Grafton Group plc
Interim Results 2014

GRAFTON GROUP PLC
INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

Grafton Group plc ("the Group"), the builders merchanting and DIY Group with operations in the UK, Ireland and Belgium, announces its interim results for the six months ended 30 June 2014.

Financial Highlights

- Revenue up 11% to £1.02 billion
- Underlying operating profit up 62% to £50.6 million from £31.2 million
- Group operating profit margin increased to 5.0% from 3.4%
- UK Merchanting operating margin increased to 6.1% from 5.0%
- Underlying profit before taxation up 88% to £45.9 million from £24.5 million
- Adjusted basic earnings per share up 92% to 15.4p
- 25% increase in interim dividend reflects strong improvement in profitability
- Strong cash generation from operations of £88.1 million and gearing of 12%

Operating Highlights

- UK merchanting business performed strongly due to volume growth in the residential Repair, Maintenance and Improvement market.
- Merchanting business in Ireland showed strong operating profit growth as market recovery gained momentum
- DIY business in Ireland improved performance in a stable market
- Group gross margin ahead in competitive markets

	2014	2013	
	£'m	£'m	% change
Revenue	**1,015**	912	+11%
Underlying*			
Operating profit	**50.6**	31.2	+62%
Profit before tax	**45.9**	24.5	+88%
Profit after tax	**35.8**	18.6	+93%
Adjusted earnings per share – basic	**15.39p**	8.02p	+92%
Statutory			
Operating profit	**50.6**	58.2	-13%
Profit before tax	**45.9**	51.5	-11%
Profit after tax	**35.8**	40.6	-12%
Earnings per share – basic	**15.39p**	17.50p	-12%
Dividend	**3.75p**	3.00p	+25%
Net debt	**101.1**	149.8	-33%
Total equity	**881.9**	860.4	+2%
Return on capital employed	**10.2%**	6.3%	+3.9%pts

*The comparative performance for 2013 excludes a non-recurring pension credit of £27.1 million

Gavin Slark, Chief Executive Officer commented:

"These results demonstrate further progress by the Group, in particular, the milestone of a 5% Group operating margin, which is a key point in our journey from recovery to growth.

The Group remains committed to a growth strategy of organic initiatives and value adding acquisitions.

We believe the overall outlook is positive, notwithstanding a slower rate of growth in the second half and we are confident that the full year's trading performance will be at least in line with current consensus expectations".

Webcast details

A results presentation hosted by Gavin Slark and David Arnold for analysts and investors will be held today 27 August 2014 at 9.30 am (BST).
The web address to access the live webcast is as follows;
www.graftonplc.com/webcast/

Replay
The webcast will be available to watch later in the day.

The results presentation can be viewed/downloaded at http://www.graftonplc.com

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

Interim Results

For the Six Months Ended 30 June 2014

Group Results

The Group delivered a strong performance in the first half reporting a significant increase in revenue, profits and earnings per share. While still in the relatively early stages of a recovery in its markets, these results demonstrate the benefits of the operational changes that have been made over recent years and the quality of the Group's brands and market positions.

Trading conditions in the overall Group were positive during the half-year as the recovery in the UK and Irish economies became more broadly based and firmly established.

The UK Merchanting business, which constituted 73 per cent of Group revenues, delivered good organic growth and a significant advance in operating profit with both the Buildbase and Selco businesses performing strongly. The improved performance was driven by the recovery in the wider economy and growth in the residential Repair, Maintenance and Improvement (RMI) and new build markets.

The Merchanting business in Ireland reported a significant increase in revenue and operating profit. Trading conditions progressively improved from a weak base as the recovery continued to take hold. There was a much firmer tone to demand in the residential RMI market and tentative signs of a recovery in the new housing market from depressed levels.

Despite the pressure on disposable incomes, there was a modest increase in revenue in the DIY business in Ireland supported by a rise in employment and consumer confidence.

The mortar manufacturing business in Britain benefited from an increase in house building and performed strongly.

The Group's operations were strongly cash generative which resulted in a reduction in net debt to £101.1 million from £133.7 million at the end of 2013. This was after spending £47.2 million on acquisitions and capital expenditure, which is intended to position the Group for further growth, and after a dividend payment of £12.8 million. The gearing ratio fell to 12 per cent (December 2013: 15 per cent). In addition to strong cash flow from operations, significant undrawn facilities were retained to fund operating activities and investment in the business following the successful refinancing in May 2014.

Dividend

The interim dividend approved has been increased by 25 per cent to 3.75p from 3.0p. The increase in dividend is in line with the Board's progressive dividend policy that is based on increasing dividends as underlying earnings recover. It reflects both the improvement in results for the half-year and strong cash flow from operations.

Outlook

The UK economy has grown strongly over the past year and the prospects for a sustained recovery look better than they have for some time. As always, risks remain around the extent and sustainability of any recovery. The anticipated rise in interest rates may weigh on sentiment although the increase in housing transactions should continue to support the recovery in the UK RMI market. A more positive market coupled with benefits from development activity undertaken over the past year should enable the UK merchanting business to make further progress in the second half.

In Ireland, the outlook for the economy has improved over recent months. A pick-up in key export markets, increased investment and an improvement in the labour market should help to keep the economy on the path to recovery. The recovery underway in the residential RMI market is expected to be sustained in the second half and while lead indicators of activity point to an improvement in the housing market, current expectations are for a very gradual increase in house building.

Growth in employment and consumer confidence in Ireland is encouraging and should have a positive effect on consumer spending but near-term demand in the retail market including DIY is likely to be subdued by weak growth in disposable incomes and high levels of personal debt.

Average daily like-for-like revenue for the period from 1 July to 17 August increased by 5.2 per cent in the UK merchanting business and by 15.4 per cent in the merchanting business in Ireland. Average daily like-for-like revenue decreased by 2.6 per cent in the retailing business in Ireland benchmarked against strong growth in the same period last year when exceptionally good weather in July increased demand for seasonal products. Overall Group daily like-for-like revenue increased by 5.6%.

The Group's strong market positons in the UK and Ireland leave it well placed to build on the progress it has made in the first-half and to continue to improve its performance through volume growth in recovering markets and operational efficiencies from the initiatives implemented in recent years.

Operating Review

Merchanting Segment (90% of Group Revenue)

Group merchanting revenue increased by 12.0 per cent to £912.7 million (2013: £814.8 million). Operating profit was up by 47.0 per cent to £51.4 million (2013: £35.0 million) and the operating profit margin increased by 1.3 percentage points to 5.6 per cent (2013: 4.3 per cent).

UK Merchanting revenue increased by 11.1 per cent to £745.0 million (2013: £670.6 million) and operating profit grew by 36.0 per cent to £45.2 million (2013: £33.2 million).

The UK Merchanting operating profit margin increased by 1.1 percentage points to 6.1 per cent. Margin progression in each of the key brands and a more favourable mix was reflected in an overall improvement of 0.4 percentage points in the gross margin.

The increase in revenue of 11.1 per cent comprised growth in average daily like-for-like revenues of 8.2 per cent and growth of 2.9 percent from new branches, branch consolidations and acquisitions. Price inflation over the year was estimated at 3.0 per cent and like-for-like merchanting volumes increased by 5.2 per cent.

The improving trend in UK Merchanting revenue evident in the second half of 2013 continued into 2014 supported by a sustained recovery in the economy and the fastest pace of expansion since 2007. The backdrop was also positive for the residential repair, maintenance and improvement (RMI) market as the rate of growth in UK housing transactions, a key driver of merchanting demand, accelerated from 15 per cent in 2013 to 25 per cent in the half year and interest rates were maintained at record low levels.

The **Buildbase** business was well positioned to benefit from the overall pick-up in the economy and residential RMI market which accounted for approximately 70 per cent of its revenue. Strong growth in revenue was driven by a good performance in the established branch network and development activity. Increased volumes and tight control of overheads resulted in a significant increase in operating profit.

Tool, plant and equipment hire was introduced in 22 branches increasing the number of Hirebase implants to 115 in a segment of the business that has historically produced attractive returns on invested capital. The acquisition of Beaumont Forest Products, a specialist timber merchant trading from three branches in the Greater London Area, provides specialist expertise and a platform for development of timber revenues.

Selco Builders Warehouse, a trade and business only builders merchants that operates a retail style self-select format, made excellent progress during the half-year. The improvement in the housing market and increased spending on residential RMI drove revenue gains across the network of 34 branches. Operating profit advanced significantly due to a strong increase in revenue in the established branches and very good contributions from branches opened in recent years including the Old Kent Road and Wimbledon branches that were opened last year. Selco further improved its coverage of the London market with the recent opening of a branch in Isleworth and the brands unique format and customer proposition in the merchanting industry provides further scope for profitable growth and good returns on capital deployed with plans at an advanced stage to open further branches in 2015.

Trading in the **Plumbase** business, which operates nationally from 219 branches, was influenced by the mild weather conditions in the seasonally important first quarter and lower spending by Local Authorities on public sector housing RMI projects. Overall like-for-like revenue showed modest growth in the half year as management focused on protecting margins in a competitive market. Operating profit advanced significantly from a low base due to procurement benefits and cost reduction initiatives.

Plumbase Industrial, a new trading format that distributes pipeline and mechanical engineering products to the commercial and industrial markets, opened nine branches in the South East following a successful trial of the concept in 2013.

Electricbase implants were opened in 30 branches in the half-year taking the total number to 50. This cost efficient model is being used to drive revenue growth in the existing branch network.

Macnaughton Blair, the Northern Ireland merchanting business, benefited from the recovery in the local economy gradually gathering momentum. An increase in house prices, improved consumer sentiment and gains in employment contributed to a pick-up in house building and housing transactions from very low levels. Recovering volumes in the residential new build and RMI markets resulted in a good increase in revenue and operating profit.

Irish Merchanting revenue increased by 5.6 per cent to £121.4 million (2013: £114.9 million). Revenue was up 9.4 per cent in constant currency. Operating profit advanced very strongly from £1.5 million to £5.6 million and the operating margin increased by 3.3 percentage points to 4.6 per cent.

The Irish merchanting business traded against the backdrop of solid growth in the economy and a pick-up in activity in the housing market. A shortfall in supply saw house prices continuing to trend upwards particularly in the Greater Dublin Area where there is a shortage of family homes. The number of housing transactions in the first half increased by 35 per cent as more properties came on the market. While there is scope for a significant increase in residential construction to meet medium-term demand estimated at circa 25,000 units per annum, it is expected to take some time for the supply side response to match this level.

Average daily like-for-like revenue increased by 13.1 per cent with demand strengthening through the half year. Strong demand in the residential RMI segment of the market was the key driver of the increase in revenue supported by an improvement in labour market conditions and increasing confidence among households about the overall prospects for the economy and their personal finances.

Revenue growth was evenly spread across all regions except for the Midlands where the recovery lagged the rest of the country. In addition to the improvement in market conditions, the business achieved competitive gains and incremental revenue from self-help initiatives adopted during the downturn that included establishing a leadership position in the plumbing and heating market. Management remained focused on improving the efficiency of the business. An increase in the gross margin from price recovery and procurement gains contributed to the improvement in operating profit.

Belgium

Revenue increased by 58.0 per cent to £46.3 million (2013: £29.3 million) and operating profit increased to £0.7 million (2013: £0.2 million).

Trading was strong in the first quarter as the economy expanded at its fastest pace in three years supported by domestic spending while the mild weather during the quarter also benefited new build construction activity. The pace of growth slowed significantly in the second quarter as consumer confidence fell and construction activity eased. Average daily like-for-like revenue increased by 3.8 per cent in the half-year.

The Group completed the acquisition of MPRO, a six branch merchanting business based in Brussels, in February 2014. The acquired branches are a very good geographic fit with the Group's 11 existing branches that are located in the west of Belgium. Management focused on realising scale related benefits in the enlarged business and operational synergies in the areas of procurement and shared services.

Retail Segment (8% of Group Revenue)

Revenue was down by 1.4 per cent to £79.6 million (2013: £80.7 million) but up by 2.3 per cent in constant currency. Like-for-like revenue increased by 3.2 per cent. Operating profit increased to £0.4 million from £0.2 million. Underlying operating profit improved by £1.1 million as the prior year result included a non-recurring property credit of £0.9 million.

Woodie's DIY business, which operates nationally from 37 stores, saw a significant improvement in consumer sentiment as the wider economy started to recover from the downturn of recent years. Household budgets remained under pressure but modest growth in core retail sales volumes in the half-year was an early indication that Irish shoppers were more willing to spend as disposable incomes stabilised. High levels of personal debt are however expected to continue to weigh on demand in the retail sector for some time.

This is a year of transition for the Woodie's DIY business under a new Chief Executive who has broadened the management team through internal promotions and external recruitment to ensure an appropriate balance of industry knowledge, retail experience and specialist skills. In what continues to be a challenging trading environment in a market that has sound long-term fundamentals, management have focused on internal initiatives to capitalise on the leadership position of the Woodie's brand in the Irish DIY market.

Refocusing the business on its core strengths of DIY, Home and Garden has involved refreshing and updating ranges supported by a new marketing campaign and discontinuing non-core ranges. Store layouts have also been changed to improve the shopping environment for customers. Product ranges have been more clearly defined and space has been allocated to kitchens and bathrooms in seven stores.

An increased emphasis on improving stock-turn generated cashflow of £9.0 million over the past year including £4.4 million in the half-year. This outcome has been achieved without compromising stock availability for customers and it has also created an opportunity to use retail space more efficiently and improve returns from a mainly fixed cost base in stores.

A return to revenue growth contributed to an improved operating performance in the seven store In-House kitchens business.

Manufacturing Segment (2% of Group Revenue)

Revenue increased by 37.9 per cent to £23.0 million (2013: £16.7 million) and there was an almost fourfold increase in operating profit to £3.1 million (2013: £0.8 million). The segment operating profit margin increased to 13.3 per cent from 5.1 per cent.

CPI EuroMix, the market leader in the supply of silo based mortar from eight manufacturing plants in England and one in Scotland, increased revenue by 40.3 per cent to £21.4 million (2013: £15.3 million) as the business continued to benefit from the strong recovery in the new housing market and better trading in the first quarter due to more favourable weather conditions Growth in revenue moderated, as expected, in the second quarter measured against a progressively more demanding prior year performance.

The recovery in the new housing market extended beyond the South East and into the regions. Strong demand was supported by the broader recovery in the UK economy, improved credit conditions and the Help-to-Buy scheme which provided additional support in the market particularly for first-time buyers.

Revenue in MFP, the PVC drainage and roofline products business based in Dublin, increased by 12.6 per cent to £1.6 million. The business was profitable with the benefit of increased volumes having reported a loss for the first half of 2013.

Financial Review

The results for the half year demonstrate the capacity of the Group to increase profits, cash flow and returns on capital employed in a recovering market. Growth of 8.8 per cent in average daily like-for-like revenue added £79.3 million to Group revenue and increased operating profit by £17.6 million in the like-for-like business including an incremental property profit of £0.9 million. The strong flow through to profit from the increase in like-for-like revenue was achieved by tightly controlling overheads and an increase in the gross margin. Acquisitions, new branches and implants contributed revenue of £37.3 million and operating profit of £1.3 million.

Increased operating profit converted strongly into cash flow and highlighted the strength of the Group’s business model. Cash flow from operations grew by £31.2 million to £88.1 million (2013: £56.9 million).

Return on capital employed increased to 10.2 per cent from 6.3 per cent and capital turn to 2.0 times from 1.8 times.

Pensions

The pre-tax deficit on the defined benefit pension scheme was £19.6 million (31 December 2013: £7.1 million). The market value of scheme assets of £183.5 million included an investment return for the half-year of £6.0 million. Changes in financial assumptions increased scheme liabilities by £16.0 million to £203.1 million (31 December 2013: £187.8 million). This principally related to a reduction in the rates used to discount liabilities to historically low levels in line with changes in corporate bond yields. The rate used to discount liabilities in the Irish defined benefit schemes declined to 2.90 per cent from 3.65 and the UK rate declined to 4.30 per cent from 4.65 per cent. The decline in yields reflects sentiment among bond investors generally that Central Banks will keep interest rates low to support economic growth.

Net Finance Income and Expense

The net finance charge for the year was £4.6 million (2013: £6.7 million). The net bank and loan note interest charge declined to £4.4 million from £4.9 million due to lower net debt and the benefit of the refinancing towards the end of the half-year.

The net finance expense charge includes £0.1 million (2013: £1.0 million) in respect of defined benefit pension scheme obligations. The net charge due to movements on hedges and foreign exchange was £0.1 million (2013: £0.6 million).

Taxation

The effective rate of corporation tax was 22.0 per cent. This reflects the mix of profits between the UK, Ireland and Belgium and the disallowance of a tax deduction for certain items of expenditure including all depreciation on buildings. The tax rate is primarily influenced by the UK rate of corporation tax as this jurisdiction accounts for the majority of Group profits. The UK corporation tax rate for the current year is 21.5 per cent, down from 23.25 per cent in 2013.

Capital and Development Expenditure

Capital and development expenditure of £47.2 million (2013: £13.9 million) was incurred in the half-year. An investment of £23.5 million was made acquiring the MPRO business in Belgium and the Beaumont Forest Products business in England.

The spend on organic development projects that provide a platform for the future profitable growth of the business was £16.5 million. Expenditure of £4.9 million was incurred as part of a multi-year programme of investment which commenced at the end of 2013 to upgrade the IT systems and infrastructure supporting a number of businesses, principally Buildbase and Plumbase. Development projects also included the new Selco store in Isleworth, Hire and Electricbase implants and branch upgrades. Asset replacement expenditure of £7.2 million included distribution vehicles which compares to a half-year charge of £15.9 million for depreciation.

Proceeds of £3.2 million received from asset disposals included £2.2 million for a freehold property which realised a profit of £1.6 million (2013: £0.7 million).

Net Debt

There was a reduction in net debt at 30 June 2014 by £32.6 million to £101.1 million (31 December 2013: £133.7 million) despite significant capital and development expenditure in the half-year. Strong cash flow from operations was driven primarily by increased profitability and tight management of working capital. The gearing ratio declined to 12 per cent from 15 per cent.

Underlying EBITDA interest cover for the half-year was 14.3 times (2013: 7.0 times) and net debt was equivalent to 0.79 times EBITDA (30 June 2013: 1.53 times).

Financing

The Group’s financing objectives are based on minimising refinancing risk and retaining financial flexibility by having appropriate standby facilities at its disposal while also investing in the business to achieve attractive returns and maintaining a progressive dividend policy. In May 2014 the Group entered into new five year revolving credit facilities for £460 million with five long term relationship banks on a bilateral basis. At 30 June 2014, £207.3 million of these facilities were undrawn and at the disposal of the Group.

The new facilities mature in May 2019 and were agreed on more favourable pricing terms on a drawn and undrawn basis that will result in annualised savings of circa £3.0 million based on current drawings. The new arrangements, which give the Group significant headroom and funding flexibility, reflect both the improved lending environment and the Group's strong financial position and credit profile.

Shareholders' Equity

Shareholders' equity increased to £877.7 million at 30 June 2014 (31 December 2013: £870.3 million). Profit after tax increased equity by £35.8 million. Shareholders' equity was reduced by an increase in the (after tax) deficit on the defined benefit pension schemes of £11.6 million and payment of a second interim dividend for 2013 of £12.8 million.

Risks and Uncertainties

The Transparency (Directive 2004/109/EC) Regulations 2007 requires disclosure of the principal risks and uncertainties which could have a material impact on the Group's performance over the remainder of the financial year and cause actual results to differ materially from expected and historical results.

Revenue and profitability in the builders merchanting markets in the UK, Ireland and Belgium and in the Irish DIY and UK mortar markets are sensitive to economic conditions generally including credit conditions, consumer confidence, interest rates, employment trends, inflation, demographic factors and housing market conditions.

In addition to the macro-economic risks referred to above, other risks faced by the Group are set out on pages 46 to 50 of the 2013 Annual Report. These are competition in the merchanting, DIY and mortar markets, employee and management engagement, retention and skills, IT systems and infrastructure, health and safety, acquisition and integration of new businesses, defined benefit pension schemes, tax, the availability and cost of debt finance and credit risk relating to customers.

Grafton Group plc

Group Condensed Income Statement
For the six months ended 30 June 2014

Continuing activities	Notes	2014 (Unaudited) £'000	2013 (Unaudited) £'000
Revenue	**2**	**1,015,291**	912,228
Operating costs	**3**	**(964,708)**	(881,068)
Operating income	**3**	**-**	27,051
Operating profit		**50,583**	58,211
Finance expense	**4**	**(5,421)**	(8,142)
Finance income	**4**	**774**	1,426
Profit before tax		**45,936**	51,495
Income tax	**16**	**(10,088)**	(10,933)
Profit after tax for the financial period		**35,848**	40,562
Profit attributable to:			
Owners of the Company		**35,784**	40,597
Non-controlling interests	**8**	**64**	(35)
Profit after tax for the financial period		**35,848**	40,562
Earnings per ordinary share - basic	**5**	**15.39p**	17.50p
Earnings per ordinary share - diluted	**5**	**15.32p**	17.45p

Grafton Group plc
Group Condensed Statement of Comprehensive Income
For the six months ended 30 June 2014

	Notes	**Six months to 30 June 2014 (Unaudited) £'000**	Six months to 30 June 2013 (Unaudited) £'000
Profit after tax for the financial period		**35,848**	40,562
Other comprehensive income			
Items that may be reclassified subsequently to the income statement			
Currency translation effects			
- on foreign currency net investments		**(4,205)**	4,876
- on foreign currency borrowings and derivatives designated as net investment hedges		**(1,306)**	1,853
Fair value movement on cash flow hedges:			
- Effective portion of changes in fair value of cash flow hedges		**(205)**	(67)
- Net change in fair value of cash flow hedges transferred from equity		**111**	343
Deferred tax on cash flow hedges		**(4)**	(33)
		(5,609)	6,972
Items that will not be reclassified to the income statement			
Actuarial (loss)/gain on Group defined benefit pension schemes	**13**	**(13,650)**	6,190
Deferred tax on Group defined benefit pension schemes	**13**	**2,075**	(1,162)
		(11,575)	5,028
Total other comprehensive income		**(17,184)**	12,000
Total comprehensive income for the financial period		**18,664**	52,562
Total comprehensive income attributable to:			
Owners of the Company		**18,600**	52,597
Non-controlling interests	**8**	**64**	(35)
Total comprehensive income for the financial period		**18,664**	52,562

Grafton Group plc

Group Condensed Balance Sheet as at 30 June 2014

	Notes	**30 June 2014 (Unaudited) £'000**	30 June 2013 (Unaudited) £'000	31 Dec 2013 (Audited) £'000
ASSETS				
Non-current assets				
Goodwill	**15**	**481,366**	487,500	481,020
Intangible assets		**4,946**	-	-
Property, plant and equipment	**9**	**418,768**	457,136	413,401
Investment properties	**9**	**20,840**	-	19,861
Deferred tax assets	**16**	**19,593**	21,410	17,666
Retirement benefit assets	**13**	**-**	2,902	718
Derivative financial instruments	**11**	**-**	1,534	835
Other financial assets		**124**	146	124
Total non-current assets		**945,637**	970,628	933,625
Current assets				
Properties held for sale	**9**	**11,101**	19,533	11,352
Inventories	**10**	**262,533**	259,350	246,220
Trade and other receivables	**10**	**343,622**	321,398	307,822
Derivative financial instruments	**11**	**636**	1,533	835
Cash and cash equivalents	**11**	**162,462**	151,595	151,099
Total current assets		**780,354**	753,409	717,328
Total assets		**1,725,991**	1,724,037	1,650,953
EQUITY				
Equity share capital		**8,308**	8,283	8,302
Share premium account		**206,570**	204,617	206,554
Capital redemption reserve		**621**	621	621
Revaluation reserve		**13,892**	20,573	13,978
Shares to be issued reserve		**4,278**	3,149	2,875
Cash flow hedge reserve		**-**	(107)	98
Foreign currency translation reserve		**60,835**	70,991	66,346
Retained earnings		**587,134**	552,094	575,419
Treasury shares held		**(3,897)**	(3,897)	(3,897)
Equity attributable to owners of the Company		**877,741**	856,324	870,296
Non-controlling interests	**8**	**4,115**	4,096	4,051
Total equity		**881,856**	860,420	874,347
LIABILITIES				
Non-current liabilities				
Interest-bearing loans and borrowings	**11**	**250,071**	280,418	272,610
Provisions		**20,684**	27,080	22,663
Retirement benefit obligations	**13**	**19,616**	15,885	7,840
Derivative financial instruments	**11**	**-**	-	-
Deferred tax liabilities	**16**	**31,208**	39,763	30,746
Total non-current liabilities		**321,579**	363,146	333,859
Current liabilities				
Interest-bearing loans and borrowings	**11**	**14,094**	23,756	13,863
Trade and other payables	**10**	**482,098**	456,819	410,011
Current income tax liabilities	**16**	**16,429**	10,402	8,201
Derivative financial instruments	**11**	**-**	267	33
Provisions		**9,935**	9,227	10,639
Total current liabilities		**522,556**	500,471	442,747
Total liabilities		**844,135**	863,617	776,606
Total equity and liabilities		**1,725,991**	1,724,037	1,650,953

Grafton Group plc
Group Condensed Cash Flow Statement
For the six months ended 30 June 2014

	Notes	**Six Months to 30 June 2014 (Unaudited) £'000**	Six Months to 30 June 2013 (Unaudited) £'000
Profit before taxation		**45,936**	51,495
Finance income		**(774)**	(1,426)
Finance expense		**5,421**	8,142
Operating profit		**50,583**	58,211
Depreciation	**9**	**15,900**	16,007
Share-based payments charge		**1,607**	1,077
Non-cash movement in operating provisions		**2,249**	(4)
Claims paid on insurance and other provisions		**(3,542)**	(2,169)
Profit on sale of property, plant and equipment	**9**	**(1,891)**	(694)
Non-cash decrease in pension liabilities (net of pension provision)		**-**	(27,051)
Contributions to pension schemes in excess of IAS 19 charge	**13**	**(1,057)**	(1,892)
Decrease in working capital	**10**	**24,258**	13,389
Cash generated from operations		**88,107**	56,874
Interest paid		**(5,464)**	(6,182)
Income taxes paid		**(449)**	(4,867)
Cash flows from operating activities		**82,194**	45,825
Investing activities			
Inflows			
Proceeds from sale of property, plant and equipment	**9**	**3,192**	1,261
Interest received		**378**	419
		3,570	1,680
Outflows			
Acquisition of subsidiary undertakings and businesses	**14**	**(23,525)**	(3,263)
Net cash acquired with subsidiary undertakings	**14**	**78**	-
Deferred acquisition consideration paid		**-**	(1,503)
Investment in intangible asset – computer software		**(4,946)**	-
Purchase of property, plant and equipment	**9**	**(18,796)**	(9,101)
		(47,189)	(13,867)
Cash flows from investing activities		**(43,619)**	(12,187)
Financing activities			
Inflows			
Proceeds from the issue of share capital		**22**	3
Proceeds from borrowings		**57,970**	9,806
		57,992	9,809
Outflows			
Repayment of borrowings		**(58,834)**	-
Dividends paid	**6**	**(12,784)**	(10,857)
Movement on finance lease liabilities		**(313)**	(249)
Redemption of loan notes payable net of derivatives		**(11,540)**	(11,375)
		(83,471)	(22,481)
Cash flows from financing activities		**(25,479)**	(12,672)
Net increase in cash and cash equivalents		**13,096**	20,966
Cash and cash equivalents at 1 January		**151,099**	128,027
Effect of exchange rate fluctuations on cash held		**(1,733)**	2,602
Cash and cash equivalents at the end of the period		**162,462**	151,595

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 2014 (Unaudited)												
At 1 January 2014	8,302	206,554	621	13,978	2,875	98	66,346	575,419	(3,897)	870,296	4,051	874,347
Profit after tax for the financial period	-	-	-	-	-	-	-	35,784	-	35,784	64	35,848
Total other comprehensive income												
Remeasurement gain on pensions (net of tax)	-	-	-	-	-	-	-	(11,575)	-	(11,575)	-	(11,575)
Movement in cash flow hedge reserve (net of tax)	-	-	-	-	-	(98)	-	-	-	(98)	-	(98)
Currency translation effect on foreign currency net investments	-	-	-	-	-	-	(4,205)	-	-	(4,205)	-	(4,205)
Currency translation effect on foreign currency borrowings and derivatives designated as net investment hedges	-	-	-	-	-	-	(1,306)	-	-	(1,306)	-	(1,306)
Total other comprehensive income	-	-	-	-	-	(98)	(5,511)	(11,575)	-	(17,184)	-	(17,184)
Total comprehensive income	-	-	-	-	-	(98)	(5,511)	24,209	-	18,600	64	18,664
Transactions with owners of the Company recognised directly in equity												
Dividends paid	-	-	-	-	-	-	-	(12,784)	-	(12,784)	-	(12,784)
Issue of Grafton Units (net of issue expenses)	6	16	-	-	-	-	-	-	-	22	-	22
Share based payments charge	-	-	-	-	1,607	-	-	-	-	1,607	-	1,607
Transfer from shares to be issued reserve	-	-	-	-	(204)	-	-	204	-	-	-	-
Transfer from revaluation reserve	-	-	-	(86)	-	-	-	86	-	-	-	-
	6	16	-	(86)	1,403	-	-	(12,494)	-	(11,155)	-	(11,155)
At 30 June 2014	8,308	206,570	621	13,892	4,278	-	60,835	587,134	(3,897)	877,741	4,115	881,856
Six months to 30 June 2013 (Unaudited)												
At 1 January 2013	8,283	204,614	621	20,660	2,072	(350)	64,262	517,239	(3,897)	813,504	4,131	817,635
Profit after tax for the financial period	-	-	-	-	-	-	-	40,597	-	40,597	(35)	40,562
Total other comprehensive income												
Remeasurement gain on pensions (net of tax)	-	-	-	-	-	-	-	5,028	-	5,028	-	5,028
Movement in cash flow hedge reserve (net of tax)	-	-	-	-	-	243	-	-	-	243	-	243
Currency translation effect on foreign currency net investments	-	-	-	-	-	-	4,876	-	-	4,876	-	4,876
Currency translation effect on foreign currency borrowings and derivatives designated as net investment hedges	-	-	-	-	-	-	1,853	-	-	1,853	-	1,853
Total other comprehensive income	-	-	-	-	-	243	6,729	5,028	-	12,000	-	12,000
Total comprehensive income	-	-	-	-	-	243	6,729	45,625	-	52,597	(35)	52,562
Transactions with owners of the Company recognised directly in equity												
Dividends paid	-	-	-	-	-	-	-	(10,857)	-	(10,857)	-	(10,857)
Issue of Grafton Units (net of issue expenses)	-	3	-	-	-	-	-	-	-	3	-	3
Share based payments charge	-	-	-	-	1,077	-	-	-	-	1,077	-	1,077
Transfer from shares to be issued reserve	-	-	-	-	-	-	-	-	-	-	-	-
Transfer from revaluation reserve	-	-	-	(87)	-	-	-	87	-	-	-	-
	-	3	-	(87)	1,077	-	-	(10,770)	-	(9,777)	-	(9,777)
At 30 June 2013	8,283	204,617	621	20,573	3,149	(107)	70,991	552,094	(3,897)	856,324	4,096	860,420

	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 2013 (Audited)												
At 1 January 2013	8,283	204,614	621	20,660	2,072	(350)	64,262	517,239	(3,897)	813,504	4,131	817,635
Profit after tax for the financial year	-	-	-	-	-	-	-	62,179	-	62,179	(80)	62,099
Total other comprehensive income												
Remeasurement gain on pensions (net of tax)	-	-	-	-	-	-	-	6,410	-	6,410	-	6,410
Movement in cash flow hedge reserve (net of tax)	-	-	-	-	-	448	-	-	-	448	-	448
Currency translation effect on foreign currency net investments	-	-	-	-	-	-	1,176	-	-	1,176	-	1,176
Currency translation effect on foreign currency borrowings and derivatives designated as net investment hedges	-	-	-	-	-	-	908	-	-	908	-	908
Total other comprehensive income	-	-	-	-	-	448	2,084	6,410	-	8,942	-	8,942
Total comprehensive income	-	-	-	-	-	448	2,084	68,589	-	71,121	(80)	71,041
Transactions with owners of the Company recognised directly in equity												
Dividends paid	-	-	-	-	-	-	-	(17,684)	-	(17,684)	-	(17,684)
Issue of Grafton Units (net of issue expenses)	19	1,940	-	-	-	-	-	-	-	1,959	-	1,959
Share based payments charge	-	-	-	-	1,396	-	-	-	-	1,396	-	1,396
Transfer from shares to be issued reserve	-	-	-	-	(593)	-	-	593	-	-	-	-
Transfer from revaluation reserve	-	-	-	(6,682)	-	-	-	6,682	-	-	-	-
	19	1,940	-	(6,682)	803	-	-	(10,409)	-	(14,329)	-	(14,329)
At 31 December 2013	8,302	206,554	621	13,978	2,875	98	66,346	575,419	(3,897)	870,296	4,051	874,347

1. General Information

The condensed consolidated interim financial statements for the half-year ended 30 June 2014 are unaudited but have been reviewed by the auditor whose report is set out on page 31.

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 interim 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 2013 that are available on the Company's website www.graftonplc.com.

The financial information included in this report in relation to the year ended 31 December 2013 does not comprise statutory annual financial statements within the meaning of section 19 of the Companies (Amendment) Act 1986. Those 2013 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 accounting policies applied by the Group in the condensed consolidated interim 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 2013 except as described below:

The Group presented its 2013 year results in sterling for the first time having previously reported in euro. In changing the Group's presentational currency from euro to sterling, the Group's income statement and cashflow for the six months ended 30 June 2013 have been translated into sterling using the average exchange rate for the half year which is deemed to approximate actual exchange rates at date of transactions. The Group's balance sheet at 30 June 2013 has been translated from euro to sterling at the closing rate of exchange on the balance sheet date.

The euro sterling exchange rates for the six month ended 30 June 2014 and 2013 are set out below:

	30 June 2014	30 June 2013
€/£ exchange rate – average rates	**0.82134**	0.85083
€/£ exchange rate – closing rates	**0.8015**	0.8572

The following standards and interpretations are effective for the Group from 1 January 2014 but do not have a material effect on the results or financial position of the Group.

IFRS 10 – Consolidated Financial Statements. (Effective date: financial year beginning 1 January 2014)

IFRS 10 replaces all of the guidance on control and consolidation in IAS 27 and SIC 12. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. The core principle that a consolidated entity presents a parent and its subsidiaries as a single entity remains the same, as does the mechanics for consolidation. This standard has not had any significant impact on the Group's financial statements.

Basis of Preparation, Accounting Policies and Estimates (Continued)

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

IFRS 11 - Joint Arrangements. (Effective date: financial year beginning 1 January 2014)

IFRS 11 removes the existing accounting policy choice of proportionate consolidation for jointly controlled entities. IFRS 11 makes equity accounting mandatory for participants in joint ventures. This standard has impacted the Group accounting policies as the Group previously had adopted an accounting policy of proportionate consolidation for jointly controlled entities. On adoption of IFRS 11 the Group is now required to equity account for its interest in jointly controlled entities. This standard has not had any significant impact on the Group's financial statements.

IFRS 12 - Disclosure of Interest in Other Entities. (Effective date: financial year beginning 1 January 2014)

IFRS 12 requires entities to disclose information about the nature, risks and financial effects associated with the entity's interest in subsidiaries, associates, joint arrangements and unconsolidated structured entities. This standard has not had a significant impact on the Group's financial statements.

Amendment to IAS 32 - Offsetting financial assets and financial liabilities (Effective date: financial year beginning 1 January 2014)

This amendment clarifies some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. This amendment has not had a significant impact on the Group's financial statements.

The adoption of other new standards, interpretations and amendments that become effective for the year ended 31 December 2014 did not have any significant impact on the interim financial statements.

(b) Estimates

The preparation of interim 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 interim 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 2013.

2. Segmental Analysis

The amount of revenue and operating profit under the Group's operating segments of Merchanting, Retailing and Manufacturing is as follows:

	Six months to 30 June 2014 (Unaudited) £'000	Six months to 30 June 2013 (Unaudited) £'000
Revenue		
Merchanting	**912,661**	814,805
Retailing	**79,578**	80,706
Manufacturing	**27,825**	20,160
Less: Inter-segment revenue - manufacturing	**(4,773)**	(3,443)
	1,015,291	912,228
Segment operating profit before non-recurring income/(costs)		
Merchanting	**51,430**	34,997
Retailing	**396**	242
Manufacturing	**3,072**	847
	54,898	36,086
Non-recurring income/(costs)		
Merchanting	**-**	27,051
Retailing	**-**	-
Manufacturing	**-**	-
	-	27,051
Segment operating profit after non-recurring income/(costs)		
Merchanting	**51,430**	62,048
Retailing	**396**	242
Manufacturing	**3,072**	847
	54,898	63,137
Reconciliation to consolidated operating profit		
Central activities	**(4,315)**	(4,926)
Operating profit	**50,583**	58,211
Finance expense	**(5,421)**	(8,142)
Finance income	**774**	1,426
Profit before tax	**45,936**	51,495
Income tax	**(10,088)**	(10,933)
Profit after tax for the financial period	**35,848**	40,562

2. Segmental Analysis (continued)

Operating segment assets are analysed below:

	30 June 2014 (Unaudited) £'000	30 June 2013 (Unaudited) £'000
Segment assets		
Merchanting	**1,444,563**	1,422,622
Retailing	**57,647**	77,649
Manufacturing	**40,966**	44,646
	1,543,176	1,544,917
Unallocated assets		
Deferred tax assets	**19,593**	21,410
Retirement benefit assets	**-**	2,902
Other financial assets	**124**	146
Derivative financial instruments	**636**	3,067
Cash and cash equivalents	**162,462**	151,595
Total assets	**1,725,991**	1,724,037

The amount of revenue by geographic area is as follows:

	Six months to 30 June 2014 (Unaudited) £'000	Six months to 30 June 2013 (Unaudited) £'000
Revenue		
United Kingdom	**766,455**	685,869
Ireland	**202,595**	197,084
Belgium	**46,241**	29,275
	1,015,291	912,228

3. Operating Costs and Operating Income

Included within operating income and operating costs in 2013 was a non-recurring pension credit of £27.1 million as analysed below:

	Six months to 30 June 2014 (Unaudited) £'000	Six months to 30 June 2013 (Unaudited) £'000
Pension restructuring - UK and Ireland		
Past service credit	**-**	(15,398)
Settlement gain	**-**	(17,864)
Settlement contribution liability	**-**	5,871
Net settlement gain	**-**	(11,993)
Professional fees	**-**	340
	-	(27,051)

In the half year to 30 June 2013 the past service credit of £15.4 million arose due to the implementation of a permanent pensionable salary freeze in the United Kingdom and a pensionable salary freeze in Ireland for five years together with an alignment of the normal retirement age with the State pension age in Ireland. The net settlement gain of £12.0 million arose due to the settlement of transfer values with the deferred members.

4. Finance Expense and Finance Income

	Six months to 30 June 2014 (Unaudited) £'000		Six months to 30 June 2013 (Unaudited) £'000	
Finance expense				
Interest on bank loans and overdrafts	**(4,598)**	*	(5,001)	*
Interest on loan notes	**(145)**	*	(263)	*
Net change in fair value of cash flow hedges transferred from equity	**(111)**		(343)	
Interest on finance leases	**(125)**		(140)	
Net finance cost on pension scheme obligations	**(107)**		(1,035)	
Fair value movement on derivatives (Cross Currency Interest Rate Swaps (CCIRS) not in hedging relationships)	**(335)**		-	
Ineffectiveness on cash flow hedges	**-**		(5)	
Foreign exchange loss	**-**		(1,355)	
	(5,421)		(8,142)	
Finance income				
Foreign exchange gain	**396**		-	
Fair value movement on derivatives (Cross Currency Interest Rate Swaps (CCIRS) not in hedging relationships)	**-**		1,082	
Interest income on bank deposits	**378**	*	344	*
	774		1,426	
Net finance expense	**(4,647)**		(6,716)	

* Net bank/loan note interest of £4.4 million (June 2013: £4.9 million).

5. Earnings per Share

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

	Half Year 30 June 2014 (Unaudited) £'000	Half Year 30 June 2013 (Unaudited) £'000
Numerator for basic, adjusted and diluted earnings per share:		
Profit after tax for the financial period	**35,848**	40,562
Non-controlling interest	**(64)**	35
Numerator for basic and diluted earnings per share	**35,784**	40,597
Non-recurring pension credit	**-**	(27,051)
Tax relating to non-recurring pension credit	**-**	5,066
Numerator for adjusted earnings per share	**35,784**	18,612

	Number of Grafton Units	Number of Grafton Units
Denominator for basic and adjusted earnings per share:		
Weighted average number of Grafton Units in issue	**232,460,074**	231,998,691
Effect of potential dilutive Grafton Units	**1,089,249**	582,700
Denominator for diluted earnings per share	**233,549,323**	232,581,391
Earnings per share (pence)		
- Basic	**15.39**	17.50
- Diluted	**15.32**	17.45
Adjusted earnings per share (pence)		
- Basic	**15.39**	8.02
- Diluted	**15.32**	8.00

6. Dividends

The payment in 2014 of a second interim dividend for 2013 of 5.50 pence on the ‘C’ Ordinary shares in Grafton Group (UK) plc from UK-sourced income amounted to £12.78 million.

An interim dividend for 2014 of 3.75 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 5 September 2014 (the ‘Record Date’). The cash consideration will be paid on 3 October 2014. A liability in respect of the interim dividend has not been recognised at 30 June 2014, 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 2014 was Stg82.13p (six months to 30 June 2013: Stg85.08p). The sterling/euro exchange rate at 30 June 2014 was Stg80.15p (30 June 2013: Stg85.72p and 31 December 2013: Stg83.37p).

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 2014	**413,401**	**11,352**	**19,861**
Additions	**18,796**	**-**	**-**
Acquisitions	**9,489**	**-**	**-**
Depreciation	**(15,900)**	**-**	**-**
Disposals	**(972)**	**(329)**	**-**
Transfer to properties held for sale	**(316)**	**316**	**-**
Transfer to investment properties	**(1,437)**	**-**	**1,437**
Transfer to investment properties	**-**	**(124)**	**124**
Foreign exchange	**(4,293)**	**(114)**	**(582)**
As at 30 June 2014	**418,768**	**11,101**	**20,840**

There was no material change in the fair value of investment properties or properties held for sale following an internal review undertaken by the Group Property Director. The determination of fair value and the valuation techniques used, including significant unobservable inputs, at 30 June 2014, are set out in detail in Note 12 to the Group’s 2013 Annual Report.

9. Property, Plant and Equipment, Properties held for Sale and Investment Properties (continued)

In the half year an additional four UK properties were transferred into investment properties bringing the total number to 23 of which seven are located in the United Kingdom and 16 in Ireland.

There were two disposals of UK properties held for sale, one UK transfer out to investment properties and one UK transfer in from property, plant and equipment leaving 25 properties of which 24 are located in the United Kingdom and one in Ireland

10. Movement in Working Capital

	Inventory £'000	Trade and other receivables £'000	Trade and other payables £'000	Total £'000
At 1 January 2014	**246,220**	**307,822**	**(410,011)**	**144,031**
Translation adjustment	(2,951)	(2,492)	4,701	(742)
Interest accrual and other movements	-	123	(642)	(519)
Acquisitions through business combinations	6,132	6,972	(7,559)	5,545
Movement in 2014	13,132	31,197	(68,587)	(24,258)
At 30 June 2014	**262,533**	**343,622**	**(482,098)**	**124,057**

11. Interest-Bearing Loans, Borrowings and Net debt

	30 June 2014 £'000	30 June 2013 £'000	31 Dec 2013 £'000
Non-current liabilities			
Bank loans	246,701	263,006	256,335
Loan notes	-	13,178	12,546
Finance leases	3,370	4,234	3,729
Total non-current interest bearing loans and borrowings	**250,071**	**280,418**	**272,610**
Current liabilities			
Bank loans and overdrafts	1,218	9,982	812
Loan notes	12,382	13,312	12,615
Finance leases	494	462	436
Total current interest bearing loans and borrowings	**14,094**	**23,756**	**13,863**
Derivatives-non current			
Included in non-current assets	**-**	(1,534)	(835)
Included in non-current liabilities	**-**	-	-
Derivatives-current			
Included in current assets	**(636)**	(1,533)	(835)
Included in current liabilities	**-**	267	33
Total derivatives	**(636)**	**(2,800)**	**(1,637)**
Cash and cash equivalents	**(162,462)**	**(151,595)**	**(151,099)**
Net debt	**101,067**	**149,779**	**133,737**

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

The fair value of financial assets and liabilities including their level in the fair value hierarchy is shown in the table below:

	30 June 2014 Total Level 2 £'000	30 June 2013 Total Level 2 £'000
Assets measured at fair value		
At fair value through profit or loss		
Cross currency interest rate swaps	**(636)**	(3,067)
Liabilities measured at fair value		
Designated as hedging instruments		
Interest rate swaps	**-**	267
Liabilities not measured at fair value		
Liabilities at amortised cost		
Bank loans	**247,919**	272,988
Finance leases	**3,864**	4,696
2005 unsecured senior US dollar loan notes	**12,382**	26,490
	264,165	304,174

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 interim financial statements approximate to their fair values.

Financial assets and liabilities carried at fair value

Fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to valuation techniques used. The different levels are defined in Note 20 to the Group's 2013 Annual Report together with the method for determining the fair value of financial assets and liabilities. 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.

Investment properties and properties held for sale

Investment properties of £20.8 million which are separately classified in non-current assets are carried at fair value in the financial statements. An internal review undertaken by the Group Property Director was used to determine fair values. The valuation techniques used were the market value of comparable transactions recently completed or on the market. In cases where there are no recent precedent transactions, valuations were based on estimated rental yields and consultations with external agents who have knowledge of local property markets.

The carrying value of properties held for sale of £11.1 million are shown in the balance sheet at the lower of their carrying amount and fair value less any disposal costs. 12 properties are included at a fair value of £4.8 million and have been valued on the basis set out in the foregoing paragraph.

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

	30 June 2014 £'000	30 June 2013 £'000
Net increase in cash and cash equivalents	**13,096**	20,966
Net movement in derivative financial instruments	**238**	673
Cash-flow from movement in debt and lease financing	**12,717**	1,818
Change in net debt resulting from cash flows	**26,051**	23,457
Translation adjustment	**6,619**	(8,352)
Movement in net debt in the period	**32,670**	15,105
Net debt at 1 January	**(133,737)**	(164,884)
Net debt at end of the period	**(101,067)**	(149,779)
Gearing	**12%**	17%

13. Retirement Benefits

The principal financial assumptions employed in the valuation of the Group's defined benefit scheme liabilities for the current reporting period and the 2013 year were as follows:

	Irish Schemes		**UK Schemes**	
	At 30 June 2014	At 31 Dec 2013	**At 30 June 2014**	At 31 Dec 2013
	%	%	**%**	%
Rate of increase in salaries	**3.00%***	3.00%*	**0.0%**	0.0%
Rate of increase of pensions in payment	**-**	-	**3.55%**	3.70%
Discount rate	**2.90%**	3.65%	**4.30%**	4.65%
Inflation	**2.00%**	2.00%	**3.55%****	3.70%**

*3% applies from 2 January 2019

** The inflation assumption shown for the UK is based on the Retail Price Index (RPI)

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 30 June 2014 £'000	Year to 31 Dec 2013 £'000	**Half year 30 June 2014 £'000**	Year to 31 Dec 2013 £'000	**Half year 30 June 2014 £'000**	Year to 31 Dec 2013 £'000
At 1 January	**180,663**	176,729	**(187,785)**	(228,120)	**(7,122)**	(51,391)
Acquired in year	**223**	-	**(551)**	-	**(328)**	-
Interest income on plan assets	**3,789**	7,128	**-**	-	**3,789**	7,128
Contributions by employer	**1,414**	6,029	**-**	-	**1,414**	6,029
Contributions by members	**617**	1,329	**(617)**	(1,329)	**-**	-
Benefit payments	**(2,343)**	(27,852)	**2,343**	27,852	**-**	-
Current service cost	**-**	-	**(909)**	(2,253)	**(909)**	(2,253)
Past service credit - non-recurring	**-**	-	**-**	18,534	**-**	18,534
Past service credit	**-**	-	**552**	552	**552**	552
Settlement gain - non-recurring	**-**	-	**-**	16,932	**-**	16,932
Settlement gain - other	**-**	-	**-**	84	**-**	84
Curtailment loss	**-**	-	**-**	(92)	**-**	(92)
Interest cost on scheme liabilities	**-**	-	**(3,896)**	(8,531)	**(3,896)**	(8,531)
Remeasurements						
Actuarial gains/(loss) from:						
-experience variations	**-**	-	**140**	(55)	**140**	(55)
-financial assumptions	**-**	-	**(16,008)**	(8,821)	**(16,008)**	(8,821)
-demographic assumptions	**-**	-	**-**	1,054	**-**	1,054
Return on plan assets excluding interest income	**2,218**	15,264	**-**	-	**2,218**	15,264
Translation adjustment	**(3,102)**	2,036	**3,636**	(3,592)	**534**	(1,556)
At 30 June	**183,479**	180,663	**(203,095)**	(187,785)	**(19,616)**	(7,122)
Related deferred tax asset (net)					**2,830**	836
Net pension liability					**(16,786)**	(6,286)

The pension scheme deficit of £19,616,000 is shown in the Group balance sheet as retirement benefit obligations (non-current liabilities) of which £15,546,000 relates to the Irish schemes and £4,070,000 relates to the UK schemes.

14. Acquisitions of Subsidiary Undertakings and Businesses

In the six months to 30 June 2014 the Group completed the acquisition of MPRO, a six branch merchanting business based in Brussels, on 4 February 2014 and Beaumont Forest Products, a specialist timber merchant trading from three branches in the Greater London Area on 30 June 2014.

Details of the acquisitions made in 2013 are disclosed in the Group's 2013 Annual Report.

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

	2014 £'000
Property, plant and equipment	**9,489**
Inventories	**6,132**
Trade and other receivables	**6,972**
Trade and other payables	**(7,559)**
Retirement benefit obligations	**(328)**
Deferred tax asset	**1,839**
Deferred tax (liability)	**(1,418)**
Cash acquired	**78**
Net assets acquired	**15,205**
Goodwill	**9,456**
Consideration	**24,661**
Satisfied by:	
Cash paid	**23,525**
Net cash outflow	**23,525**
Deferred consideration	**1,136**
	24,661

Goodwill on these acquisitions reflects the anticipated purchasing and operational synergies to be realised as part of the enlarged Group. No intangible assets formed part of the acquisition consideration.

Acquisitions completed in 2014 contributed revenue of £16.9 million and operating profit of £0.2 million for the periods between the dates of acquisition and 30 June 2014. If the acquisitions had occurred on 1 January 2014 they would have contributed revenue of £24.8 million and operating profit of £0.5 million in the half-year.

15. Goodwill

Goodwill is subject to impairment testing on an annual basis and more frequently if an indicator of impairment is considered to exist. There were no indicators of impairment during the half year. The Board is satisfied that the carrying value of goodwill has not been impaired. The small increase in goodwill in the period reflects goodwill on acquisitions in the period of £9.5 million which is largely offset by a currency translation movement.

16. Taxation

The effective rate of tax is estimated at 22.0 per cent for the year. The effective tax rate of 22.0% (2013: 24%) for the half year ended 30 June 2014 is based on an estimate of the weighted average full year expected tax rate and reflects estimates of cash tax payable, a non-cash charge due to the unwinding of deferred tax assets and liabilities and a credit in relation to the release of tax provisions no longer expected to be required. The UK corporation tax rate will reduce from 23% to 21% from 1 April 2014 and to 20% from 1 April 2015.

16. Taxation (continued)

The amount 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.

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

Deferred tax
At 30 June 2014, there were unrecognised deferred tax assets in relation to capital losses of £4.7 million (31 December 2013: £4.7 million), trading losses of £0.9 million (31 December 2013: £0.9 million) and deductible temporary differences of £5.3 million (31 December 2013: £5.0 million). Deferred tax assets were not recognised in respect of 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. 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.

17. Related Party Transactions

There have been no related party transactions or changes in related parties from those described in the 2013 Annual Report that materially affected the financial position or the performance of the Group during the half-year to 30 June 2014.

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

Share awards over 869,027 Grafton Units were made under the LTIP on 16 April 2014. The total fair value of the awards is £4.7 million and this will be charged to the income statement over the vesting period of three years. The 2013 Annual Report discloses details of the LTIP scheme.

19. Issue of Shares

During the year 137,818 Grafton Units were issued under the 2011 Grafton Group Long Term Incentive Plan (LTIP) and a further 7,025 Grafton Units were issued under the Group's Savings Related Share Option Scheme (SAYE) to eligible UK employees.

20. Events after the Balance Sheet Date

There were no material events subsequent to 30 June 2014 that would require adjustment to or disclosure in this report.

21. Board Approval

These condensed consolidated interim financial statements were approved by the Board of Grafton Group plc on 26 August 2014.

Directors' Responsibility Statement in respect of the half-yearly financial report for the six months ended 30 June 2014

Each of the directors listed in the 2013 Annual Report confirms their responsibility for preparing the half-yearly financial report in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007 as amended, the Disclosure and Transparency Rules of the UK Financial Conduct Authority and with IAS 34 *Interim Financial Reporting* as adopted by the EU. We confirm that, to the best of each person's knowledge and belief:

a) The Group Condensed Interim Financial Statements comprising the Group Condensed Income Statement, Group Condensed Statement of Comprehensive Income, the Group Condensed Balance Sheet, the Group Condensed Cash Flow Statement and the Group Condensed Statement of Changes in Equity and related notes have been prepared in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007, the Disclosure and Transparency Rules of the UK Financial Conduct Authority and with IAS 34 *Interim Financial Reporting* as adopted by the EU.

b) The half-yearly financial report includes a fair review of the information required by:

- *Regulation 8(2) of the Transparency (Directive 2004/109/EC) Regulations 2007*, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

- *Regulation 8(3) of the Transparency (Directive 2004/109/EC) Regulations 2007*, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

The directors of Grafton Group plc are listed on the Grafton Group plc website: www.graftonplc.com.

On behalf of the Board:

Gavin Slark
Chief Executive Officer

David Arnold
Chief Financial Officer

Independent Review Report to Grafton Group plc

Introduction

We have been engaged by the company to review the condensed set of consolidated financial statements in the half-yearly financial report for the six months ended 30 June 2014 which comprises the Group Condensed Income Statement, the Group Condensed Statement of Comprehensive Income, the Group Condensed Balance Sheet, the Group Condensed Cash Flow Statement and the Group Condensed Statement of Changes in Equity and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of consolidated financial statements.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Transparency (Directive 2004/109/EC) Regulations 2007, as amended ("the TD Regulations") and the Disclosure and Transparency Rules of the UK Financial Conduct Authority. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the TD Regulations and the Disclosure and Transparency Rules of the UK Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the EU. The directors are responsible for ensuring that the condensed set of consolidated financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

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. 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 (UK and 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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly report for the six months ended 30 June 2014 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU, the TD Regulations and the Disclosure and Transparency Rules of the UK Financial Conduct Authority.

Cliona Mullen
For and on behalf of KPMG
Chartered Accountants, Statutory Audit Firm
1 Stokes Place
St. Stephen's Green
Dublin 2

26 August 2014