54.0% | +39.4% |
| Operating profit margin | 8.5% | 6.8% | +170bps | |

The market leading merchanting business in Ireland outperformed a recovering market with constant currency growth of 12.2 per cent in like-for-like revenue.

The gross margin was ahead despite an unfavourable change in the mix related to increased revenue from higher volume commercial new build projects. The cost base reflected an incremental investment in customer facing colleagues to maintain service levels, position the business for the next phase of growth and to take advantage of product development opportunities in an evolving market place. The strong improvement in operating profit was driven by increased revenue and the operating profit margin before property profit increased by 120 basis points to 8.0 per cent.

The economic backdrop remained positive with a continuation of the growth trends of recent years as the economy remained on a strong footing.

The shortage of supply of new housing continued to be a feature of the Irish merchanting market with only 15,000 units completed last year. This was half the number of units required to meet ongoing demand before taking account of pent-up demand due to the shortfall in supply over recent years. The increase in house building which was initially concentrated in the fast growing Greater Dublin Area has extended to other parts of the country.

The overall number of housing transactions was unchanged on the prior year and, at an annualised rate of 2.5 per cent of the housing stock, remained well below a normalised level of activity. Favourable economic conditions supported growth in housing RMI and there was a notable increase in commercial activity. The civils market was quieter following the completion of a number of major infrastructure projects.

Three new branches were opened in areas of Dublin that are expected to benefit from increased construction activity over the coming years. These branches provide convenient collection points for customers and increased the number of branches in the network to 49 including 20 in Dublin.

## Netherlands Merchanting

| | H1 2017 £'m | H1 2016 £'m | Actual Change | Constant Currency Change |
|---|---|---|---|---|
| Revenue | 63.3 | 41.5 | +52.5% | +38.1% |
| Adjusted operating profit | 6.6 | 4.7 | +39.3% | +26.0% |
| Adjusted operating profit margin | 10.4% | 11.3% | (90bps) | |

The acquisition in January 2017 of the 14 branch **Gunters en Meuser** business increased the scale of the Dutch business and provided a strong presence in the Greater Amsterdam Area where it has traded for almost two hundred years. The overall business now trades from 54 branches and is the market leader in the tools, fixings and ironmongery market with a strong position in the country's five largest cities. The first stage of the integration of Gunters en Meuser, which focused primarily on supplier and procurement arrangements, was successfully completed.

Daily like-for-like revenue increased by 4.3 per cent, a faster rate of growth than the market. The operating margin was slightly lower due the mix effect of the Gunters en Meuser acquisition which performed in line with our expectations.

The Dutch economy continued to perform well and the housing market recovery continued with a sharp increase in the number of housing transactions for the second successive year. Despite strong demand, the increase in house building was modest due to a shortage of suitable sites and the complexity of the urban planning process.

A small single branch business was acquired in Wijchen, Eastern Netherlands which provides a good platform to develop a strong market positon in the town.

### Belgium Merchanting

| | H1 2017 £'m | H1 2016 £'m | Actual Change | Constant Currency Change |
|---|---|---|---|---|
| Revenue | 45.6 | 41.2 | +10.8% | +0.4% |
| Operating profit | 0.4 | (0.1) | +459.4% | +365.1% |
| Operating profit margin | 0.9% | (0.3%) | +120bps | |

Revenue was down in the first quarter but recovered in the second quarter to register overall like-for-like growth of 1.5 per cent for the half year against the backdrop of modest growth in the Belgian economy and housing market. The business continued to reorient its customer base towards a lower volume higher margin collected business model.

An improved gross margin, due to changes in the customer mix and procurement gains, and cost reduction initiatives implemented last year contributed to the return to modest profitability. The Brussels branch will be relocated in the first quarter of 2018 to a new purpose built facility that is being constructed on a site adjoining the branch.

## Retail Segment (6% of Group Revenue)

| | H1 2017 £'m | H1 2016 £'m | Actual Change | Constant Currency Change |
|---|---|---|---|---|
| Revenue | 84.4 | 73.1 | +15.5% | +4.7% |
| Operating profit | 4.7 | 3.1 | +53.2% | +41.0% |
| Operating profit margin | 5.6% | 4.2% | +140bps | |

**Woodie's** performed strongly increasing like-for-like revenue by 6.6 per cent, a similar rate of growth to the first half of the prior year. Seasonal product categories including plants and shrubs, lawn mowers and pressure washers performed strongly and Woodie's continued to develop its kitchens business from dedicated showrooms in half of its estate.

The retail sales environment was positive in line with generally improving trends for the Irish economy. Higher retail sales were driven by increased employment and growth in real incomes as inflation remained subdued.

Woodie's outperformed the market in the half-year and continued to benefit from the focus in recent years on enhancing the customer shopping experience by improving store lay-outs and merchandising, better product ranges, investment in store colleagues and promotional activity.

The benefit of increased revenue was protected by maintaining the gross margin and controlling costs. Savings from simplifying processes and operations were invested in customer facing roles in the stores. Over 1,000 colleagues participated in learning and training programmes to enable them to deliver the very best service to customers and to develop new skills that are important to the future success of the business and that support their career aspirations.

Constant currency operating profit increased by 41.0 per cent and the operating margin was ahead by 140 basis points to 5.6 per cent.

A further four stores were upgraded in the half year taking the number completed to sixteen with a further four scheduled for completion in the second half of the year. Woodie's garden centres, which are an integral part of each store, are also being upgraded with eight completed in the half year.

## Manufacturing Segment (3% of Group Revenue)

| | H1 2017 £'m | H1 2016 £'m | Actual Change | Constant Currency Change |
|---|---|---|---|---|
| Revenue | 32.8 | 29.9 | +9.6% | +8.9% |
| Operating profit | 7.0 | 5.7 | +22.5% | +21.8% |
| Operating profit margin | 21.4% | 19.1% | +230bps | |

**CPI EuroMix**, the market leader in the supply of dry mortar in Great Britain, saw very good growth in volumes and used capacity at its ten plants to meet strong market demand nationally and win new business ahead of the market. Mortar demand from the house builder and bricklaying sub-contractor customer base was underpinned by good demand for housing. High levels of employment, access to competitively priced mortgages and the Help to Buy scheme supported good demand in the new housing market. The CPI EuroMix service model and business structure was well placed to respond to increased mortar demand in its core market.

Strong growth in profitability was delivered through industry leading standards in product innovation, quality control and customer service. The operating leverage from increased volumes was optimised by an improved gross margin and tight control of costs. Structural changes made in recent years have left the business better equipped to supply increased volumes while also providing the flexibility to invest in additional resources in response to changes in output.

## Financial Review

The financial position of the Group continued to strengthen in the half year with increased profitability converting into a strong operating cash flow and higher returns on capital employed. The Group ended the period with a strong balance sheet that incorporates the asset backing of a portfolio of freehold property, a low level of net debt, good liquidity and shareholders' equity of over £1.1 billion.

### Property

The disposal of a number of properties not used for trading purposes realised a profit of £2.0 million, down from £3.5 million in the first half of 2016. The proceeds generated from these disposals were £4.0 million (30 June 2016: £5.4 million). Property profit for the full year is expected to be circa £3.0 million (2016: £4.9 million).

### Pensions

The IAS 19 defined benefit pension scheme pension deficit was £20.2 million at 30 June 2017, a reduction of £11.1 million from the position at 31 December 2016. The primary drivers of the fall in the deficit were a decline in liabilities in the Irish scheme due to a 25 basis points increase in the discount rate used to measure liabilities in line with an increase in euro denominated corporate bond rates, a decline in liabilities in the UK scheme due to lower inflation and salary growth assumptions and good returns achieved on scheme assets which stood at £230.3 million at the period end.

## Net Finance Income and Expense

The net finance charge for the half year increased to £3.6 million (2016: £3.3 million) due to an increase in the net finance cost on pension scheme obligations and an increased charge for foreign exchange. Net bank interest was unchanged at £2.4 million and reflected the benefit of lower average net debt for the period and lower money market interest rates that were offset by the adverse effect of currency translation as debt is principally denominated in euros.

## Taxation

The tax charge for the period of £13.7 million is based on the forecast rate of 18.5 per cent for 2017 and compares to the underlying rate of 20 per cent in the first half of 2016. This rate reflects the blended rate of corporation tax on profits in the UK, Ireland and the Netherlands and the disallowance of a tax deduction for certain overheads including depreciation on property. There was a one per cent reduction in the UK rate of corporation tax to 19 per cent with effect from 1 April 2017 and a further two percentage point reduction to 17 per cent will take effect on 1 April 2020.

## Capital Expenditure and Intangible Assets

Capital expenditure on property, plant and equipment was £34.8 million (2016: £22.4 million) gross and £30.1 million net of proceeds of £4.7 million from asset disposals.

Development expenditure of £22.0 million included an outlay of £17.3 million on new branches, principally to expand the Selco network, asset hire implants in the Irish Merchanting business, the purchase of a freehold property in the UK merchanting estate and the ongoing Woodie's branch upgrade programme.

Asset replacement expenditure of £12.8 million related to the distribution fleet and tool, plant and equipment assets for hire to customers and compares favourably to the deprecation charge for the period of £18.8 million .

An investment of £3.1 million (2016: £5.8 million) was made in intangible assets as part of a multi-year investment programme to upgrade the trading and back-office ERP systems in Buildbase. The rollout of the new system is expected to commence in 2018.

## Net Debt

Net debt at 30 June 2017 was £80.2 million, a decline of £16.1 million from £96.3 million at 31 December 2016. Gross debt is principally denominated in euros to provide a natural hedge against exchange rate risk on assets located in Ireland, the Netherlands and Belgium. Sterling exchange rate weakness increased euro denominated net debt by £7.2 million on retranslation into sterling at the period end exchange rate.

The gearing ratio at 30 June 2017 declined to 7 per cent from 9 per cent at 31 December 2016. EBITDA interest cover was 41.4 times (Year ended 31 December 2016: 37.9 times) and net debt to EBITDA was 0.42 times (31 December 2016: 0.54 times).

## Financing

The Group had undrawn bank facilities of £203.2 million at 30 June 2017 (31 December 2016: £217.6 million) which combined with strong cash flow from operations and cash balances and deposits of £243.4 million (31 December 2016: £205.9 million) provides significant capacity and liquidity to fund investment in working capital, replacement assets and development activity.

In March 2017, the Group exercised an option to extend bilateral bank loan facilities of £429 million, originally put in place in March 2016, for a further year to March 2022. The average maturity of committed gross debt facilities of £526 million, including a facility for £97 million that matures in March 2021, was 4.5 years at 30 June 2017.

## Shareholders’ Equity

Shareholders’ equity increased by £56.1 million in the half year to £1.1 billion at 30 June 2017. The net effect of profit after tax of £60.4 million and dividend payments of £21.3 million increased equity by £39.1 million. Equity increased by £9.0 million due to a remeasurement gain on pension schemes and by £5.4 million due to a currency translation gain on euro denominated net assets.

## Return on Capital Employed and Asset Turn

Return on Capital Employed (ROCE) increased by 70 basis points to 13.2% (Year to December 2016: 12.5%) and capital turn increased to 2.3 times from 2.2 times in 2016. The generation of higher return on capital employed is a key financial metric in the creation of shareholder value and was achieved through increasing profitability in existing businesses and allocating development capital to projects that meet the Group’s hurdle rate of return.

## Principal Risks and Uncertainties

The primary risks and uncertainties affecting the Group over the remainder of the year are set out on pages 16 to 19 of the 2016 Annual Report.

## Interim Financial Information

The condensed consolidated half year financial statements presented on pages 12 to 30 comprise:

- the Group condensed balance sheet as at 30 June 2017;
- the Group condensed income statement and Group condensed statement of comprehensive income for the half year;
- the Group condensed statement of cash flows for the half year;
- the Group condensed statement of changes in equity; and
- the explanatory notes to the condensed consolidated half year financial statements on pages 18 to 30.

# Grafton Group plc

## Group Condensed Income Statement
For the six months ended 30 June 2017

| **Continuing activities** | **Notes** | **2017 (unaudited) £'000** | 2016 (unaudited) £'000 |
|---|---|---|---|
| **Revenue** | **2** | **1,338,583** | 1,228,356 |
| Operating costs – before exceptional items | | **(1,262,910)** | (1,164,585) |
| Property profits | **3** | **2,028** | 3,537 |
| **Operating profit - before exceptional items** | | **77,701** | 67,308 |
| Exceptional items | **3** | **-** | (1,200) |
| **Operating profit** | **3** | **77,701** | 66,108 |
| Finance expense | **4** | **(3,879)** | (4,200) |
| Finance income | **4** | **269** | 854 |
| **Profit before tax** | | **74,091** | 62,762 |
| Income tax expense | **17** | **(13,722)** | (12,204) |
| **Profit after tax for the financial period** | | **60,369** | 50,558 |
| **Profit attributable to:** | | | |
| Owners of the Company | | **60,277** | 50,656 |
| Non-controlling interests | **8** | **92** | (98) |
| **Profit after tax for the financial period** | | **60,369** | 50,558 |
| **Earnings per ordinary share - basic** | **5** | **25.5p** | 21.5p |
| **Earnings per ordinary share - diluted** | **5** | **25.4p** | 21.4p |

## Grafton Group plc

### Group Condensed Statement of Comprehensive Income
For the six months ended 30 June 2017

| | Notes | **Six months to 30 June 2017 (Unaudited) £'000** | Six months to 30 June 2016 (Unaudited) £'000 |
|---|---|---|---|
| Profit after tax for the financial period | | **60,369** | 50,558 |
| **Other comprehensive income** | | | |
| **Items that are or may be reclassified subsequently to the income statement** | | | |
| **Currency translation effects:** | | | |
| - on foreign currency net investments | | **5,397** | 15,486 |
| - on foreign currency borrowings designated as net investment hedges | | **-** | 760 |
| **Fair value movement on cash flow hedges:** | | | |
| - effective portion of changes in fair value of cash flow hedges | | **(55)** | (612) |
| - net change in fair value of cash flow hedges transferred from equity | | **163** | 102 |
| Deferred tax on cash flow hedges | | **(21)** | 70 |
| | | **5,484** | 15,806 |
| **Items that will not be reclassified to the income statement** | | | |
| Remeasurement gain/(loss) on Group defined benefit pension schemes | **13** | **10,523** | (28,367) |
| Deferred tax on Group defined benefit pension schemes | **13** | **(1,489)** | 4,115 |
| | | **9,034** | (24,252) |
| **Total other comprehensive income** | | **14,518** | (8,446) |
| **Total comprehensive income for the financial period** | | **74,887** | 42,112 |
| **Total comprehensive income attributable to:** | | | |
| Owners of the Company | | **74,795** | 42,210 |
| Non-controlling interests | **8** | **92** | (98) |
| **Total comprehensive income for the financial period** | | **74,887** | 42,112 |

# Grafton Group plc

## Group Condensed Balance Sheet as at 30 June 2017

| | Notes | **30 June 2017 (Unaudited) £'000** | 30 June 2016 (Unaudited) £'000 | 31 Dec 2016 (Audited) £'000 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Goodwill | **15** | **589,497** | 557,645 | 566,237 |
| Intangible assets | **16** | **50,673** | 41,260 | 44,584 |
| Property, plant and equipment | **9** | **485,731** | 453,986 | 461,660 |
| Investment properties | **9** | **22,171** | 19,388 | 21,749 |
| Deferred tax assets | | **12,583** | 21,434 | 15,718 |
| Retirement benefit assets | **13** | **1,400** | 497 | 796 |
| Other financial assets | | **125** | 124 | 125 |
| **Total non-current assets** | | **1,162,180** | 1,094,334 | 1,110,869 |
| | | | | |
| **Current assets** | | | | |
| Properties held for sale | **9** | **6,625** | 9,648 | 8,407 |
| Inventories | **10** | **325,880** | 294,941 | 292,681 |
| Trade and other receivables | **10** | **459,731** | 422,141 | 397,689 |
| Cash and cash equivalents | **11** | **243,373** | 206,807 | 205,857 |
| **Total current assets** | | **1,035,609** | 933,537 | 904,634 |
| | | | | |
| **Total assets** | | **2,197,789** | 2,027,871 | 2,015,503 |
| | | | | |
| **EQUITY** | | | | |
| Equity share capital | | **8,478** | 8,447 | 8,449 |
| Share premium account | | **210,303** | 210,239 | 210,271 |
| Capital redemption reserve | | **621** | 621 | 621 |
| Revaluation reserve | | **13,418** | 13,594 | 13,507 |
| Shares to be issued reserve | | **6,787** | 8,250 | 8,446 |
| Cash flow hedge reserve | | **(444)** | (794) | (531) |
| Foreign currency translation reserve | | **78,756** | 68,010 | 73,359 |
| Retained earnings | | **804,138** | 707,596 | 751,842 |
| Treasury shares held | | **(3,897)** | (3,897) | (3,897) |
| **Equity attributable to owners of the Parent** | | **1,118,160** | 1,012,066 | 1,062,067 |
| Non-controlling interests | **8** | **3,214** | 3,252 | 3,122 |
| **Total equity** | | **1,121,374** | 1,015,318 | 1,065,189 |
| | | | | |
| **LIABILITIES** | | | | |
| **Non-current liabilities** | | | | |
| Interest-bearing loans and borrowings | **11** | **322,250** | 300,481 | 300,426 |
| Provisions | | **20,745** | 18,467 | 22,385 |
| Retirement benefit obligations | **13** | **21,607** | 46,678 | 32,081 |
| Derivative financial instruments | **11** | **507** | 962 | 675 |
| Deferred tax liabilities | **17** | **38,345** | 36,284 | 36,429 |
| **Total non-current liabilities** | | **403,454** | 402,872 | 391,996 |
| | | | | |
| **Current liabilities** | | | | |
| Interest-bearing loans and borrowings | **11** | **862** | 1,029 | 1,051 |
| Trade and other payables | **10** | **632,880** | 575,152 | 523,700 |
| Current income tax liabilities | **17** | **26,292** | 25,280 | 21,224 |
| Provisions | | **12,927** | 8,220 | 12,343 |
| **Total current liabilities** | | **672,961** | 609,681 | 558,318 |
| | | | | |
| **Total liabilities** | | **1,076,415** | 1,012,553 | 950,314 |
| | | | | |
| **Total equity and liabilities** | | **2,197,789** | 2,027,871 | 2,015,503 |

## Grafton Group plc
## Group Condensed Cash Flow Statement

| For the six months ended 30 June 2017 | Notes | **Six months to 30 June 2017 (Unaudited) £'000** | Six months to 30 June 2016 (Unaudited) £'000 |
|---|---|---|---|
| **Profit before taxation** | | **74,091** | 62,762 |
| Finance income | | **(269)** | (854) |
| Finance expense | | **3,879** | 4,200 |
| **Operating profit** | | **77,701** | 66,108 |
| Depreciation | **9** | **18,800** | 16,928 |
| Amortisation of intangible assets | **16** | **1,988** | 1,470 |
| Share-based payments charge | | **2,504** | 2,540 |
| Movement in provisions | | **(1,763)** | (1,363) |
| Loss/(profit) on sale of property, plant and equipment | | **220** | (52) |
| Property profit | | **(2,028)** | (3,537) |
| Loss on disposal of Group business | | **3** | - |
| Contributions to pension schemes in excess of IAS 19 charge | | **(1,324)** | (1,330) |
| Decrease in working capital | **10** | **21,796** | 27,247 |
| **Cash generated from operations** | | **117,897** | 108,011 |
| Interest paid | | **(3,328)** | (4,088) |
| Income taxes paid | | **(7,150)** | (5,621) |
| **Cash flows from operating activities** | | **107,419** | 98,302 |
| | | | |
| **Investing activities** | | | |
| *Inflows* | | | |
| Proceeds from sale of property, plant and equipment | **9** | **674** | 969 |
| Proceeds from sales of properties held for sale | **9** | **3,989** | 5,370 |
| Proceeds from sale of Group business (net) | | **512** | - |
| Interest received | | **269** | 854 |
| | | **5,444** | 7,193 |
| *Outflows* | | | |
| Acquisition of subsidiary undertakings and businesses (net of cash) | **14** | **(30,684)** | (11,859) |
| Investment in intangible asset – computer software | **16** | **(3,115)** | (5,832) |
| Purchase of property, plant and equipment | **9** | **(34,793)** | (22,360) |
| | | **(68,592)** | (40,051) |
| **Cash flows from investing activities** | | **(63,148)** | (32,858) |
| | | | |
| **Financing activities** | | | |
| *Inflows* | | | |
| Proceeds from the issue of share capital | | **61** | 471 |
| Proceeds from borrowings | | **34,048** | 63,818 |
| | | **34,109** | 64,289 |
| *Outflows* | | | |
| Repayment of borrowings | | **(21,310)** | (120,316) |
| Dividends paid | **6** | **(21,267)** | (18,825) |
| Payment on finance lease liabilities | | **(210)** | (196) |
| | | **(42,787)** | (139,337) |
| **Cash flows from financing activities** | | **(8,678)** | (75,048) |
| | | | |
| **Net increase/(decrease) in cash and cash equivalents** | | **35,593** | (9,604) |
| Cash and cash equivalents at 1 January | | **205,857** | 211,565 |
| Effect of exchange rate fluctuations on cash held | | **1,923** | 4,846 |
| **Cash and cash equivalents at the end of the period** | | **243,373** | 206,807 |
| **Cash and cash equivalents are broken down as follows:** | | | |
| Cash at bank and short-term deposits | | **243,373** | 206,807 |

# Grafton Group plc
## Group Condensed Statement of Changes in Equity

| | Equity share capital £'000 | Share premium account £'000 | Capital redemption reserve £'000 | Revaluation reserve £'000 | Shares to be issued reserve £'000 | Cash flow hedge reserve £'000 | Foreign currency translation reserve £'000 | Retained earnings £'000 | Treasury shares £'000 | Total £'000 | Non-Controlling Interests £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Six months to 30 June 2017 (Unaudited)** | | | | | | | | | | | | |
| At 1 January 2017 | 8,449 | 210,271 | 621 | 13,507 | 8,446 | (531) | 73,359 | 751,842 | (3,897) | 1,062,067 | 3,122 | 1,065,189 |
| Profit after tax for the financial period | - | - | - | - | - | - | - | 60,277 | - | 60,277 | 92 | 60,369 |
| **Total other comprehensive income** | | | | | | | | | | | | |
| Remeasurement gain on pensions (net of tax) | - | - | - | - | - | - | - | 9,034 | - | 9,034 | - | 9,034 |
| Movement in cash flow hedge reserve (net of tax) | - | - | - | - | - | 87 | - | - | - | 87 | - | 87 |
| Currency translation effect on foreign currency net investments | - | - | - | - | - | - | 5,397 | - | - | 5,397 | - | 5,397 |
| **Total other comprehensive income** | - | - | - | - | - | 87 | 5,397 | 9,034 | - | 14,518 | - | 14,518 |
| **Total comprehensive income** | - | - | - | - | - | 87 | 5,397 | 69,311 | - | 74,795 | 92 | 74,887 |
| **Transactions with owners of the Company recognised directly in equity** | | | | | | | | | | | | |
| Dividends paid | - | - | - | - | - | - | - | (21,267) | - | (21,267) | - | (21,267) |
| Issue of Grafton Units | 29 | 32 | - | - | - | - | - | - | - | 61 | - | 61 |
| Share based payments charge | - | - | - | - | 2,504 | - | - | - | - | 2,504 | - | 2,504 |
| Transfer from shares to be issued reserve | - | - | - | - | (4,163) | - | - | 4,163 | - | - | - | - |
| Transfer from revaluation reserve | - | - | - | (89) | - | - | - | 89 | - | - | - | - |
| | 29 | 32 | - | (89) | (1,659) | - | - | (17,015) | - | (18,702) | - | (18,702) |
| **At 30 June 2017** | 8,478 | 210,303 | 621 | 13,418 | 6,787 | (444) | 78,756 | 804,138 | (3,897) | 1,118,160 | 3,214 | 1,121,374 |
| **Six months to 30 June 2016 (Unaudited)** | | | | | | | | | | | | |
| At 1 January 2016 | 8,405 | 209,810 | 621 | 13,674 | 9,168 | (354) | 51,764 | 696,479 | (3,897) | 985,670 | 3,350 | 989,020 |
| Profit after tax for the financial period | - | - | - | - | - | - | - | 50,656 | - | 50,656 | (98) | 50,558 |
| **Total other comprehensive income** | | | | | | | | | | | | |
| Remeasurement loss on pensions (net of tax) | - | - | - | - | - | - | - | (24,252) | - | (24,252) | - | (24,252) |
| Movement in cash flow hedge reserve (net of tax) | - | - | - | - | - | (440) | - | - | - | (440) | - | (440) |
| Currency translation effect on foreign currency net investments | - | - | - | - | - | - | 15,486 | - | - | 15,486 | - | 15,486 |
| Currency translation effect on foreign currency borrowings designated as net investment hedges | - | - | - | - | - | - | 760 | - | - | 760 | - | 760 |
| **Total other comprehensive income** | - | - | - | - | - | (440) | 16,246 | (24,252) | - | (8,446) | - | (8,446) |
| **Total comprehensive income** | - | - | - | - | - | (440) | 16,246 | 26,404 | - | 42,210 | (98) | 42,112 |
| **Transactions with owners of the Company recognised directly in equity** | | | | | | | | | | | | |
| Dividends paid | - | - | - | - | - | - | - | (18,825) | - | (18,825) | - | (18,825) |
| Issue of Grafton Units | 42 | 429 | - | - | - | - | - | - | - | 471 | - | 471 |
| Share based payments charge | - | - | - | - | 2,540 | - | - | - | - | 2,540 | - | 2,540 |
| Transfer from shares to be issued reserve | - | - | - | - | (3,458) | - | - | 3,458 | - | - | - | - |
| Transfer from revaluation reserve | - | - | - | (80) | - | - | - | 80 | - | - | - | - |
| | 42 | 429 | - | (80) | (918) | - | - | (15,287) | - | (15,814) | - | (15,814) |
| **At 30 June 2016** | 8,447 | 210,239 | 621 | 13,594 | 8,250 | (794) | 68,010 | 707,596 | (3,897) | 1,012,066 | 3,252 | 1,015,318 |

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

| | Equity share capital £'000 | Share premium account £'000 | Capital redemption reserve £'000 | Revaluation reserve £'000 | Shares to be issued reserve £'000 | Cash flow hedge reserve £'000 | Foreign currency translation reserve £'000 | Retained earnings £'000 | Treasury shares £'000 | Total £'000 | Non-Controlling Interests £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Year to 31 December 2016 (Audited)** | | | | | | | | | | | | |
| At 1 January 2016 | 8,405 | 209,810 | 621 | 13,674 | 9,168 | (354) | 51,764 | 696,479 | (3,897) | 985,670 | 3,350 | 989,020 |
| Profit after tax for the financial year | - | - | - | - | - | - | - | 93,347 | - | 93,347 | (228) | 93,119 |
| **Total other comprehensive income** | | | | | | | | | | | | |
| Remeasurement loss on pensions (net of tax) | - | - | - | - | - | - | - | (11,708) | - | (11,708) | - | (11,708) |
| Movement in cash flow hedge reserve (net of tax) | - | - | - | - | - | (177) | - | - | - | (177) | - | (177) |
| Currency translation effect on foreign currency net investments | - | - | - | - | - | - | 20,374 | - | - | 20,374 | - | 20,374 |
| Currency translation effect on foreign currency borrowings designated as net investment hedges | - | - | - | - | - | - | 1,221 | - | - | 1,221 | - | 1,221 |
| **Total other comprehensive income** | - | - | - | - | - | (177) | 21,595 | (11,708) | - | 9,710 | - | 9,710 |
| **Total comprehensive income** | - | - | - | - | - | (177) | 21,595 | 81,639 | - | 103,057 | (228) | 102,829 |
| **Transactions with owners of the Company recognised directly in equity** | | | | | | | | | | | | |
| Dividends paid | - | - | - | - | - | - | - | (30,048) | - | (30,048) | - | (30,048) |
| Issue of Grafton Units | 44 | 461 | - | - | - | - | - | - | - | 505 | - | 505 |
| Share based payments charge | - | - | - | - | 3,232 | - | - | - | - | 3,232 | - | 3,232 |
| Tax on share based payments | - | - | - | - | (349) | - | - | - | - | (349) | - | (349) |
| Transfer from shares to be issued reserve | - | - | - | - | (3,605) | - | - | 3,605 | - | - | - | - |
| Transfer from revaluation reserve | - | - | - | (167) | - | - | - | 167 | - | - | - | - |
| | 44 | 461 | - | (167) | (722) | - | - | (26,276) | - | (26,660) | - | (26,660) |
| **At 31 December 2016** | 8,449 | 210,271 | 621 | 13,507 | 8,446 | (531) | 73,359 | 751,842 | (3,897) | 1,062,067 | 3,122 | 1,065,189 |

# Grafton Group plc

## Notes to Condensed Consolidated Half Year Financial Statements for the six months ended 30 June 2017

### 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 2017 are unaudited but have been reviewed by the auditor whose report is set out on pages 36 and 37.

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 2016 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 2016 does not comprise statutory annual financial statements within the meaning of section 295 of the Companies Act 2014. The 2016 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 2016.

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 2016.

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 2016.

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

*IFRS 9, 'Financial instruments'*, (effective date: Grafton Group financial year beginning 1 January 2018). This standard addresses the classification, measurement and recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments. The Group is currently assessing the full impact of IFRS 9 with the new standard likely to affect the Group's accounting for some financial instruments.

*IFRS 15, 'Revenue from contracts with customers'* (effective date: Grafton Group financial year beginning 1 January 2018). This standard deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The impact of IFRS 15 is being assessed by the Group. Implementation of IFRS 15 requires a thorough review of existing contractual arrangements. At present, the Directors anticipate that there will not be material measurement differences from the implementation of IFRS 15. Additional disclosures will however be required. The transition work in respect of other areas is on-going but has not, as yet, highlighted potentially material adjustments.

*IFRS 16, 'Leases'* (effective date: Grafton Group financial year beginning 1 January 2019). This standard addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces IAS 17 'Leases', and related interpretations. Subject to EU endorsement, the Group will apply IFRS 16 from its effective date. It is expected that the adoption of the standard will result in increased assets and debt being recognised on the Group Balance Sheet. The full impact of IFRS 16 has not yet been fully assessed. The Group has entered into leases principally relating to property in the UK, Ireland, the Netherlands and Belgium.

There are no new IFRS standards effective from 1 January 2017 which had a material effect on the financial information included in this report.

## 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.

| | **Six months to 30 June 2017 (Unaudited) £'000** | Six months to 30 June 2016 (Unaudited) £'000 |
|---|---|---|
| **Revenue** | | |
| Merchanting | **1,221,413** | 1,124,921 |
| Retailing | **84,389** | 73,075 |
| Manufacturing | **39,059** | 36,273 |
| Less: Inter-segment revenue - manufacturing | **(6,278)** | (5,913) |
| | **1,338,583** | 1,228,356 |
| **Segment operating profit before exceptional items and intangible assets amortisation arising on acquisitions** | | |
| Merchanting | **72,544** | 62,244 |
| Retailing | **4,727** | 3,085 |
| Manufacturing | **7,010** | 5,723 |
| | **84,281** | 71,052 |
| **Reconciliation to consolidated operating profit** | | |
| Central activities | **(7,256)** | (6,214) |
| | **77,025** | 64,838 |
| Property profits | **2,028** | 3,537 |
| **Operating profit before exceptional items and intangible assets amortisation arising on acquisitions** | **79,053** | 68,375 |
| Exceptional items | **-** | (1,200) |
| Amortisation of intangible assets arising on acquisitions | **(1,352)** | (1,067) |
| **Operating profit** | **77,701** | 66,108 |
| Finance expense | **(3,879)** | (4,200) |
| Finance income | **269** | 854 |
| **Profit before tax** | **74,091** | 62,762 |
| Income tax expense | **(13,722)** | (12,204) |
| **Profit after tax for the financial period** | **60,369** | 50,558 |

The amount of revenue by geographic area is as follows:

| | **Six months to 30 June 2017 (Unaudited) £'000** | Six months to 30 June 2016 (Unaudited) £'000 |
|---|---|---|
| **Revenue** | | |
| United Kingdom | **950,347** | 912,348 |
| Ireland* | **279,388** | 233,374 |
| Netherlands | **63,272** | 41,484 |
| Belgium | **45,576** | 41,150 |
| | **1,338,583** | 1,228,356 |

*Includes Poland in 2016, which is immaterial

## 2. Segmental Analysis (continued)

Operating segment assets are analysed below:

| | **30 June 2017 (Unaudited) £'000** | 31 Dec 2016 (Audited) £'000 |
|---|---|---|
| **Segment assets** | | |
| Merchanting | **1,830,917** | 1,695,668 |
| Retailing | **64,233** | 55,570 |
| Manufacturing | **45,158** | 41,769 |
| | **1,940,308** | 1,793,007 |
| **Unallocated assets** | | |
| Deferred tax assets | **12,583** | 15,718 |
| Retirement benefit assets | **1,400** | 796 |
| Other financial assets | **125** | 125 |
| Cash and cash equivalents | **243,373** | 205,857 |
| **Total assets** | **2,197,789** | 2,015,503 |

Operating segment liabilities are analysed below:

| | **30 June 2017 (Unaudited) £'000** | 31 Dec 2016 (Audited) £'000 |
|---|---|---|
| **Segment liabilities** | | |
| Merchanting | **598,592** | 502,871 |
| Retailing | **49,717** | 41,451 |
| Manufacturing | **18,243** | 14,106 |
| | **666,552** | 558,428 |
| **Unallocated liabilities** | | |
| Interest bearing loans and borrowings (current and non-current) | **323,112** | 301,477 |
| Retirement benefit obligations | **21,607** | 32,081 |
| Deferred tax liabilities | **38,345** | 36,429 |
| Current income tax liabilities | **26,292** | 21,224 |
| Derivative financial instruments (non-current) | **507** | 675 |
| **Total liabilities** | **1,076,415** | 950,314 |

## 3. Operating Profit

The property profit of £2.0 million (2016: £3.5 million) relates to the disposal of seven UK properties and one Irish property (2016: six UK properties).

Exceptional items of £1.2 million in 2016 relate to restructuring costs within the traditional UK merchanting business. There is no similar charge in 2017.

## 4. Finance Expense and Finance Income

| | Six months to 30 June 2017 (Unaudited) £'000 | | Six months to 30 June 2016 (Unaudited) £'000 | |
|---|---|---|---|---|
| **Finance expense** | | | | |
| Interest on bank loans and overdrafts | **(2,647)** | * | (3,274) | * |
| Net change in fair value of cash flow hedges transferred from equity | **(163)** | | (102) | |
| Interest on finance leases | **(98)** | | (99) | |
| Net finance cost on pension scheme obligations | **(352)** | | (234) | |
| Foreign exchange loss | **(619)** | | (491) | |
| | **(3,879)** | | (4,200) | |
| **Finance income** | | | | |
| Interest income on bank deposits | **269** | * | 854 | * |
| | **269** | | 854 | |
| Net finance expense | **(3,610)** | | (3,346) | |

* Net bank interest of £2.4 million (2016: £2.4 million).

## 5. Earnings per Share

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

| | **Half Year 30 June 2017 (Unaudited) £'000** | Half Year 30 June 2016 (Unaudited) £'000 |
|---|---|---|
| **Numerator for basic, adjusted and diluted earnings per share:** | | |
| Profit after tax for the financial period | **60,369** | 50,558 |
| Non-controlling interest | **(92)** | 98 |
| **Numerator for basic and diluted earnings per share** | **60,277** | 50,656 |
| Amortisation of intangible assets arising on acquisitions | **1,352** | 1,067 |
| Tax relating to amortisation of intangible assets arising on acquisitions | **(303)** | (236) |
| Exceptional items | **-** | 1,200 |
| Tax relating to exceptional items | **-** | (240) |
| **Numerator for adjusted earnings per share** | **61,326** | 52,447 |
| | **Number of Grafton Units** | Number of Grafton Units |
| **Denominator for basic and adjusted earnings per share:** | | |
| Weighted average number of Grafton Units in issue | **236,474,749** | 235,580,556 |
| Dilutive effect of options and awards | **574,673** | 686,480 |
| **Denominator for diluted earnings per share** | **237,049,422** | 236,267,036 |
| **Earnings per share (pence)** | | |
| - Basic | **25.5** | 21.5 |
| - Diluted | **25.4** | 21.4 |
| **Adjusted earnings per share (pence)** | | |
| - Basic | **25.9** | 22.3 |
| - Diluted | **25.9** | 22.2 |

## 6. Dividends

The payment in 2017 of a second interim dividend for 2016 of 9.0 pence on the 'C' Ordinary shares in Grafton Group (UK) plc from UK-sourced income amounted to £21.3 million (2016: £18.8 million).

An interim dividend for 2017 of 5.25 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 8 September 2017 (the 'Record Date'). The cash consideration will be paid on 6 October 2017. A liability in respect of the interim dividend has not been recognised at 30 June 2017, 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 2017 was Stg86.06p (six months to 30 June 2016: Stg77.88p). The sterling/euro exchange rate at 30 June 2017 was Stg87.93p (30 June 2016: Stg82.65p and 31 December 2016: Stg85.62p).

## 8. Non-Controlling Interests

The Group holds a controlling interest in YouBuild NV (formerly BMC Groep NV) that is accounted for as a subsidiary undertaking with a non-controlling interest.

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

| | Property, plant and equipment £'000 | Properties held for sale £'000 | Investment properties £'000 |
|---|---|---|---|
| **Net Book Value** | | | |
| **As at 1 January 2017** | **461,660** | **8,407** | **21,749** |
| Additions | **34,793** | **-** | **-** |
| Acquisition (note 14) | **5,325** | **-** | **-** |
| Depreciation | **(18,800)** | **-** | **-** |
| Disposals | **(894)** | **(1,961)** | **-** |
| Disposal of Group business | **(1)** | **-** | **-** |
| Transfer to properties held for sale | **(89)** | **89** | **-** |
| Currency translation adjustment | **3,737** | **90** | **422** |
| **As at 30 June 2017** | **485,731** | **6,625** | **22,171** |

At 30 June 2017, the Group had contractual commitments amounting to £1.0 million (30 June 2016: £1.5 million).

## 10. Movement in Working Capital

| | Inventories £'000 | Trade and other receivables £'000 | Trade and other payables £'000 | Total £'000 |
|---|---|---|---|---|
| **At 1 January 2017** | **292,681** | **397,689** | **(523,700)** | **166,670** |
| Currency translation adjustment | **2,987** | **2,677** | **(4,583)** | **1,081** |
| Disposal of Group business | **(342)** | **(245)** | **161** | **(426)** |
| Acquisition through business combinations (note 14) | **5,761** | **3,711** | **(2,270)** | **7,202** |
| Movement in 2017 | **24,793** | **55,899** | **(102,488)** | **(21,796)** |
| **At 30 June 2017** | **325,880** | **459,731** | **(632,880)** | **152,731** |

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

| | **30 June 2017 £'000** | 30 June 2016 £'000 | 31 Dec 2016 £'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Bank loans | **319,843** | 297,802 | 297,870 |
| Finance leases | **2,407** | 2,679 | 2,556 |
| **Total non-current interest-bearing loans and borrowings** | **322,250** | 300,481 | 300,426 |
| | | | |
| **Current liabilities** | | | |
| Bank loans | **443** | 637 | 645 |
| Finance leases | **419** | 392 | 406 |
| **Total current interest-bearing loans and borrowings** | **862** | 1,029 | 1,051 |
| | | | |
| **Derivatives-non current** | | | |
| Included in non-current liabilities | **507** | 962 | 675 |
| | | | |
| **Total derivatives** | **507** | 962 | 675 |
| | | | |
| **Cash and cash equivalents** | **(243,373)** | (206,807) | (205,857) |
| | | | |
| **Net debt** | **80,246** | 95,665 | 96,295 |

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 2017 £'000** | 31 Dec 2016 £'000 |
|---|---|---|
| **Liabilities measured at fair value** | | |
| *Designated as hedging instruments* | | |
| Interest rate swaps (Level 2) | **507** | 675 |
| | | |
| **Liabilities not measured at fair value** | | |
| *Liabilities at amortised cost* | | |
| Bank loans | **320,286** | 298,515 |
| Finance leases | **2,826** | 2,962 |
| | **323,112** | 301,477 |

*Financial assets and liabilities recognised at amortised cost*

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

*Financial assets and liabilities carried at fair value*

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

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

| | **30 June 2017 £'000** | 30 June 2016 £'000 |
|---|---|---|
| Net increase/(decrease) in cash and cash equivalents | **35,593** | (9,604) |
| Net movement in derivative financial instruments | **186** | (507) |
| Cash-flow from movement in debt and lease financing | **(12,528)** | 56,694 |
| **Change in net debt resulting from cash flows** | **23,251** | 46,583 |
| Currency translation adjustment | **(7,202)** | (28,690) |
| **Movement in net debt in the year** | **16,049** | 17,893 |
| Net debt at 1 January | **(96,295)** | (113,558) |
| **Net debt at end of the year** | **(80,246)** | (95,665) |
| **Gearing** | **7%** | 9% |

## 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 2017 %** | At 31 Dec 2016 % | **At 30 June 2017 %** | At 31 Dec 2016 % |
| Rate of increase in salaries | **2.45%** * | 2.50%* | **0.00%** ** | 0.00%** |
| Rate of increase of pensions in payment | **-** | - | **3.10%** | 3.10% |
| Discount rate | **2.05%** | 1.80% | **2.80%** | 2.90% |
| Inflation | **1.25%** | 1.30% | **2.10%** *** | 2.20%*** |

*2.45% applies from 2 January 2019 (31 December 2016: 2.5% from 2 January 2019)
** Pensionable salaries are not adjusted for inflation
*** The inflation assumption shown for the UK is based on the Consumer Price Index (CPI)

## 13. Retirement Benefits (continued)

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

| | **Assets** | | **Liabilities** | | **Net asset/(deficit)** | |
|---|---|---|---|---|---|---|
| | **Half year to 30 June 2017** | Year to 31 Dec 2016 | **Half year to 30 June 2017** | Year to 31 Dec 2016 | **Half year to 30 June 2017** | Year to 31 Dec 2016 |
| | **£'000** | £'000 | **£'000** | £'000 | **£'000** | £'000 |
| **At 1 January** | **221,966** | 186,807 | **(253,251)** | (203,430) | **(31,285)** | (16,623) |
| Acquired in year | **-** | - | **(123)** | - | **(123)** | - |
| Interest income on plan assets | **2,667** | 6,235 | **-** | - | **2,667** | 6,235 |
| Contributions by employer | **2,635** | 3,610 | **-** | - | **2,635** | 3,610 |
| Contributions by members | **341** | 731 | **(341)** | (731) | **-** | - |
| Benefit payments | **(4,035)** | (6,942) | **4,035** | 6,942 | **-** | - |
| Transfer in of assets/(liabilities) | **-** | 1,162 | **-** | (1,162) | **-** | - |
| Current service cost | **-** | - | **(1,302)** | (2,411) | **(1,302)** | (2,411) |
| Other long term benefit (credit)/expense | **-** | - | **(9)** | 148 | **(9)** | 148 |
| Curtailment gain | **-** | - | **-** | 169 | **-** | 169 |
| Interest cost on scheme liabilities | **-** | - | **(3,019)** | (6,745) | **(3,019)** | (6,745) |
| **Remeasurements** | | | | | | |
| Actuarial gains/(loss) from: | | | | | | |
| -experience variations | **-** | - | **(66)** | (2,196) | **(66)** | (2,196) |
| -financial assumptions | **-** | - | **4,816** | (29,364) | **4,816** | (29,364) |
| -demographic assumptions | **-** | - | **1,922** | 1,450 | **1,922** | 1,450 |
| Return on plan assets excluding interest income | **3,851** | 16,300 | **-** | - | **3,851** | 16,300 |
| Translation adjustment | **2,855** | 14,063 | **(3,149)** | (15,921) | **(294)** | (1,858) |
| **At 30 June / 31 December** | **230,280** | 221,966 | **(250,487)** | (253,251) | **(20,207)** | (31,285) |
| Related deferred tax asset (net) | | | | | **3,150** | 4,699 |
| **Net pension liability** | | | | | **(17,057)** | (26,586) |

The net pension scheme deficit of £20,207,000 is shown in the Group balance sheet as retirement benefit obligations (non-current liabilities) of £21,607,000 and retirement benefit assets (non-current assets) of £1,400,000. £10,205,000 of the retirement benefit obligations relates to schemes in Ireland, Belgium and the Netherlands and £11,402,000 relates to one UK scheme. £919,000 of the retirement benefit asset relates to a second UK scheme and £481,000 is one scheme in Ireland.

## 13. Retirement Benefits (continued)

The 2016 net pension scheme deficit of £31,285,000 is shown in the Group balance sheet as retirement benefit obligations (non-current liabilities) of £32,081,000 and retirement benefit assets (non-current assets) of £796,000. £17,282,000 relates to the schemes in Ireland, Belgium and the Netherlands and £14,799,000 relates to one UK scheme. £449,000 of the retirement benefit asset relates to a second UK scheme and £347,000 is a scheme in Ireland.

## 14. Acquisitions

On 5 January 2017, the Group completed the acquisition of 100 per cent of the issued share capital of Gunters en Meuser B.V. ("G&M"), the market leader in the distribution of ironmongery, tools and fixings in the Greater Amsterdam Area. The acquisition of G&M will strengthen and complement the market position of the Group's existing businesses in the Netherlands ironmongery, tools and fixings markets. G&M trades from 14 branches. The business is incorporated in the merchanting segment and was a strategic acquisition to grow the business in the Netherlands.

Details of the acquisitions made in 2016 are disclosed in the Group's 2016 Annual Report.

*The provisional fair value of assets and liabilities acquired in 2017 are set out below:*

| | **Total £'000** |
|---|---|
| Property, plant and equipment | **5,325** |
| Intangible assets – customer relationships | **3,967** |
| Intangible assets – trade names | **480** |
| Intangible assets – computer software | **91** |
| Inventories | **5,761** |
| Trade and other receivables | **3,711** |
| Trade and other payables | **(2,270)** |
| Retirement benefit liabilities | **(123)** |
| Deferred tax (liability) | **(1,699)** |
| Deferred tax asset | **417** |
| Cash acquired | **2,686** |
| Net assets acquired | **18,346** |
| Goodwill | **15,024** |
| **Consideration** | **33,370** |
| | |
| Satisfied by: | |
| Cash paid | **33,370** |
| | |
| **Net cash outflow – arising on acquisitions** | |
| | |
| Cash consideration | **33,370** |
| Less: cash and cash equivalents acquired | **(2,686)** |
| | **30,684** |

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

The acquisition of G&M in January 2017 contributed revenue of £14.6 million and operating profit of £1.2 million for the period from the date of acquisition to 30 June 2017. If the acquisition had occurred on 1 January 2017 it would have contributed the same revenue and operating profit in the half-year. The Group incurred acquisition costs of £0.3 million in the half year (H1 2016: £0.3 million) which are included in operating costs in the Group Income Statement.

## 15. Goodwill

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

| | Goodwill £'000 |
|---|---|
| **Net Book Value** | |
| **As at 1 January 2017** | **566,237** |
| Arising on acquisitions (note 14) | **15,024** |
| Disposal of Group business | **(89)** |
| Currency translation adjustment | **8,325** |
| **As at 30 June 2017** | **589,497** |

## 16. Intangible Assets

| | Computer Software £'000 | Trade Names £'000 | Customer Relationships £'000 | Total £'000 |
|---|---|---|---|---|
| **Net Book Value** | | | | |
| **As at 1 January 2017** | **24,735** | **2,471** | **17,378** | **44,584** |
| Additions | **3,115** | **-** | **-** | **3,115** |
| Arising on acquisition (note 14) | **91** | **480** | **3,967** | **4,538** |
| Amortisation | **(636)** | **(165)** | **(1,187)** | **(1,988)** |
| Currency translation adjustment | **(15)** | **54** | **385** | **424** |
| **As at 30 June 2017** | **27,290** | **2,840** | **20,543** | **50,673** |

The computer software asset of £27.3 million at 30 June 2017 (December 2016: £24.7 million) reflects the cost of the Group's investment on upgrading the IT systems and infrastructure that supports a number of UK businesses as part of a multi-year programme of investment. A number of these systems are not yet available for use in the business and are therefore not amortised.

The amortisation expense of £2.0 million (2016: £1.5 million) has been charged in 'operating costs' in the income statement. Amortisation on acquired intangibles amounted to £1.4 million (2016: £1.1 million).

## 17. Taxation

The tax rate of 18.5 per cent for the half year ended 30 June 2017 is based on an estimate of the weighted average expected tax rate forecast for the full financial year. For the half year ended 30 June 2016, the headline rate of corporation tax of 19.4 per cent was lower than the underlying tax rate of 20.0 per cent as a previously unrecognised deferred tax asset was utilised against a UK taxable profit arising on the disposal of properties. The expected tax rate for 2017 of 18.5 per cent reflects the mix of profits between the UK, Ireland, the Netherlands and Belgium and the disallowance of a tax deduction for certain overheads charged in arriving at profit including depreciation on buildings.

The UK corporation tax rate reduced from 20 per cent to 19 per cent from 1 April 2017 and is due to decline to 17 per cent from 1 April 2020.

The liability shown for current taxation includes a liability for tax uncertainties and is based on the Directors best probability weighted 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.

## 17. Taxation (continued)

*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 2017, there were unrecognised deferred tax assets in relation to capital losses of £1.1 million (31 December 2016: £1.2 million), trading losses of £3.3 million (31 December 2016: £3.2 million) and deductible temporary differences of £Nil (31 December 2016: £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 and the Directors cannot foresee such profits arising in the foreseeable future with reasonable certainty. The trading losses and deductible temporary differences arose in entities that have incurred losses in recent years and the Directors have no certainty as to when there will be sufficient taxable profits in the relevant entities against which they can be utilised.

## 18. Related Party Transactions

There have been no new related party transactions. There were no other changes in related parties from those described in the 2016 Annual Report that materially affected the financial position or the performance of the Group during the period to 30 June 2017, except for the resignation of two directors during the year.

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

LTIP awards were made over 876,455 Grafton Units on 12 April 2017. The fair value of the awards of £5.8 million, which are subject to vesting conditions, will be charged to the income statement over the vesting period of three years. LTIP awards were also made over 68,733 Grafton Units on 10 May 2017. The fair value of the awards of £0.5 million will be charged to the income statement over the vesting period of three years, subject to vesting conditions. The 2016 Annual Report discloses details of the LTIP scheme.

## 20. Issue of Shares

During the year 667,497 Grafton Units were issued under the 2011 Grafton Group Long Term Incentive Plan (LTIP) on the vesting of the 2014 grant. A further 5,492 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

There have been no material events subsequent to 30 June 2017 that would require adjustment to or disclosure in this report.

## 22. Board Approval

These condensed consolidated half year financial statements were approved by the Board of Grafton Group plc on 30 August 2017.

## 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 2016 are available in the 2016 Annual Report and the 2016 Half Year Report.

| 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. |
| **EBITA** | Earnings before exceptional items, net finance expense, income tax expense and amortisation of intangible assets arising on acquisitions. |
| **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 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** | 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 2017 £'m** | Six months to 30 June 2016 £'m |
|---|---|---|
| Revenue | **1,338.6** | 1,228.4 |
| | | |
| Operating profit | **77.7** | 66.1 |
| Property profit | **(2.0)** | (3.5) |
| Exceptional items charged in operating profit | **-** | 1.2 |
| Amortisation of intangible assets arising on acquisitions | **1.4** | 1.1 |
| Adjusted operating profit/EBITA before property profit | **77.0** | 64.8 |
| | | |
| Adjusted operating profit/EBITA margin before property profit | **5.8%** | 5.3% |

**Operating Profit/EBITA Margin**

| | **Six months to 30 June 2017 £'m** | Six months to 30 June 2016 £'m |
|---|---|---|
| Revenue | **1,338.6** | 1,228.4 |
| Operating profit | **77.7** | 66.1 |
| Operating profit margin | **5.8%** | 5.4% |

**Adjusted Operating Profit/EBITA**

| | **Six months to 30 June 2017 £'m** | Six months to 30 June 2016 £'m |
|---|---|---|
| Operating profit | **77.7** | 66.1 |
| Exceptional items charged in operating profit | **-** | 1.2 |
| Amortisation of intangible assets arising on acquisitions | **1.4** | 1.1 |
| Adjusted operating profit/EBITA | **79.1** | 68.4 |

## Adjusted Profit before Tax

| | **Six months to 30 June 2017 £'m** | Six months to 30 June 2016 £'m |
|---|---|---|
| Profit before tax | **74.1** | 62.8 |
| Exceptional items charged in operating profit | **-** | 1.2 |
| Amortisation of intangible assets arising on acquisitions | **1.4** | 1.1 |
| Adjusted profit before tax | **75.4** | 65.0 |

## Adjusted Profit after Tax

| | **Six months to 30 June 2017 £'m** | Six months to 30 June 2016 £'m |
|---|---|---|
| Profit after tax for the financial period | **60.4** | 50.6 |
| Exceptional items charged in operating profit | **-** | 1.2 |
| Tax on exceptional items | **-** | (0.2) |
| Amortisation of intangible assets arising on acquisitions | **1.4** | 1.1 |
| Tax on amortisation of intangible assets arising on acquisitions | **(0.3)** | (0.2) |
| Adjusted profit after tax | **61.4** | 52.3 |

## Reconciliation of Profit to EBITDA

| | **Six months to 30 June 2017 £'m** | Year to 31 Dec 2016 £'m | Six months to 30 June 2016 £'m |
|---|---|---|---|
| Profit after tax for the financial year | **60.4** | 93.1 | 50.6 |
| Exceptional items charged in operating profit | **-** | 19.7 | 1.2 |
| Net finance expense | **3.6** | 5.9 | 3.3 |
| Income tax expense | **13.7** | 21.1 | 12.2 |
| Depreciation | **18.8** | 34.9 | 16.9 |
| Intangible asset amortisation | **2.0** | 3.1 | 1.5 |
| EBITDA | **98.5** | 177.9 | 85.7 |

## Net debt to EBITDA

| | **Six months to 30 June 2017 £'m** | Year to 31 Dec 2016 £'m |
|---|---|---|
| EBITDA (rolling 12 months) | **190.7** | 177.9 |
| Net debt | **80.2** | 96.3 |
| Net debt to EBITDA - times | **0.42** | 0.54 |

## EBITDA Interest Cover

| | Six months to 30 June 2017 £'m | Year to 31 Dec 2016 £'m |
|---|---|---|
| EBITDA | **98.5** | 177.9 |
| Net bank/loan note interest | **2.4** | 4.7 |
| EBITDA interest cover - times | **41.4** | 37.9 |

## Gearing

| | Six months to 30 June 2017 £'m | Six months to 30 June 2016 £'m |
|---|---|---|
| Total equity | **1,121.4** | 1,015.3 |
| Group net debt | **80.2** | 95.7 |
| Gearing | **7%** | 9% |

## Return on Capital Employed

| | Six months to 30 June 2017 £'m | Year to 31 Dec 2016 £'m |
|---|---|---|
| Operating profit (rolling 12 months) | **131.7** | 120.1 |
| Exceptional items charged in operating profit (rolling) | **18.5** | 19.7 |
| Amortisation of intangible assets arising on acquisitions (rolling) | **2.5** | 2.2 |
| Adjusted operating profit (rolling 12 months) | **152.7** | 142.0 |
| | | |
| Total equity - current period end | **1,121.4** | 1,065.2 |
| Net debt - current period end | **80.2** | 96.3 |
| Capital employed - current period end | **1,201.6** | 1,161.5 |
| Total equity - prior period end | **1,015.3** | 989.0 |
| Net debt - prior period end | **95.7** | 113.6 |
| Capital employed - prior period end | **1,111.0** | 1,102.6 |
| Average capital employed | **1,156.3** | 1,132.0 |
| | | |
| Return on capital employed | **13.2%** | 12.5% |

## Capital Turn

| | Six months to 30 June 2017 £'m | Year to 31 Dec 2016 £'m |
|---|---|---|
| Revenue H2 2016 | **1,278.9** | 1,278.9 |
| Revenue H1 2017 / 2016 | **1,338.6** | 1,228.4 |
| Total revenue for previous 12 months | **2,617.5** | 2,507.3 |
| | | |
| Average capital employed | **1,156.3** | 1,132.0 |
| Capital turn – times | **2.3** | 2.2 |

**Responsibility Statement in Respect of the Six Months Ended 30 June 2017**

The Directors, whose names and functions are listed on pages 40 and 41 in the Group's 2016 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 2017 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 2017, 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 12 to 30 and as defined below, in the Half Year Report of Grafton Group Plc for the six month period ended 30 June 2017. 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 2017;
- 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 18 to 30.

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
30 August 2017
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.