Grafton Group plc

Annual Report 2010

Contents

Group Profile

Grafton Group plc is an independent company operating in the Merchanting, DIY Retailing and Mortar Manufacturing markets in Britain and Ireland.

Grafton's strategy is to build on its strong market positions in Merchanting, DIY Retailing and Mortar Manufacturing, to develop in related markets and to grow in businesses with which it is familiar.

The Merchanting segment operates from 520 builders and plumbers merchanting branches. It trades under the Buildbase, Plumbase, Jackson and Selco brands in Britain and under the Heiton Buckley, Chadwicks and Macnaughton Blair brands in Ireland. These brands have leading national and regional market positions. In Britain, Grafton operates the third largest builders merchanting business and is among the top four plumbers merchanting businesses. The Merchanting segment also operates the largest merchanting business in Ireland. The network of merchanting branches mainly supply trade customers engaged in residential, repair, maintenance and improvement projects.

The Retailing segment incorporates the largest DIY retailing business in Ireland, trading nationally from 41 stores primarily under the Woodie's DIY brand, and an 8 store kitchen business that trades under the In-House and Panelling Centre brands.

The Manufacturing segment incorporates the largest dry mortar business in Britain where it operates from 9 plants.

Grafton Group plc has strong national and regional market positions in the Merchanting, DIY Retailing and Mortar Manufacturing markets in Britain and Ireland. In 2010, 71 per cent of Group turnover was generated in the UK. The Merchanting, DIY and Mortar Manufacturing markets offer attractive growth prospects with the potential to earn above average returns on invested capital.

Financial Highlights

	2010	2009	% change
Revenue	**€2.00bn**	€1.98bn	+1%
Adjusted operating profit*	**€50.6m**	€26.2m	+93%
Operating profit per income statement	**€33.0m**	€4.9m	
Profit before tax	**€25.6m**	€13.6m	+88%
Profit after tax	**€64.0m**	€13.4m	
Free cash flow	**€95m**	€171m	
EBITDA#	**€95.1m**	€74.1m	
Adjusted earnings per share**	**18.5c**	5.4c	+246%
Basic earnings per share	**27.7c**	5.8c	
Dividend/'A' ordinary share purchase	**7.0c**	5.0c	+40%
Net debt	**€255m**	€322m	
Gearing	**26%**	35%	

* *Before intangible amortisation €2.2m (2009: €2.2m), impairment €10.0m (2009: €5.5m) and restructuring costs €5.3m (2009: €13.6m net)*

** *Before intangible amortisation, impairment, restructuring costs, taxation credit in 2010 and investment profit in 2009*

EBITDA is before impairment and restructuring costs

Financial Overview of 2010

- Cost savings and restructuring reduced overheads by a further €27.4m
- Year end net debt €67.4m lower at €255.1m and gearing reduced to 26 per cent
- Debt refinancing completed with new three year facility
- Shareholders’ funds increased by €78.6 million to €990.3 million.

Operational Overview of 2010

- Strong financial position and confidence in the future
- Emerging from the downturn with strong market positions
- Merchanting operating profit increased 57 per cent to €61.5m
- Improved market conditions increased UK turnover and profits
- Return to profit at Irish merchanting as turnover trended towards stabilisation
- DIY remained profitable on reduced turnover

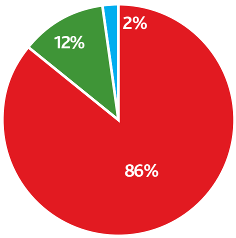
Segment Trading Locations

	Trading Locations		
	UK	Ireland	Total
Builders Merchanting	238	62	**300**
Plumbers Merchanting	215	5	**220**
Merchanting Segment	453	67	**520**
Manufacturing Segment	9	3	**12**
Retailing Segment	-	49	**49**
Total	462	119	**581**

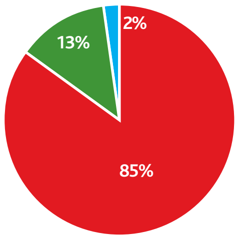
Segment Revenue

- Merchanting
- Retailing
- Manufacturing

2010
€2.00bn

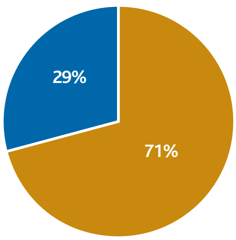


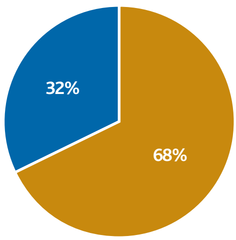
2009
€1.98bn



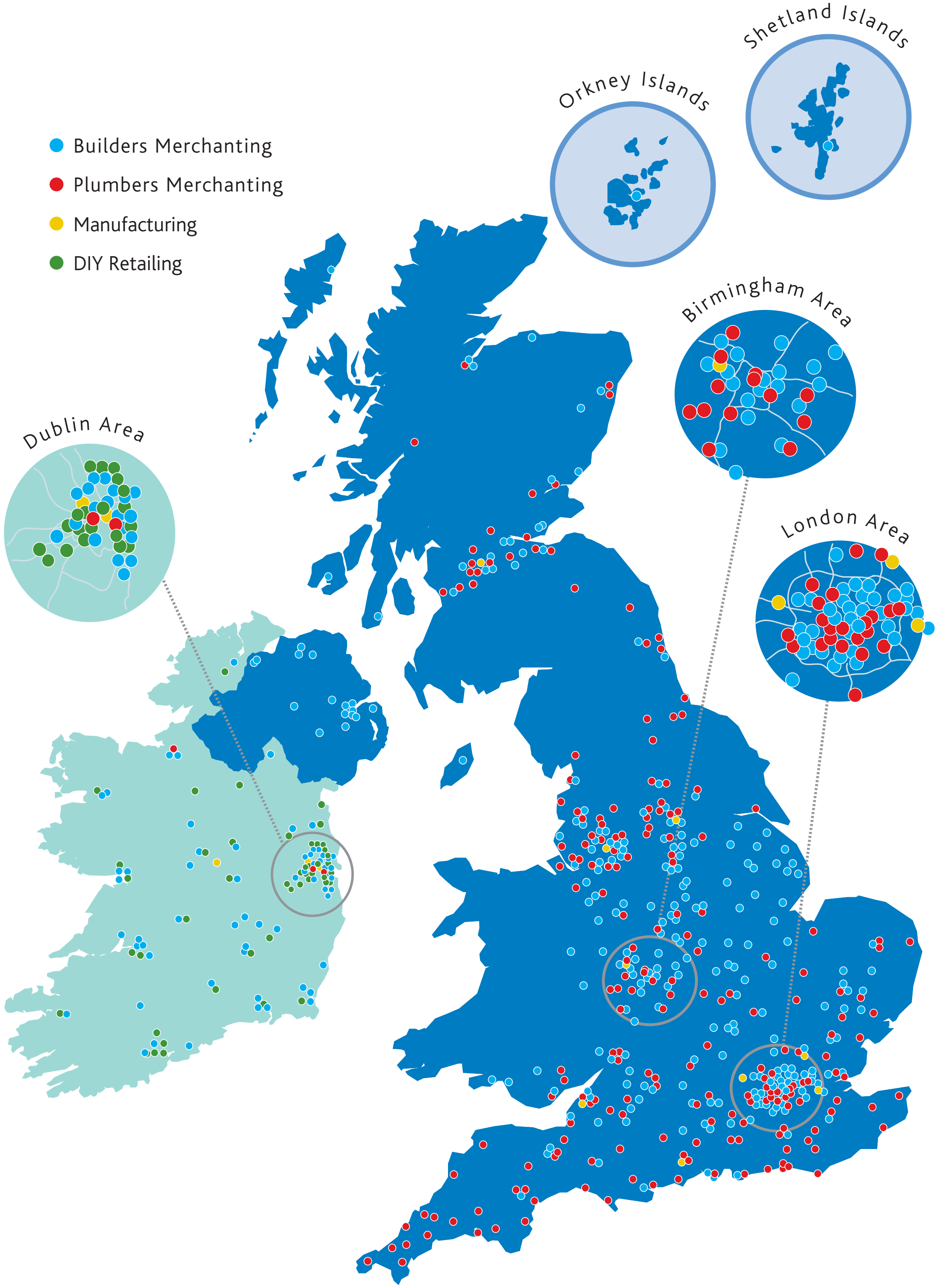
Geographic Revenue

- UK
- Ireland





Trading Locations



Principal Brands

Merchanting

The builders merchanting division trades from 300 branches, principally under the Buildbase, Jackson and Selco brands, in the South East, Midlands and North of England, and under the Chadwicks, Heiton Buckley and Macnaughton Blair brands in Ireland.

The plumbers merchanting division, trading from 220 branches primarily under the Plumbase brand, has a strong presence in England and Scotland.

Retailing

The Group is the largest DIY retailer in Ireland trading from 41 stores nationally and also operates a kitchen business from 8 stores.

Mortar Manufacturing

EuroMix, the largest manufacturer in Britain of silo-based mortar for use in a range of residential and commercial construction projects, trades from 9 plants which provide market coverage in England and Scotland.

Chairman's Statement

Overview

The Group returned to profit growth in 2010 and is emerging from the downturn with strong market positions.

The UK merchanting business benefitted from an improvement in market conditions increasing turnover and profit. The rate of decline in turnover in the Irish merchanting business moderated and the business was returned to profit for the year. Turnover was lower in the Irish DIY business but the business remained profitable.

Group turnover increased to €2.00 billion from €1.98 billion. Operating profit before amortisation, restructuring and impairment costs increased by 93 per cent to €50.6 million (2009: €26.2 million). Profit before taxation increased to €25.6 million from €13.6 million after a restructuring and impairment charge of €15.4 million. The Group continued to respond to excess capacity in the branch network and implemented measures that reduced overheads in the like for like business by €27.4 million. There was a small improvement in the gross margin.

Profit after tax of €64.0 million (2009: €13.4 million) reflected a taxation credit of €38.4 million which is principally due to a deferred tax asset in the UK business relating to future deductions that are now agreed.

The Group ended the year in a strong financial position with gearing reduced to 26 per cent of shareholders' funds from 35 per cent. Net debt was refinanced at the end of August 2010 through new three year revolving bilateral facilities and financial flexibility was maintained with a holding of cash balances and deposits of €234.3 million at the year end.

Dividend

Reflecting the return to profit growth in 2010, the Group's strong financial position and confidence in its future prospects, the second interim dividend has been increased to 4.5 cent (2009: 2.5 cent) per Grafton Unit. The payment will be made on 1 April 2011. This will result in a total dividend for the year of 7.0 cent (2009: 5.0 cent), an increase of 40 per cent on the dividend and share purchase payment for 2009.

Operations Review

Merchanting

Turnover in the merchanting business was up by 2.6 per cent to €1.73 billion (2009: €1.69 billion). Merchanting segment operating profit before restructuring costs increased by 57 per cent to €61.5 million (2009: €39.3 million).

UK merchanting branches increased turnover by 6.5 per cent to €1.40 billion (2009: €1.32 billion). The increase in sterling turnover was 2.6 per cent and average daily like for like sales increased by 2.3 per cent. Operating profit before restructuring costs increased by 33 per cent to €57.8 million (2009: €43.5 million). The UK merchanting operating profit margin improved to 4.1 per cent from 3.3 per cent.

The UK merchanting business stabilised in the second half of 2009. Trading was adversely affected by the severe weather conditions in January 2010 before growth resumed and average daily like for like sales increased by 4.0 per cent during the period from February to June 2010. This positive trend continued into the second half of the year and average daily like for like sales were up by 4.5 per cent in the period from July to November 2010. Trading in December 2010 was disrupted by the extreme weather conditions.

Chairman's Statement

The UK merchanting business traded against the background of growth in economic activity in the first three quarters of 2010 and a modest recovery in consumer spending. Housing transactions, a lead indicator of demand in the merchanting market, increased by 18 per cent from an historically low base to a level that is now running at two thirds of the long term trend rate. Consumers were generally more cautious during 2010 preferring to pay down mortgage debt over discretionary spending on home improvements.

Buildbase grew turnover driven primarily by more positive market conditions in the new build orientated civils and lintels branches and operating profit also increased due to overhead savings. Jacksons, the East Midlands regional merchant, reported unchanged like for like turnover but increased operating profit through an improvement in the gross margin and further overhead savings. Plumbase maintained turnover at last year's level in a competitive market. The 18 heating spares branches that trade under the Shoreheat brand performed well, increasing turnover and operating profit.

The implementation of a single accounting, administration and support office function for the Buildbase, Plumbase, Jacksons and smaller specialist merchanting brands was successfully completed realising a significant saving in the cost of providing these services.

Selco, the trade only warehouse format operating from a network of 28 stores, continued to report strong like for like turnover growth in the 20 mature stores. The eight stores that were opened in 2008 and 2009 performed to expectations. 13 Selco stores are located in the London area where further store openings are planned.

In Northern Ireland, turnover was lower but the rate of decline moderated through the year. The economy and construction sector is emerging from a deep recession and turnover in the merchanting business stabilised as the year developed. Operating profit improved from a low base due to an improvement in the gross margin and further overhead savings.

UK geographical coverage was improved with the opening of two branches and the completion of three single branch acquisitions during the year.

Turnover in the Irish merchanting branches declined by 11.5 per cent to €327.8 million (2009: €370.2 million). Despite the fall in turnover the business traded at close to breakeven in the first half and was returned to profitability in the second half of the year. The full year operating profit before restructuring costs was €3.7 million. This marked an improvement of €14.0 million on the operating loss (before property profit and restructuring costs) of €10.3 million reported for 2009. The improved performance was attributed to the benefits of the ongoing restructuring and operating performance measures adopted in 2010 and earlier years.

The rate of decline in Irish merchanting turnover progressively moderated over the course of 2010. Turnover was down by 16 per cent in the first half and by 6 per cent in the second half of the year.

Activity in the new housing market fell to historically low levels with new build construction completed during the year estimated at the equivalent of 8,500 units. The new housing end-use market accounted for only a small proportion of Irish merchanting turnover following the decline in activity over the past four years. Investment in residential repair, maintenance and improvement (RMI) while less cyclical also declined during 2010 due to general weakness in consumer demand, tight credit conditions and households prioritising paying down debt. Against the background of challenging market conditions the rate of decline in turnover in the Chadwicks and Heiton Buckley branches moderated. There was a strong improvement in the operating performance and the business enhanced its market leadership position through an increased focus on housing RMI which helped underpin demand. The consolidation of a number of the merchanting branches in areas of overlap created significant synergies and contributed to the turnaround in profitability. Volumes recovered strongly in Heiton Steel. The division also benefitted from a recovery in international steel prices and operated at breakeven for the year having reported a loss in 2009.

The Irish Merchanting business benefitted from the full year effect of cost reductions implemented over the course of 2009. Further cost reductions were implemented during 2010 to partially offset the impact of lower turnover and return the business to profit. Overhead savings for the year amounted to €16.2 million, a decline of 17 per cent in the overall cost base of the business. Payroll costs were lower and the charge for bad debts declined.

The combined overhead savings in Irish merchanting realised in 2009 and 2010 from the actions required to preserve the long term viability of the business, including branch consolidations, amounted to €42.5 million (34%). The gross margin increased due mainly to improved purchasing arrangements, a decline in volume business and a recovery in the gross margin in the Heiton Steel business.

Retailing

Turnover declined by 7.0 per cent to €230.5 million from €247.8 million but Woodie's retained its leadership position in the Irish DIY market. The segment operating profit declined to €2.4 million from €3.3 million.

The retailing business remained resilient despite the challenging trading conditions in the Irish retail market. Consumer spending continued to decline during 2010 but at a moderating rate compared to the severe contraction during 2009. Consumers were generally cautious due to the effect of higher taxes on disposable incomes and weak labour market conditions.

Woodie's DIY performed relatively well given the challenge of further market weakness in 2010. The number of transactions was in line with 2009. Average transaction values were lower due to reduced sales of higher value seasonal categories and products that benefit from housing market transactions. Horticulture and garden maintenance products performed strongly and the business also benefitted from the expansion of existing ranges including Pet Care and the successful roll out of new categories including Party Zone. The gross margin increased due to changes in the mix of products sold in favour of higher margin lower value products and less discounting of seasonal categories. Supply chain gains and measures adopted to improve inventory controls and merchandising also contributed to margin growth.

Operating cost savings made a significant contribution to offsetting the impact on profit of lower volumes. Overheads fell broadly in line with the decline in volumes. Meaningful savings were achieved in the costs of employment, property and utilities.

In House repositioned its kitchens business to compete more effectively during the downturn with the introduction of new ranges at more competitive price points and the launch of 'Smart Fit' fully assembled kitchens that are delivered nationally. Turnover from both initiatives enabled the business to maintain the volume of materials sold in line with 2009 on a lower turnover in a competitive market.

Chairman's Statement

Manufacturing

Turnover was down by 4.0 per cent to €43.3 million (2009: €45.1 million) and the operating loss before asset impairment and restructuring costs was reduced to €3.5 million (2009: €5.1 million). The result reflected a non-cash charge for depreciation of €5.1 million (2009: €5.4 million). The segment was cash generative due to the combined effect of the non-cash charge for depreciation and a reduction in working capital in line with the reduced scale of the business in Ireland.

The UK mortar business benefitted from a recovery in the residential construction market. Housing starts in England were up by 32 per cent from a very low base having more than halved during the recession. The business, which is the UK's largest producer of dry mortar where it trades from nine plants, increased turnover strongly and was returned to profitability. Demand in January and December 2010 was affected by some of the severest winter weather conditions experienced in the UK for decades.

The manufacturing businesses in Ireland experienced further demand weakness and turnover was significantly lower. The impact of a fall in volumes was more than offset by decisive action on cost reductions and there was a small reduction in the operating loss. The business has experienced an unprecedented fall in volumes since 2007 due principally to the decline in the residential new build market. The carrying values of assets employed in the Irish manufacturing businesses were reviewed and an impairment charge of €10.0 million was taken in the Income Statement.

Outlook

The UK economy appears to be in a modest growth phase. In particular, activity levels in our sector have recovered from historically low levels though the availability of mortgage lending continues to be an issue. House completions and housing transactions have recovered from historically low levels and accordingly we look positively on the total levels of trading achievable during 2011.

The outlook for Ireland remains unpredictable. However, we are encouraged by the modest return to profitability in Irish merchanting and the resilience of the DIY business.

The Group recently completed the acquisition of 12 plumbing and heating branches in England and Wales from Travis Perkins Group plc and a single branch acquisition in Scotland.

Group turnover for the first two months of 2011 is encouraging with a continuation of like for like sales growth in the UK and signs of further stabilisation in Irish turnover. UK like for like turnover increased by 8 per cent and the rate of decline in the Irish business eased to 2 per cent. The Group's strong financial position, lower cost base and opportunities for restructuring leave it well placed to benefit from improvements in its markets. Further improvement in profit is expected as markets recover.

Management and Staff

The improvement in underlying operating profit and strong cash flow achieved in 2010 is a tribute to the commitment of the Group's management and staff. On behalf of the Board, I thank management and all employees for their role in responding to the challenging trading conditions of recent years and returning the business to profit growth in 2010.

Chairman's Statement

Board

Mr. Gavin Slark has been appointed as Group Chief Executive (CEO) to manage the Group. Mr. Slark will join the Group and the Board as Chief Executive Designate on 1 April 2011 and will be appointed CEO on 1 July 2011. He was previously Group Chief Executive of BSS Group plc, a leading UK distributor to specialist trades including the plumbing, heating and construction sectors.

The Board has requested that I continue as Chairman of the Board in a non-executive capacity from 1 July 2011. I have been Executive Chairman of Grafton since 1985 and I advised the Board of my intention to retire as an executive on completion of the search for a successor. Leo Martin, Executive Director and Chief Operating Officer, also advised the Board of his intention to retire at the end of the year. He was due to retire in August 2011 on reaching the age of 60 but has agreed to extend his date of retirement until December 2011.

Fergus Malone retired from the Board on 30 September 2010. He was responsible for the Group's dry mortar, plastic and concrete manufacturing businesses. He also managed Grafton's entry and successful development into the mortar market in Ireland and the UK. Fergus made a major contribution to Grafton over a career spanning nearly 40 years. His experience and wise counsel have been of great value to the Board. His work in developing the Group to market leading positions in dry mortar in Ireland and the UK is a lasting testimony to his abilities.

Gillian Bowler has notified the company that she does not wish to stand for re-election as a director at the next Annual General Meeting. Gillian, who has been a non-executive director since 1995, has made a very substantial contribution to the Board. Her advice and in particular, her insight, have been of great benefit to the Group.

On behalf of the Board I thank both Gillian and Fergus for their distinguished service and offer them our best wishes for the future.

Ms. Annette Flynn was appointed as a non-executive director on 15 March 2011. Ms. Flynn is a non-executive director of United Drug plc, the International Healthcare Services Group, having served as an executive director of the company for seven years. She previously held senior management positions in Ireland and overseas with Kerry Group plc, the international food ingredients business.

On behalf of the Board

Michael Chadwick
Chairman

Group Finance Review

Financial Review

The Group ended 2010 in a healthy financial position having delivered good growth in underlying profit and generated strong cashflows for the year. The primary focus continued to be centred on reducing operating costs and deploying the substantial cashflow from operations to reduce debts while being alert to possible development opportunities in the merchanting market.

Cashflow

The results for the year demonstrated the cash generative nature of the business. Cashflow from operations of €99.4 million (2009: €138.6 million) reflected the recovery in operating profit and a non-cash charge of €44.5 million (2009: €47.9 million) for depreciation. Control of working capital remained a priority across the businesses and a reduction of €8.8 million (2009: €93.7 million) was achieved despite the increase in turnover. Capital expenditure in 2010 of €9.6 million (2009: €12.4 million) was mainly concentrated on essential asset replacement projects and amounted to 0.22 times depreciation (2009: 0.26 times). Dividend payments were €11.6 million.

Net Debt and Liquidity

Year end net debt of €255.1 million was €67.4 million lower than at the end of 2009. With lower net debt and higher shareholders' funds the gearing ratio fell to 26 per cent from 35 per cent. Net debt has fallen by 54 per cent since the end of 2007 and gearing has halved over the same period.

The Group refinanced debt of €280 million at the end of August 2010 through new three year revolving bilateral agreements with Bank of Ireland, Ulster Bank and HSBC Corporate Banking Ireland.

The amount of bank facilities on offer was substantially over-subscribed demonstrating confidence in the credit quality, financial position and prospects for the business. The amount borrowed was scaled back to the equivalent of the Group's mid year net debt of €280 million. The new facilities extended the maturity profile of net debt to 2013. The principal covenants are a net debt to equity ratio limit of 85 per cent, EBITDA/interest cover increasing from one to three by 2013 and minimum shareholders' funds of €782 million. At 31 December 2010 the net debt to equity ratio was 23 per cent and shareholders' funds were €1.13 billion both as defined for covenant purposes. EBITDA for the year was €95 million, up 28 per cent on 2009. EBITDA interest cover for 2010 was 11.

The Group continued to retain good liquidity and financial flexibility with a holding of cash balances and short term deposits of €234.3 million at the year end (2009: €302.0 million).

Net Finance Charges

The net finance charge fell to €7.5 million from €13.4 million (excluding a non-recurring investment gain in 2009). The net bank and loan note component of the charge reduced to €9.5 million (2009: €13.2 million). The Group was favourably positioned, with the majority of borrowings set at floating rates, to take advantage of lower interest rates in international financial markets and the strong cashflow from operations reduced average net debt for the year.

Shareholders' Funds

Shareholders' funds increased by €78.6 million to €990.3 million (2009: €911.7 million), equivalent to €4.28 per share. Profit after tax was €64.0 million and the strengthening of sterling against the euro resulted in a gain of €22.3 million on translation of net assets in the UK business at the year end exchange rate. Shareholders' funds were reduced by dividends paid of €11.6 million.

Pensions

Retirement benefits are principally provided under defined contribution style arrangements. The deficit on the defined benefit schemes reduced to €15.5 million from €21.3 million net of the related deferred tax asset. A return of €21.8 million on plan assets and a contribution by the Group of €3.8 million in excess of current service costs contributed to the improved position. Plan assets of €190.9 million funded 92 per cent of employee benefit obligations at the year end.

On behalf of the Board

Colm Ó Nualláin
Finance Director

Board of Directors and Secretary

Michael Chadwick
BA, MSc

EXECUTIVE CHAIRMAN

Michael Chadwick (59) joined the Group in 1975, was appointed to the Board in 1979 and became Executive Chairman in 1985. He is due to retire as Executive Chairman on 1 July 2011 following the appointment of a new Group Chief Executive and he will continue to serve on the Board from that date as non-executive Chairman. He is a Director of Pochin's Plc and of other companies in which he has invested.

Gavin Slark
(UK)

GROUP CHIEF EXECUTIVE DESIGNATE

Gavin Slark (45) will join the Group and the Board as Chief Executive Designate on 1 April 2011 and will be appointed as Chief Executive Officer on 1 July 2011. He was previously Group Chief Executive of BSS Group plc, a leading UK distributor to specialist trades including the plumbing, heating and construction sectors.

Colm Ó Nualláin
B Comm, FCA

FINANCE DIRECTOR

Colm Ó Nualláin (57) joined the Group as Financial Controller in 1989 and was appointed Finance Director in 1990. He previously held senior financial positions in a number of public and semi-state companies.

Leo J. Martin
BBS, MA, FCA

CHIEF OPERATING OFFICER

Leo Martin (59) was appointed to the Board in January 2005 following the acquisition of Heiton Group plc and in September 2006, he was appointed Chief Operating Officer with responsibility for the Merchanting Segment. He has advised the Board of his intention to retire at the end of 2011. He was Chief Executive of Heiton Group plc, having joined Heiton and the Board of Heiton as Finance Director in 1986. He is a Director of Buy4Now, a member of the Chartered Accountants Regulatory Board, and a Trustee of the Dublin City University Educational Trust (DCUET).

Gillian Bowler
(UK)

NON-EXECUTIVE DIRECTOR

Gillian Bowler (58) joined the Board in 1995 and will retire from the Board at the conclusion of the Annual General Meeting on 4 May 2011. She is Chairman of Irish Life & Permanent plc and is a Director of the VHI. She is also a member of the Advisory Board of the Smurfit Business School. She formerly served as Chairman of Fáilte Ireland and The Irish Museum of Modern Art, was a member of the Independent Radio and Television Commission and is Past President of the Institute of Directors in Ireland Ltd.

Richard W. Jewson
(UK) MA

NON-EXECUTIVE DIRECTOR

Richard Jewson (66) joined the Board in 1995. He is non-executive Chairman of Archant Ltd and non-executive Chairman of Raven Russia Limited. He is also a Director of Temple Bar Investment Trust plc. He was previously Chairman of Savills plc, Queens Moat House plc, Meyer International plc and PFI Infrastructure plc.

Roderick Ryan
B.Comm, FCA, AITI

NON-EXECUTIVE DIRECTOR

Roderick Ryan (54) joined the Board in 2006 and was appointed Senior Independent Director in May 2010. He is a non-executive Director of Glen Dimplex and other companies and is a member of the Chartered Accountants Regulatory Board. He was formerly Managing Partner of Arthur Andersen in Ireland and was a member of Andersen's European Executive Committee. He formerly served as a member of the Government appointed IFSC Banking and Treasury Committee and the Revenue Powers Group and as Chairman of the Foundation for Fiscal Studies.

Charles M. Fisher
(UK) MA

NON-EXECUTIVE DIRECTOR

Charles Fisher (61) joined the Board in 2009. He is currently Chairman of Country Homes & Gardens plc. He was Chairman and Chief Executive of Sharpe & Fisher plc, the UK builders merchanting company, from 1989 to 1999. He was formerly Chairman of Mowlem plc and previously served as a director of a number of other public companies including Travis Perkins plc, Baggeridge Brick plc, South Western Electricity plc and Delta plc.

Annette Flynn
B.Comm, FCCA

NON-EXECUTIVE DIRECTOR

Annette Flynn (44) was appointed to the Board on 15 March 2011. She is a non-executive Director of United Drug plc, the International Healthcare Services Group, having served as an executive director of the company for seven years. She previously held senior management positions in Ireland and overseas with Kerry Group plc, the international food ingredients business.

Charles Rinn
MBA FCCA

Secretary and Group Financial Controller

Board Committees

Audit	Remuneration	Nomination	Finance#
R.W. Jewson (Chairman)	C. M. Fisher (Chairman)	R. Ryan (Chairman)	M. Chadwick (Chairman)
G. Bowler**	R.W. Jewson	R.W. Jewson	C. Ó Nualláin
R. Ryan	R. Ryan	M. Chadwick	L. J. Martin
A. Flynn*	G. Bowler**	C. M. Fisher	C. Rinn
		G. Bowler**	

* Appointed as a member of the Audit Committee on 15 March 2011.
** Ms. G. Bowler will retire from the Board and all Board Committees at the conclusion of the Annual General Meeting on 4 May 2011.
# Mr. Gavin Slark will be appointed to the Board and the Finance Committee on 1 April 2011.

Financial Review

	IFRS							Irish GAAP		
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Group Income Statements	**€'m**	€'m	€'m	€'m	€'m	€'m	€'m	€'m	€'m	€'m
Revenue	**2,004.4**	1,979.8	2673.0	3,205.0	2,933.9	2,629.5	1,872.3	1,496.0	1,152.4	988.8
Operating profit	**33.0**	4.9	99.2	263.5	242.7	213.8	161.1	115.8	89.7	77.3
Property profit	**-**	-	-	7.3	38.0	9.6	7.5	3.4	3.7	2.3
Finance income/(expense) (net)	**(7.4)**	8.7	(35.1)	(35.0)	(31.4)	(31.2)	(22.8)	(17.2)	(13.2)	(12.4)
Profit before tax	**25.6**	13.6	64.1	235.8	249.3	192.2	145.8	102.0	80.2	67.2
Income tax	**38.4**	(0.2)	(6.4)	(30.6)	(32.4)	(26.1)	(19.9)	(15.3)	(12.0)	(8.7)
Profit after tax	**64.0**	13.4	57.7	205.2	216.9	166.1	125.9	86.7	68.2	58.5

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Balance Sheets	**€'m**	€'m	€'m	€'m	€'m	€'m	€'m	€'m	€'m	€'m
Capital employed										
Goodwill and intangibles	**557.3**	551.0	541.7	611.9	596.2	547.8	247.1	210.8	100.4	62.5
Property, plant and equipment	**568.8**	604.8	633.3	703.7	686.2	623.2	406.2	346.8	302.3	251.5
Financial assets	**3.9**	3.9	0.2	0.9	0.4	0.3	47.0	33.7	33.6	33.6
Net current assets*	**142.0**	138.1	202.6	350.3	335.6	303.2	195.2	198.5	144.3	129.5
Other net non-current liabilities	**(26.5)**	(63.6)	(73.3)	(48.7)	(53.2)	(76.5)	(50.8)	(28.3)	(18.0)	(17.7)
	1,245.5	1,234.2	1,304.5	1,618.1	1,565.2	1,398.0	844.7	761.5	562.6	459.4
Financed as follows:										
Shareholders' equity	**990.4**	911.7	868.9	1,067.7	1,014.3	813.8	495.5	449.8	322.0	264.5
Net debt/(cash)	**255.1**	322.5	435.6	550.4	550.9	584.2	349.2	311.7	240.6	194.9
	1,245.5	1,234.2	1,304.5	1,618.1	1,565.2	1,398.0	844.7	761.5	562.6	459.4
Other Information										
Acquisitions & investments	**2.4**	6.9	28.1	89.2	87.1	477.7	88.7	220.1	88.8	61.8
Purchase of fixed assets	**9.6**	12.4	78.6	104.7	124.4	100.6	88.9	69.3	68.0	42.0
	12.0	19.3	106.7	193.9	211.5	578.3	177.6	289.4	156.8	103.8
Depreciation and intangible amortisation	**46.7**	50.2	56.5	59.0	55.4	50.4	34.6	37.6	26.6	21.9

Financial Highlights	**2010**	2009	2008	2007	2006	2005	2004	2003	2002	2001
Adjusted EPS** (cent)	**18.5**	5.4	32.2	84.3	78.0	67.8	56.1	45.1	37.0	32.1
Dividend/share purchase per share (cent)	**7.0**	5.0	15.0	22.0	18.75	15.75	13.0	10.5	8.5	7.5
Cashflow per share (cent)#	**52.2**	29.9	49.7	108.3	100.4	88.3	72.4	58.7	52.0	44.9
Net assets per share (cent)	**428.1**	395.2	377.4	465.2	424.0	342.8	232.2	211.5	181.6	150.2
Net finance cost cover on EBITDA (times)	**12.7**	5.5	4.9	9.4	10.7	8.8	8.9	9.1	9.1	8.2
Dividend/share purchase cover	**2.6**	1.1	2.1	3.8	4.2	4.3	4.3	4.3	4.4	4.3
Net debt to shareholders' funds	**26%**	35%	50%	52%	54%	72%	70%	69%	75%	74%

The summary financial information is stated under IFRS for 2004 to 2010 and under Irish GAAP for all years from 1990 to 2003.
* Excluding net debt/(cash)
** Before intangible amortisation, impairment, restructuring costs (net), taxation credit in 2010 and investment profit in 2009 and excluding material property profits in previous years
# Based on profit after tax before depreciation, intangible amortisation and impairment and excluding material property profits in previous years

Financial Review

Irish GAAP

2000 €'m	1999 €'m	1998 €'m	1997 €'m	1996 €'m	1995 €'m	1994 €'m	1993 €'m	1992 €'m	1991 €'m	1990 €'m
830.5	620.2	427.6	327.6	244.0	195.7	169.0	133.2	122.4	119.9	109.5
64.6	46.3	33.1	25.6	19.1	14.2	11.3	6.1	6.5	6.1	7.3
-	-	-	-	1.8	0.8	-	-	-	-	-
(11.8)	(8.1)	(4.9)	(2.4)	(1.3)	(1.1)	(1.2)	(0.9)	(1.6)	(1.6)	(0.7)
52.8	38.2	28.2	23.2	19.6	13.9	10.1	5.2	4.9	4.5	6.6
(6.9)	(4.6)	(4.0)	(3.5)	(2.9)	(2.5)	(2.1)	(1.1)	(1.2)	(1.1)	(2.1)
45.9	33.6	24.2	19.7	16.7	11.4	8.0	4.1	3.7	3.4	4.5

2000 €'m	1999 €'m	1998 €'m	1997 €'m	1996 €'m	1995 €'m	1994 €'m	1993 €'m	1992 €'m	1991 €'m	1990 €'m
51.7	31.7	9.8	-	-	-	-	-	-	-	-
209.6	175.9	140.7	61.8	48.5	43.2	40.1	35.9	33.0	33.7	30.6
18.9	19.0	0.2	12.5	0.1	-	1.2	3.4	1.0	1.9	1.3
106.5	76.2	60.2	29.4	21.4	21.5	18.2	17.9	18.4	18.6	18.7
(16.1)	(14.1)	(12.4)	(1.2)	(1.1)	(1.1)	(1.1)	(1.1)	(1.0)	(1.0)	(1.0)
370.6	288.7	198.5	102.5	68.9	63.6	58.4	56.1	51.4	53.2	49.6
216.5	181.3	139.8	78.6	70.6	57.7	49.9	45.7	42.2	40.7	38.7
154.1	107.4	58.7	23.9	(1.7)	5.9	8.5	10.4	9.2	12.5	10.9
370.6	288.7	198.5	102.5	68.9	63.6	58.4	56.1	51.4	53.2	49.6
56.6	63.6	53.4	29.7	8.0	1.4	5.8	2.7	-	1.2	7.8
43.2	29.5	20.6	14.6	7.6	7.7	5.7	5.2	2.4	5.9	7.8
99.8	93.1	74.0	44.3	15.6	9.1	11.5	7.9	2.4	7.1	15.6
16.5	12.6	7.2	5.4	4.2	3.6	3.0	2.6	2.1	2.1	1.4

2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
25.9	19.5	14.2	11.6	9.0	6.5	4.8	2.5	2.2	2.0	2.7
6.1	4.5	3.3	2.7	2.1	1.5	1.0	0.9	0.8	0.7	0.7
36.2	27.5	19.4	15.7	12.2	9.0	7.0	4.3	3.7	3.5	3.8
124.3	104.9	84.9	48.8	44.2	36.6	31.7	29.3	27.0	26.2	24.9
6.9	7.2	8.3	12.9	20.2	17.1	12.4	9.9	5.5	5.0	12.1
4.3	4.3	4.3	4.3	4.3	4.3	4.7	2.9	2.9	2.7	3.8
71%	59%	42%	30%	-	10%	17%	23%	22%	31%	28%

Report of the Directors

The Directors present their report to the shareholders together with the audited financial statements for the year ended 31 December 2010.

Group Results

Group revenue of €2.00 billion was one per cent higher than Group revenue of €1.98 billion in 2009. Group profit before taxation amounted to €25.6 million compared with €13.6 million in the previous year, an increase of 88 per cent. A taxation credit of €38.4 million in 2010 increased profit after tax to €64.0 million compared to €13.4 million in 2009. Basic earnings per share amounted to 27.7 cent compared with 5.8 cent in the previous year. Adjusted earnings per share (before intangible amortisation, impairment, restructuring costs, taxation credit in 2010 and investment profit in 2009) increased to 18.5 cent from 5.4 cent in 2009. Dividends paid on Grafton Units in the year amounted to €11.6 million.

The Group and Company Financial Statements for the year ended 31 December 2010 are set out in detail on pages 42 to 121.

Dividends

A second interim dividend of 4.5 cent was approved on the 'C' Ordinary shares in Grafton Group (UK) plc from UK sourced profit to all holders of Grafton Units on the Company's Register of Members at the close of business on 11 March 2011 (the 'Record Date'). The cash consideration will be paid on 1 April 2011. The first interim dividend in the amount of 2.5 cent was paid on 8 October 2010 on the 'C' Ordinary shares in Grafton Group (UK) plc from UK sourced profit.

Review of the Business

Shareholders are referred to the Chairman's Statement and Group Finance Review which contain a review of operations and the financial performance of the Group for 2010, the outlook for 2011 and the key performance measures used to assess the performance of the Group.

Principal Risks and Uncertainties

The Group is required under Irish Company Law to give a description of the principal risks and uncertainties that it faces. The principal risks and uncertainties are set out below:

- Trading in the Group's businesses is affected by economic conditions in the UK and Ireland where earnings are generated.
- Contraction in economic growth in the UK and Ireland could result in lower demand in the Group's businesses, and lower earnings.
- Demand in the UK and Irish builders merchanting markets and in the Irish DIY and UK mortar markets are sensitive to economic conditions generally including consumer confidence, interest rates, employment trends, inflation, demographic factors and housing market conditions. More difficult market conditions would reduce demand in the Group's markets resulting in lower volumes and could result in a material change in the financial performance of the Group.
- Tighter credit markets have an impact on the wider economy and housing markets in the UK and Ireland and could lead to a fall in demand in the Group's merchanting, DIY and mortar businesses.
- Adverse weather conditions in the UK and Ireland can lead to a fall in demand in the Merchanting, DIY and Mortar markets.
- The availability and cost of debt finance can influence Group profit and the Group's ability to participate in development opportunities.

Report of the Directors

- Sterling weakness could lead to lower reported Group earnings on translation of the results of the UK business into euro at the average rate of exchange for the year.
- The Group faces strong ongoing competition in its merchanting, DIY and manufacturing businesses.
- The principal financial risks faced by the Group relate to liquidity and funding, credit risks connected to collection of trade debtors, increased sterling and euro interest rates and an adverse movement in the sterling exchange rate relative to the euro.

Cautionary Statement

The Chairman's Statement and Group Finance Review contain forward-looking statements. These statements have been made on behalf of the Board in good faith based on the information available to them up to 2 March 2011, the date the Financial Statements were approved by the Board. Due to the inherent uncertainties including both economic and business risk factors underlying such forward-looking information, the actual results of operations, financial position and liquidity of the Group may differ materially from those expressed or implied by these forward-looking statements. The Directors and the Board undertake no obligation to update any forward-looking statements contained in this Annual Report, whether as a result of new information, future events, or otherwise.

Board of Directors

Mr. R. W. Jewson has served on the Board for more than nine years and, in accordance with Board Policy, he will resign and, being eligible, offer himself for re-election. Further details on the election and re-election of Directors are set out in the Directors' Statement on Corporate Governance on page 24.

Mr. A. E. Collins retired from the Board at the conclusion of the Annual General Meeting of the Company on 6 May 2010. Mr. R. Ryan was appointed as Senior Independent Director to succeed Mr. Collins. Mr. F. Malone retired from the Board on 30 September 2010. Ms. G. Bowler will retire from the Board at the conclusion of the Annual General Meeting on 4 May 2011. Mr. G. Slark, Group Chief Executive Designate, will be appointed to the Board on 1 April 2011 and, in accordance with the Articles of Association, holds office until the Annual General Meeting and, being eligible, offers himself for election.

Share Capital

At 31 December 2010, a Grafton Unit comprised one ordinary share of 5 cent and seventeen 'A' ordinary shares of 0.001 cent each in Grafton Group plc and one 'C' ordinary Share of Stg0.0001p in Grafton Group (UK) plc. The composition of the Company's share capital including a summary of the rights and obligations attaching to the three components of a Grafton Unit is set out in note 16 to the Group Financial Statements.

The Company has in place a number of employee share schemes, the details of which are set out in note 31 to the financial statements.

Disapplication of Pre-emption Rights

At each Annual General Meeting, the Directors seek power to allot shares for cash, otherwise than in accordance with statutory pre-emption rights, by way of rights issues up to the amount of the unissued share capital of the Company, or otherwise up to approximately 5 per cent of the nominal value of the issued share capital of the Company. Under the Articles of Association, shareholders are requested to renew this power at each year's Annual General Meeting.

Purchase of Own Shares

At the 2010 Annual General Meeting, shareholders gave the Company and/or any of its subsidiaries authority to make market purchases of up to ten per cent of the Company's own shares. Shareholders will be asked to renew this authority at the Annual General Meeting. Shareholders will also be asked to sanction the price range at which any treasury share may be re-issued other than on the Stock Exchange.

The minimum price which may be paid for shares purchased by the Company shall not be less than the nominal value of the shares and the maximum price will be 105 per cent of the average market price of such shares over the preceding five days. The Directors do not have any current intention of exercising the power to purchase the Company's own shares and will only do so if they consider it to be in the best interests of the Company and its shareholders.

The authorities which will be sought at the forthcoming AGM to disapply pre-emption rights and purchase Grafton Units will, if granted, expire on the earlier of the date of the Annual General Meeting in 2012 or 4 August 2012.

Directors Report on Remuneration

Resolution 4, to be proposed at the Annual General Meeting, deals with the Report on Directors' Remuneration which the Board has decided, in line with best practice, to present to shareholders as a non-binding resolution.

Notice Period for Extraordinary General Meetings

If adopted, Resolution 8, to be proposed at the Annual General Meeting, will maintain the existing authority in the Articles of Association which permits the Company to convene an extraordinary general meeting on 14 days' notice in writing where the purpose of the meeting is to consider an ordinary resolution. As a matter of policy, the 14 days' notice will only be utilised where the Directors believe that it is merited by the business of the meeting and the circumstances surrounding the business.

Grafton Group plc 2011 Long Term Incentive Plan

The Remuneration Committee is committed to developing and implementing remuneration policies which provide an appropriate motivational framework and which closely align the interest of the executive directors and key employees with the performance of the business and the interests of shareholders.

Resolution 9, to be proposed at the Annual General Meeting, will, if adopted, implement the Grafton Group plc 2011 Long Term Incentive Plan which is designed to incentivise executives and other senior employees in the Group and which is linked to long term performance.

Grafton Group (UK) plc 2011 Approved SAYE Plan

The Company currently operates the Grafton Group (UK) plc Savings Related Share Option Scheme. The existing Scheme will terminate on 2 May 2011 and the Remuneration Committee proposes to introduce the 2011 Approved SAYE Plan as a replacement to enable similar savings-related option grants under UK Revenue approved rules to be made to employees in the UK. Resolution 10 to be proposed at the Annual General Meeting will, if adopted, implement the Grafton Group (UK) plc 2011 Approved SAYE Plan.

Substantial Holdings

So far as the Company is aware, in addition to the Chairman, Mr. Michael Chadwick, whose holding of 19,656,921 Grafton Units represents 8.49 per cent of the Units in issue (excluding treasury shares), the following held shares representing 3 per cent or more of the Company's ordinary share capital (excluding treasury shares) at 2 March 2011:

Name	No. of units	%
Capital Research and Management Company*	22,903,000	9.89
Investec Asset Management Limited*	16,977,711	7.33
Sprucegrove Investment Management*	16,295,170	7.04
Invesco Limited*	11,594,077	5.01
State Street Global Advisors Ireland Limited *	8,301,396	3.59
FMR LLC (Fidelity International)*	7,800,017	3.37

*The Company has been advised that these units are not beneficially owned.

Apart from these holdings, the Company has not been notified at 2 March 2011 of any interest of 3 per cent or more in its ordinary share capital.

Directors' and Secretary's interests in the share capital of the Company are set out in the Report on Directors' Remuneration.

Accounting Records

The Directors are responsible for ensuring that proper books and accounting records are kept by the Company as required by Section 202 of the Companies Act, 1990. The Directors believe that they have complied with this requirement by providing adequate resources to maintain proper books and accounting records throughout the Group including the appointment of personnel with appropriate qualifications, experience and expertise. The books and accounting records of the Company are maintained at Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18.

Takeover Directive

The capital structure of the Company is detailed in note 16 to the Group Financial Statements. Details of employee share schemes are set out in note 31. In the event of a change of control, the conversion/exercise of share entitlements/options may be accelerated. The Group's banking facilities may require repayment in the event of a change of control. The Company's Articles of Association provide that the business of the Company shall be managed by the Directors, who may exercise all such powers of the Company subject to the Companies Acts and the Articles of Association. Details of the powers of the Directors in relation to the issuing or buying back by the Company of its shares are set out above.

Corporate Governance

As required by company law, the Directors have prepared a Corporate Governance Statement which is set out on pages 23 to 30 and which, for the purposes of Statutory Instrument 450/2009 European Communities (Directive 2006/46) Regulations 2009, forms part of this Directors' Report.

Subsidiaries

The Group's principal operating subsidiary undertakings are set out on page 120.

Auditor

In accordance with Section 160 (2) of the Companies Act, 1963, the Auditor, KPMG, Chartered Accountants are willing to continue in office.

Annual General Meeting

The Annual General Meeting of the Company will be held at the IMI Conference Centre, Sandyford Road, Dublin 16 on Wednesday 4 May 2011 at 10.30 am. Your attention is drawn to the circular enclosed with this report and available on the Company's website, www.graftonplc.com which sets out details of the matters to be considered at the Annual General Meeting.

On behalf of the Board

M. Chadwick
C. Ó Nualláin

Directors

2 March 2011

Corporate Social Responsibility

The Group recognises the importance of conducting its business in a socially responsible manner. This is demonstrated in the way it deals with its employees, customers, suppliers and the communities in which it does business. The Group considers that corporate social responsibility is an integral element of good business management and is committed to making a balanced consideration of economic, social and environmental issues in making business decisions.

The Environment

The Group aims to be a merchanting business of choice for the supply of environmental and sustainable products to customers. This should be achieved through the training and development of staff and by working with suppliers on the sourcing of environmentally efficient products.

Waste Management

As a leading supplier of building materials and associated products, the Group strives to reduce waste going to landfill by increasing levels of recycling. The Group's Irish businesses are members of Repak and the UK businesses are members of Biffpack. Baling machines to recycle paper and cardboard now operate throughout the Buildbase branch network. The merchanting business in the UK has appointed Greenstar Environmental Limited, a recycling-led waste management company, to partner it in delivering a sustainable waste strategy and to optimise waste disposal methods and reduce carbon footprint.

Carbon Reduction Commitment

As part of its commitment to environmental issues, the UK merchanting business is registered as a stakeholder in the UK government's Carbon Reduction Commitment and is working towards ISO 14064 Carbon Trust Standard. The Grafton Merchanting Environmental Focus Group is striving to reduce the UK merchanting business' carbon footprint and improve performance in other environmentally sensitive areas.

Buildbase has worked closely with its utility service providers to introduce AMRs (Automatic Meter Readers) at all branch locations. This has enabled the company to accurately monitor usage of both gas and electricity and set targets for branches to reduce energy consumption.

Sustainable Products

The Group recognises the increasing importance of supplying renewables and sustainable products. Product ranges designed to provide sustainable building solutions have been introduced in the UK businesses. These ranges include Solar Thermal and Solar PV, air source heat pumps, ground source heat pumps, biomass heating, rainwater harvesting and heat recovery ventilation systems. In Ireland, the Woodie's DIY business offers a range of environmentally friendly products including energy-saving lamps, solar garden lights and composters for recycling garden and household waste. Heiton Buckley branches stock a range of products designed to reduce the impact of climate change through better building including condensing boilers that reduce demand for fossil fuel, energy-saving insulation materials and controlled ventilation systems.

Buildbase and Jacksons have adopted the Timber Trades Federation 'Responsible Purchasing Policy'. This demonstrates that the business is committed to sourcing timber and timber products from legal and well-managed forests and supports the UK/EU global objective to stop illegal logging. Buildbase holds the internationally recognised environmental certificates for the PEFC (Programme for the Endorsement of Forest Certification) scheme. The Buildbase policy is to ensure that its natural timber products continue to be FSC/PEFC accredited. The entire operation is independently audited and completely transparent to guarantee that the timber is legally harvested and comes from a sustainable source.

Corporate Social Responsibility

The UK merchanting brands are ISO 14001 certified. Each trading branch has a Branch Environmental Champion who is responsible for monitoring and managing policies and procedures contained in the Environmental Manual.

The UK merchanting business published 'Go Green with Grafton', a brochure for trade customers which looks at aspects of sustainable development from legislation to product performance.

Health and Safety

The Group is committed to achieving the best practicable standard of health and safety for our employees, customers and visitors to its trading locations. It considers health and safety to be an important element in the overall management of the businesses. Group companies invest significant resources in health and safety management and actively work to identify and minimise health and safety risks. They aim to ensure that all reasonable precautions are taken to provide and maintain conditions for employees, customers and visitors alike which are safe and healthy, and in compliance with statutory requirements. Accidents are monitored so that corrective action may be taken where considered necessary and in order to reduce the number of incidents and the cost of claims from employees and customers.

Human Resources

The success of the Group is dependent on the contribution and commitment of its management and staff. The Group's decentralised culture, which is appropriately supported at Group level, gives management and staff the autonomy to use their expertise, skills and talents both for their own career development and for the success of the Group.

The Group and its businesses are committed to high standards of employment practice and is recognised as a good employer in both the UK and Ireland. The Group aims to reward management and staff fairly by reference to skills, performance, peers and local market conditions. The Group where appropriate provides incentives to management and staff through remuneration policies that promote commitment and reward achievement. It is Group policy that all employees receive fair and equal treatment regardless of gender, age, ethnic origin, nationality, religion or disability.

The Group is committed to offering equal opportunities to all individuals in their recruitment, training and career development having regard to their particular aptitudes and abilities. Training and development programmes are important to the business. Significant attention and resources are devoted to this area. Training programmes are organised internally by Group businesses and also in conjunction with external bodies, such as the Builders Merchant Federation in the UK. They cover a range of issues including sales development, customer service, product training, health and safety and leadership skills. These programmes help to ensure that the Group can develop, retain and attract the best individuals at all levels in the business. The Group aims to fill vacancies through internal promotions and to complement internal appointments with recruitment from outside of the organisation.

The Group has Revenue approved share schemes in place in the UK and Ireland that are intended to enable employees to share in the success and growth of the Group. The majority of employees in Ireland are members of the Group's Share Participation Scheme which enables them to tax efficiently acquire shares in the Group in any year in which the scheme is operated. The Group operates a Save As You Earn (SAYE) Scheme for UK employees, which enjoys a high level of support.

Corporate Social Responsibility

Community

The Group recognises its responsibility as a member of the communities where its branches/plants are located and where it does business. It is committed to developing links to those communities through local management supporting a range of initiatives covering health, welfare, sport, education and community projects. The Group also supports a range of charitable causes, mainly at local level, by giving donations.

Macmillan Cancer Support received £400,000 to date through fundraising by Buildbase branches. Selco Trade Centres raised more than £40,000 during 2010 for the National Society for the Prevention of Cruelty to Children (NSPCC). Woodie's DIY continued its sponsorship of the Athletic Association of Ireland track and field, cross country and indoor competitions.

Directors' Statement on Corporate Governance

Compliance with the Combined Code

The Board is committed to maintaining high standards of Corporate Governance. This statement describes how the Company applies the principles of Section 1 of the 2008 FRC Combined Code on Corporate Governance.

The Board

Composition

The Board of Directors was made up of seven members at 31 December 2010 comprising the Executive Chairman, two other executive Directors and four non-executive Directors. Mr. Roderick Ryan is Senior Independent Director. Directors' biographical details are set out on page 13. The Board believes that its Directors possess the relevant backgrounds and mix of skills, knowledge and experience required by the scale, geographic spread and complexity of the Group's operations.

Role of the Board and Division of Responsibilities

The Board routinely meets seven times a year and additionally as required by time critical business needs. There is also contact with the Board between meetings as required in order to progress the Group's business. The Board takes the major decisions while allowing management sufficient scope to run the business within a centralised reporting framework. The Board has a formal schedule of matters specifically reserved for its decision. The matters reserved by the Board for its decision cover all strategic decisions, acquisitions, major items of capital expenditure, financial statements, budgets and material matters currently or prospectively affecting the Group and its performance. The Board's responsibilities also include ensuring that appropriate management, development and succession plans are in place; reviewing the environmental and health and safety performance of the Group; approving the appointment of Directors and the Company Secretary; approving policies relating to Directors' remuneration and severance and ensuring that satisfactory dialogue takes place with shareholders. The Board also delegates some of its responsibilities to committees of the Board.

The holding of the combined roles of Chairman and Chief Executive by Mr. Michael Chadwick was balanced by the strong input of non-executive Directors and the Board's committee structure. It is Board policy that no individual or small group of individuals can dominate its decision making. The Senior Independent Director is available to shareholders where there are issues that cannot be addressed through normal channels.

The roles of Chairman and Chief Executive will be split with effect from 1 July 2011 following the appointment of Mr. Gavin Slark to succeed Mr. Chadwick in managing the Group. Mr. Slark will join the Group and the Board as Chief Executive Designate on 1 April 2011 and will be appointed Chief Executive on 1 July 2011. Mr. Slark will be responsible for day-to-day management of the Group and be accountable to the Board as Chief Executive for all authority delegated to executive management. The Chairman will be responsible for leading the Board and ensuring its effectiveness on all aspects of its role.

Information and Support

Directors have full and timely access to all relevant information in a form appropriate to enable them to discharge their duties. Reports and papers are circulated to Directors in preparation for Board and committee meetings. The non-executive Directors, together with the executive Directors, receive monthly management accounts, board reports on a range of matters and other information to enable them to review the performance of the Group on an ongoing basis.

All Directors have access to independent professional advice at the Group's expense where they consider that advice is necessary to enable them to discharge their responsibilities as Directors.

The Board periodically holds meetings at Group locations and meets senior management in order to help Directors gain a deeper understanding of the Group's operations and markets.

Directors' Statement on Corporate Governance

Company Secretary

The Directors have access to the advice and services of the Company Secretary who advises the Board through the Chairman on governance matters. The Company's Articles of Association and Schedule of Matters reserved for the Board for decision provide that the appointment or removal of the Company Secretary is a matter for the full Board.

Directors' Independence and Board Balance

It is Board policy that the Board should include a balance of executive and non-executive Directors.

Four non-executive Directors, Ms. Gillian Bowler, Mr. Charles M. Fisher, Mr. Richard W. Jewson and Mr. Roderick Ryan are considered by the Board to be independent in character and free from any business or other relationship which could materially interfere with the exercise of independent judgement. The Board has determined that each of the non-executive Directors fulfilled this requirement and is independent. In reaching that conclusion, the Board considered the principles relating to independence contained in the 2008 FRC Combined Code on Corporate Governance.

Mr. Jewson was appointed to the Board in 1995. The length of his service on the Board exceeds nine years and the 2008 FRC Combined Code provides that an explanation be made to shareholders concerning his continued independence. The Board considers that the integrity and independence of Mr. Jewson is beyond doubt. He is financially independent of the Company and has other significant commercial commitments. Mr. Jewson has extensive experience of the builders merchants industry and of other businesses, particularly in the United Kingdom. His experience and long-term perspective on the Group's business has been most valuable to the Board and has provided stability and continuity during a challenging period. It is Board policy that in any case where a non-executive Director has served on the Board for more than nine years he/she should retire annually and go forward for re-election. It is the Board's view that the independence of Mr. Jewson has not been compromised by virtue of his period in office exceeding nine years. It is also the Board's view that he continues to demonstrate independence and to make a very valuable contribution to the role of the Board and its Committees.

The Company's Articles of Association provide that one third of the Directors retire by rotation each year and that each Director seek re-election at the Annual General Meeting every three years. New Directors are subject to election by shareholders at the next Annual General Meeting following their appointment. It is Board Policy that non-executive Directors are normally appointed for an initial period of three years, which is then reviewed.

Ms. Bowler will retire from the Board at the conclusion of the Annual General Meeting on 4 May 2011. Mr. Jewson will retire from the Board and offers himself for re-election at the AGM in accordance with Board Policy. Mr. Gavin Slark will be appointed to the Board on 1 April 2011 and, in accordance with the Articles of Association and, being eligible, will offer himself for election. Mr. Charles M. Fisher and Mr. Roderick Ryan retire from the Board by rotation and, being eligible, offer themselves for re-election.

The Board is satisfied as to the independence of Mr. Jewson and recommends his re-election. The Board undertakes a formal annual evaluation of its Directors and is satisfied that Mr. Fisher and Mr. Ryan, who are proposed for re-election, continue to discharge their obligations as Directors and contribute very effectively to the work of the Board and its committees.

The overall composition and balance of the Board is kept under review as described below in the programme of work undertaken by the Nomination Committee.

The Board will continue to manage the orderly succession of non-executive Directors without compromising the effectiveness and continuity of the Board and its committees.

Directors' Statement on Corporate Governance

Induction and Training

It is the policy of the Board that formal induction is offered to all Directors appointed to the Board. This includes on-site visits and meetings with Senior Management in the Group's businesses and briefings from executive Directors and the Company Secretary. Induction covers matters such as the operations of the Group, the role of the Board and matters reserved for its decision, powers delegated to Board committees, corporate governance policies and recent financial information about the performance of the Group. Directors are advised on appointment of their legal and other duties and of their obligations as Directors of a listed company.

Evaluation of Board

The Board has put in place procedures which involve the conduct of an annual evaluation process to periodically assess its performance, the performance of Board Committees and the performance of individual Directors. This process also seeks to identify areas in which the effectiveness of the Board may be improved. Evaluation of the Board is achieved through annual discussion between each Director and the Senior Independent Director. The Senior Independent Director met with each Director separately for in-depth discussions about the Board's role and structure using a detailed questionnaire that covered the composition and role of the Board and Board Committees and their effectiveness. The results of the evaluation process were presented to the Board for consideration of issues identified.

Succession Planning

The Board plans for succession with the assistance of the Nomination Committee. The Board believes that it is necessary to have appropriate executive Director and non-executive Director representation to provide Board balance and also to provide the Board with the breadth of experience required by the scale, geographic spread and complexity of the Group's operations.

Communication with Shareholders

The Company recognises the importance of communication with shareholders. Presentations are made to both existing and prospective institutional shareholders principally after the release of half-yearly and annual results. Interim Management Statements are issued in compliance with the EU Transparency (Directive 2004/109/EC) Regulations 2007 and the Group issued trading updates in January and July. Analysts' conference calls are held following the issue of the half-yearly and annual results. Any significant or noteworthy acquisitions are notified to the market and the Company's website www.graftonplc.com provides the full text of the half-yearly and annual results, investor presentations and all Stock Exchange and other announcements. The Chairman and Finance Director give feedback to the Board on issues raised by investors during the course of presentations following the half-yearly and annual results and Analysts' reports on the Group are circulated to all Directors. Non-executive Directors are offered an opportunity to attend meetings with major shareholders. The Senior Independent Director is available to meet with shareholders if they have concerns which have not been resolved through the normal channels of Chairman or Finance Director or where such contacts are not appropriate.

General Meetings

The Company's Annual General Meeting (AGM), which is held in Ireland, affords individual shareholders the opportunity to question the Chairman and the Board. The Notice of the AGM, which specifies the time, date, place and the business to be transacted, is sent to shareholders at least 20 working days before the meeting. The AGM is normally attended by all Directors. At the meeting, resolutions are voted on by either a show of hands of those shareholders attending, in person or by proxy, or, if validly requested, by way of a poll. In a poll, the votes of shareholders present and voting at the meeting are added to the proxy votes received in advance and the total number of votes for, against and withheld for each resolution are announced. This information is made available on the Company's website following the meeting.

All other general meetings are called Extraordinary General Meetings (EGMs). An EGM called for the passing of a special resolution must be called by at least 21 clear days' notice. Provided shareholders have passed a special resolution at the immediately preceding AGM and the Company allows shareholders to vote by electronic means, an EGM to consider an ordinary resolution may, if the Directors deem it appropriate, be called at 14 clear days' notice.

A quorum for a general meeting of the Company is constituted by four or more shareholders present in person and entitled to vote. The passing of resolutions at a meeting of the Company, other than special resolutions, requires a simple majority. To be passed, a special resolution requires a majority of at least 75 per cent of the votes cast.

Shareholders have the right to attend, speak, ask questions and vote at general meetings. In accordance with Irish company law, the Company specifies record dates for general meetings, by which date shareholders must be registered in the Register of Members of the Company to be entitled to attend. Record dates are specified in the Notice of a general meeting. Shareholders may exercise their right to vote by appointing a proxy/proxies, by electronic means or in writing, to vote some or all of their shares. The requirements for the receipt of valid proxy forms are set out in the Notice convening the meeting. A shareholder, or a group of shareholders, holding at least 5 per cent of the issued share capital of the Company, has the right to requisition a general meeting.
A shareholder, or a group of shareholders, holding at least 3 per cent of the issued share capital of the Company, has the right to put an item on the agenda of an AGM or to table a draft resolution for inclusion in the agenda of a general meeting, subject to any contrary provision in Irish company law.

Memorandum and Articles of Association

The Company's Memorandum and Articles of Association set out the objects and purposes of the Company. The Articles detail the rights attaching to each share class; the method by which the Company's shares can be purchased or re-issued; the provisions which apply to the holding of and voting at general meetings; and the rules relating to the Directors, including their appointment, retirement, re-election, duties and powers.

A copy of the Memorandum and Articles of Association can be obtained from the Group's website, www.graftonplc.com.

Board Committees

The number of Board meetings and committee meetings held during the year and attended by each Director was as follows:

	Board		Audit Committee		Finance Committee		Remuneration Committee		Nomination Committee	
Number of Meetings	A	B	A	B	A	B	A	B	A	B
M. Chadwick	7	7	-	-	14	14	-	-	5	5
C. Ó Nualláin*	7	6	-	-	14	14	-	-	-	-
L. J. Martin	7	7	-	-	14	14	-	-	-	-
G. Bowler	7	7	5	4	-	-	4	3	5	3
R. W. Jewson	7	6	5	5	-	-	4	2	5	5
R. Ryan	7	7	5	5	-	-	4	4	5	5
C. M. Fisher	7	7	-	-	-	-	3	3	5	5

Column A – refers to the number of meetings held during the period the Director was a member of the Board and/or Committee
Column B – refers to the number of meetings attended during the period the Director was a member of the Board and/or Committee
*Mr. Ó Nualláin was in attendance at Audit Committee meetings by invitation

The Board is assisted by committees of Board members which focus on specific aspects of its responsibilities. The terms of reference of the Audit Committee, Remuneration Committee and Nomination Committee were approved by the Board and comply with the 2008 FRC Combined Code on Corporate Governance and are available from the Company and can also be found on the Group's website at www.graftonplc.com. Membership of the various committees is shown on page 13. The Company Secretary is secretary of the Audit, Remuneration and Nomination Committees.

Audit Committee

During the year, the Audit Committee comprised Mr. Richard W. Jewson, who chairs the Committee, Ms. Gillian Bowler, who retires from the Board and the Committee at the conclusion of the Annual General Meeting on 4 May 2011, and Mr. Roderick Ryan. Mr. Anthony E. Collins retired from the Board and the Audit Committee at the conclusion of the Annual General Meeting on 6 May 2010. All members of the Committee are determined by the Board to be independent non-executive Directors. The Audit Committee met five times during the year.

The Board believes that Mr. Richard W. Jewson brings to the Committee recent and relevant financial experience. It will be seen from the Directors' biographical details appearing on page 13 that members of the Committee bring a wide range of financial, taxation, commercial and business experience to the Committee.

Under its terms of reference, the Audit Committee monitors the integrity of the Group's financial statements and announcements relating to the Group's performance. The Committee is responsible for monitoring the effectiveness of the external audit process and making recommendations to the Board in relation to the appointment, reappointment and remuneration of the external auditor. It is responsible for ensuring that an appropriate relationship between the Group and the external auditor is maintained, including reviewing non-audit services and fees. A new Group Audit Partner is appointed every five years and senior audit staff are periodically rotated. Non-audit tax services were provided by KPMG during 2010. The Committee is satisfied that the provision of these services by KPMG did not conflict with its independence as auditor.

The Committee reviews the Group's systems of internal control and the processes in place for monitoring and evaluating the risks facing the Group.

The Committee is satisfied that its role and authority include those matters envisaged by the 2008 FRC Combined Code to fall within its jurisdiction and the Board has delegated authority to the Committee to address those tasks for which it has responsibility. The Chairman of the Committee reports to the Board on the work of the Audit Committee and on its findings and recommendations.

The KPMG Audit Partner and the Finance Director normally attend Audit Committee meetings. The KPMG Tax Partners attend meetings at the request of the Committee. The Committee also meets in private session and with the external auditor without executive management present. The Committee's terms of reference are available from the Company and are displayed on the Group's website www.graftonplc.com.

In 2010, the Audit Committee discharged its responsibilities by:

- Reviewing and monitoring the integrity of the Group's draft financial statements and draft half-yearly results before recommending their approval to the Board. The Committee reviewed and discussed with the Finance Director and KPMG any significant accounting policies, estimates and judgements that had been applied in preparing these reports and received their views in relation to these matters;
- Reviewing the effectiveness of the Group's internal financial controls;
- Reviewing the Group's trading updates prior to release;

- The Committee received reports prepared by the Head of Internal Audit which summarised the findings of internal audit reports prepared by the Group Internal Audit function. These reports covered the work undertaken, findings, actions recommended and the response of executive management of the Group's businesses to recommendations made. The Committee considered and approved the programme of work to be undertaken by the Group internal audit function in 2011. The Committee met with the Head of Internal Audit on two occasions during the year, and also without Executive management present;
- Reviewing the External Auditor's plan for the 2010 audit of the Group. This included an assessment of the scope of the audit work and key areas of risk;
- Monitoring and reviewing the independence, objectivity and effectiveness of the external auditors;
- Reviewing the Management Letter points on internal controls in the Group's individual businesses prepared by KPMG as part of the audit process;
- Reviewing risks associated with the business;
- The Committee continued to monitor compliance with the Group's Whistleblowing Policy ensuring that appropriate arrangements were maintained for employees to raise matters of possible impropriety in confidence with suitable follow up action.

Remuneration Committee

The Committee comprises Mr. Charles Fisher, who chairs the Committee, Ms. Gillian Bowler, who retires from the Board and the Committee at the conclusion of the Annual General Meeting on 4 May 2011, Mr. Roderick Ryan and Mr. Richard W. Jewson all of whom are non-executive directors that are determined by the Board to be independent. Mr. Anthony E. Collins retired from the Board and the Committee at the conclusion of the Annual General Meeting on 6 May 2010. The Committee met four times during the year. The Committee's responsibilities include making recommendations on the terms of engagement and remuneration of the executive Directors. The terms of reference of the Committee are available from the Company and can also be found on the Group's website at www.graftonplc.com. The Chairman of the Remuneration Committee is available at the Annual General Meeting to respond to shareholder questions concerning the Committee's activities. The Committee receives independent advice concerning matters within its remit when considered necessary.

The Committee's principal responsibilities are:

- Setting, reviewing and recommending to the Board for approval the Group's overall remuneration policy and strategy;
- Setting, reviewing and approving individual remuneration packages including salary, performance related pay, pension allowance and other benefits for the Chairman, Chief Executive, executive Directors and the Company Secretary including terms and conditions of employment and any changes to their packages.
- Reviewing the salary structure and terms, conditions and benefits of employment of any other members of the executive management it is designated to consider;
- Approving the rules of any Group share, share option or other share incentive scheme and approving the grant, award, allocation or issue of shares, share options or other benefits conferred by such schemes;

The Report on Directors' Remuneration incorporates details of the programme of work undertaken by the Committee during 2010.

Directors' Statement on Corporate Governance

Nomination Committee

The Nomination Committee comprises Mr. Roderick Ryan, Chairman of the Committee, Ms. Gillian Bowler, who retires from the Board and the Committee at the conclusion of the Annual General Meeting on 4 May 2011, Mr. Michael Chadwick, Mr. Charles M. Fisher, and Mr. Richard W. Jewson. Mr. Anthony E. Collins retired from the Board and the Committee at the conclusion of the Annual General Meeting on 6 May 2010. The Board is actively engaged in orderly succession planning and is assisted in this function by the Nomination Committee. The Committee keeps the composition, skills and diversity of the Board under review to ensure that it has the range of skills required for the Board to meet the demands of the business and fulfil its obligations to shareholders. The Nomination Committee met five times during the year to consider the appointment of a CEO, Board membership and additional skills which might benefit the Board's performance. The Committee identified, and recommended to the Board, the appointment of Mr. Gavin Slark as Group Chief Executive. The Committee also identified and recommended the appointment of Ms. Annette Flynn as a non-executive director. External search consultants were engaged to identify suitable candidates for both appointments. Committee members were also aware, from their own research and enquiries, of candidates with the appropriate skills and experience. The Committee also considered succession planning generally at Executive Director level.

The Nomination Committee's terms of reference are available from the Company and can also be found on the Group's website at www.graftonplc.com.

Finance Committee

The Finance Committee comprises Mr. Michael Chadwick, Executive Chairman, Mr. Colm Ó Nualláin, Finance Director, Mr. Leo J. Martin, Chief Operating Officer and Mr. Charles Rinn, Secretary and Group Financial Controller. The Committee deals with acquisition opportunities up to Board approval stage, capital expenditure under the limit reserved for the Board, and Group management and finance issues.

Internal Control

The Directors acknowledge that they have overall responsibility for the Group's system of internal control and for reviewing its effectiveness. The Directors recognise that such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

A process for identifying, evaluating and managing significant risks faced by the Group, in accordance with the Guidance for Directors on the 2008 FRC Combined Code, has been in place throughout the accounting period and up to the date the financial statements were approved.

Group management is responsible for implementing strategy and for the continued development of the Group's businesses within parameters set down by the Board. Similarly, day to day management of the Group's businesses is devolved to operational management within clearly defined authority limits and subject to very tight reporting of financial performance. Group and operating company management are responsible for internal control including the identification and evaluation of significant risks and for implementation of appropriate internal controls to manage such risks. Group management report to the Board on key risks and internal control issues including the way in which these issues are managed.

Directors' Statement on Corporate Governance

The preparation and issue of financial reports, including the consolidated annual accounts is managed by Group Finance with oversight from the Audit Committee. The Group's financial reporting process is controlled using documented accounting policies and reporting formats issued by Group Finance to all reporting entities (including subsidiaries) within the Group in advance of each reporting period end. Group Finance supports all reporting entities with guidance in the preparation of financial information. The process is supported by a network of finance professionals throughout the Group, who have responsibility and accountability to provide information in keeping with agreed policies, including the completion of reconciliations of financial information to processing systems. The financial information for each entity is reviewed by Group senior management.

The key features of the Group's system of internal control include:

- A clear focus on implementing the Group's strategy.
- Defined structures and authority limits for the operational and financial management of the Group and its businesses.
- A comprehensive system of reporting on trading, operational issues and financial performance incorporating results and cash flows, working capital management, return on capital employed and other relevant measures of performance.
- Board approval of major capital expenditure proposals and all acquisition proposals.

The internal audit function focuses on areas of greatest risk to the Group, monitors compliance and considers the effectiveness of internal control throughout the Group. The Audit Committee reviews KPMG Management Letter points and Internal Audit Reports and also meets with the KPMG Audit Partner and Head of Internal Audit in order to satisfy itself on the adequacy of the Group's internal control system. The Chairman of the Audit Committee reports to the Board on all significant matters considered by the Committee.

In the Board's view, the ongoing information it received was sufficient to enable it to review the effectiveness of the Company's system of internal control.

The Directors confirm that they have reviewed the effectiveness of internal control. In particular, they have during the year considered the significant risks affecting the business and the way in which these risks are managed, controlled and monitored.

Going Concern

The Directors, having made enquiries, believe that the Company and the Group as a whole has adequate resources to continue in operational existence for the foreseeable future and, for this reason, they continue to adopt the going concern basis in preparing the financial statements.

Compliance Statement

The Company applied the principles set out in Section 1 of the 2008 FRC Combined Code on Corporate Governance and has complied with its provisions except that the roles of Chairman and Chief Executive were held by the same individual and the period of service of two non-executive directors exceeded nine years. There will be clear division of responsibilities between the Chairman and Chief Executive with effect from 1 July 2011. The period of service of Ms. G. Bowler exceeds nine years and she will retire as a non-executive director at the conclusion of the Annual General Meeting on 4 May 2011. At the date of this report, the Board was at an advanced stage in the appointment of a new non-executive Director as part of the process of board refreshment and renewal.

Report on Directors' Remuneration

Remuneration Committee

The principal responsibilities of the Committee are:

- Setting and reviewing the Group's overall remuneration policy for approval by the Board.
- Setting, reviewing and approving individual remuneration arrangements for the Chairman, Chief Executive, executive Directors and Company Secretary including terms and conditions of employment and all changes to their packages.
- Developing performance conditions for the award of performance related pay and assessing the level of achievement against targets.
- Developing and making recommendations to the Board concerning the introduction of new share incentive plans that require shareholder approval.

The Remuneration Committee consists of non-executive directors all of whom are independent with no personal financial interest, other than as shareholders, in the decisions of the Committee.

Mr. Charles M. Fisher was appointed to the Committee, and as its Chairman with effect from 22 June 2010. The other members of the Committee are Mr. Roderick Ryan, Mr. Richard W. Jewson and Ms. Gillian Bowler who retires from the Board and the Committee at the conclusion of the Annual General Meeting on 4 May 2011. The Executive Chairman attended meetings of the Committee during 2010 by invitation. The Committee is accountable to shareholders through its annual report on Directors Remuneration. The Committee met four times during the year.

During 2010, the Committee with the assistance of Hewett New Bridge Street carried out a comprehensive review of the remuneration packages of Executive Directors and the Company Secretary. The review covered all components of remuneration, fixed and variable, short and long term. The Committee concluded from the review that overall remuneration packages were appropriate subject to some rebalancing, over the medium term, between the fixed and variable components.

During the year the Committee considered the Guidelines on remuneration issued by bodies representing institutional shareholders and feedback from shareholders on the Group's remuneration policies and practices. The Committee also reviewed its terms of reference and its own effectiveness.

Salary

The Committee decided not to award any salary increases to Executive Directors for 2010 having taken account of both external market and internal Group considerations. This was the third consecutive year that the Committee decided not to increase directors' salaries. This reflected the difficult conditions in the Group's markets over this period and the focus on cost control.

Performance Related Pay

No performance related pay was awarded for 2009. The performance related pay award for 2010 was made against the background of a return to profit growth, and based on the delivery of improved outcomes over a number of performance measures including profit before tax, profit after tax, an improvement in the UK operating profit margin, returning the Irish merchanting business to profitability, strong cash flow from operating activities and a reduction in the cost base of the Group. The performance of executive directors was also assessed in the context of their specific areas of responsibility.

Mr. Michael Chadwick, Executive Chairman, indicated to the Committee that he wished to waive any performance related pay award for 2010 and the Committee therefore made no determination concerning his performance related pay award for the year. The performance related pay awards for the Finance Director and the Chief Operating Officer are shown in this report in the table of Directors Remuneration on page 35.

Report on Directors' Remuneration

The Committee has set 2011 performance related pay targets for executive directors but excluding the new Chief Executive who joins the Group on 1 April 2011 as CEO Designate and who will be appointed CEO on 1 July 2011. These targets are designed to incentivise the achievement of a strong improvement in key performance measures. The overall approach of the Committee reflected an adjustment of performance related pay levels as part of its objective of rebalancing the components of remuneration, over the medium term, between fixed and variable pay.

The maximum performance related pay potential for executive directors is set at 80 per cent of base salary. The performance targets for 2011 are based on return on capital employed, cash flow, adjusted earnings per share and personal objectives with equal weighting given to each measure.

Pension

In 2008, the Executive Chairman, Finance Director and Chief Operating Officer ceased to participate in defined benefit pension scheme arrangements. Since then an allowance is payable to each director in lieu of pension benefit unless otherwise waived. The amount of the allowance payable was based on the advice of an independent actuary. The allowance ceases to be payable on the earlier of a director leaving the service of the company or on reaching 60 years of age, the normal retirement age for Executive Directors. Mr. Chadwick, Executive Chairman, waived his entitlement to an annual pension allowance of €307,000 for 2010 and also for 2009.

Long Term Incentive Plan (LTIP)

The Group's long term incentive share scheme expired in April 2009. Consequently, no long term incentive awards were made during 2010. It is proposed to seek shareholder approval at the forthcoming Annual General Meeting (AGM) for the introduction of a new Long Term Incentive Plan (LTIP).

The 2011 LTIP is a long-term incentive plan which permits the grant of awards that will entitle participants to receive free shares subject to the achievement of long term performance conditions which are chosen so as to be aligned to the interests of shareholders. The 2011 LTIP is available for executive directors and senior executives of any participating company who are individually nominated to participate in the plan by the Remuneration Committee.

The aggregate value of awards which may be granted to an individual in any financial year is limited to a maximum of 150 per cent of the annual rate of the individual's base salary. This may be increased to 200 per cent of base salary in exceptional circumstances, such as where the Remuneration Committee determines that it is necessary for the recruitment or retention of key employees. It is the intention of the Remuneration Committee that awards granted to any individual under the 2011 LTIP in the current financial year will not exceed 100 per cent of the annual rate of an individual's base salary.

The 2011 LTIP will provide for the issue of awards which vest subject to the achievement of one or more minimum performance objectives measured over three financial years. These performance objectives will consist of such performance conditions ("Performance Conditions") as are selected by the Remuneration Committee.

In the case of awards that will be issued in the 42 days after the adoption of the 2011 LTIP to the Company's executive directors and Persons Discharging Managerial Responsibility (PDMRs), the Performance Conditions will be dependent on the growth in the Company's EPS (earnings per share) and the Company's TSR (total shareholder return) performance (the "EPS Performance Condition" and the "TSR Performance Condition", respectively). The vesting of 50 per cent of the shares which are the subject of awards granted to the Company's executive directors and PDMRs will be subject to the EPS Performance Condition and the remaining 50 per cent will be subject to the TSR Performance Condition. EPS will be the adjusted earnings per share figure shown in the Company's annual report. TSR represents the change in share price of a listed/quoted company over a period, plus dividends, expressed as a plus or minus percentage of the opening value. For this reason, both EPS and TSR are accepted as a good measure of how well shareholders are doing in terms of the value of their investment in the Company when taking into account the Company's share price, any dividends paid out and Company performance.

Under the EPS Performance Condition for awards granted in the 42 days after the adoption of the 2011 LTIP, the Company's EPS for the financial year ending 31 December 2013 must be equal to 37 cents per share if the award is to vest. If this target is achieved, then 25 per cent of the shares which are subject to the EPS Performance Condition shall vest. Where the Company's EPS for the financial year ending 31 December 2013 is equal to or greater than 45 cents per share, then 100 per cent of the shares which are subject to the EPS Performance Condition shall vest. Where the Company's EPS for the financial year ending 31 December 2013 is between the thresholds of 37 cents and 45 cents per share, then between 25 per cent and 100 per cent of the shares which are subject to the EPS Performance Condition shall vest on a straight-line basis.

Under the TSR Performance Condition for awards to be granted initially to the Company's executive directors and PDMRs, the Company's TSR performance will be compared against the TSR performance of a peer group of UK and Irish companies.

The benefit which an executive director or a PDMR can receive under the 2011 LTIP will depend on how well the Company's TSR performance compares against this peer group over the three year performance period commencing on 1 January 2011. Where the Company's TSR performance equals the median TSR performance of the peer group, then 25 per cent of the shares which are subject to the TSR Performance Condition shall vest. 100 per cent of the shares which are subject to the TSR Performance Condition shall vest if the Company's TSR performance is equal to or greater than the 75th percentile in the peer group. For TSR performance between the 50th and the 75th percentiles, between 25 per cent and 100 per cent of the shares which are subject to the TSR Performance Condition shall vest on a straight-line basis based on the Company's notional ranking compared against the Comparator Group.

The Committee will have authority to set appropriate criteria for each subsequent award. The Committee believes that the new share scheme should align management and shareholder interests and assist the Group in the recruitment and retention of senior executives.

The Committee was advised on the introduction of the new share scheme by Hewitt New Bridge Street, remuneration consultants and Arthur Cox, Solicitors.

A summary of the principal features of the new scheme is included in the Notice of Annual General Meeting circular sent to all shareholders.

Share Schemes

Up to April 2009 key executives could acquire shares in the Group so as to provide an incentive to perform strongly over an extended period and to align their interests with those of shareholders. Under the terms of the 1999 Grafton Group Share Scheme, two types of shares were available subject to the conditions set out below:

(i) Basic shares which cannot be converted before the expiration of five years, unless the Remuneration Committee agrees to a shorter period which shall not be less than three years, and may be converted any time after that to the end of their contractual life provided the Company's earnings per share has grown at not less than the rate of growth in the Consumer Price Index plus 5 per cent compounded during that period.

(ii) Second tier shares which cannot be converted before the expiration of five years and at any time thereafter up to the end of their contractual life, only if over a period of at least five years, the growth in the Group's earnings per share would place it in the top 25 per cent of the companies listed on the Irish Stock Exchange Index over the same period and also provided that such shares shall be acquired only if the Company's earnings per share growth over the relevant period is greater, by not less than 10 per cent on an annualised basis, than the increase in the Consumer Price Index over that period.

The share scheme has a ten year life for the award of entitlements and this period has now expired. The percentage of share capital which may be issued under the scheme and individual grant limits comply with Institutional Guidelines. Basic shares granted after 8 May 2008 cannot be converted before the expiration of three years.

Report on Directors' Remuneration

Share Participation Scheme

The Grafton Group Employee Share Participation Scheme is open to all Irish based employees who have at least eighteen months continuous service and executive Directors are entitled to participate in the scheme on the same basis as all other employees. No entitlements were granted in 2010 under the scheme.

Service Contracts

Mr. Leo Martin was due to retire in August 2011 on reaching the age of 60 but has agreed to extend his service contract until December 2011.

The Committee developed and approved all remuneration elements of the service contract with Mr. Gavin Slark, which was executed on 1 February 2011.

No executive Director has a service contract with a period of notice of more than one year.

Non-Executive Director Remuneration

On the recommendation of the Chairman, the Board sets the level of remuneration of all non-executive directors within a limit approved from time to time by shareholders. The level of fees paid to non-executive directors seeks to recognise the time commitment, responsibility and skills required to contribute to the effectiveness of the Board. Non-executive directors are appointed under letters of engagement and appointment is normally for an initial period of three years. Invitations to act for subsequent three-year terms are subject to review of performance and balancing the need to refresh the Board but without compromising its effectiveness and continuity.

Share Ownership

Executive Directors have historically been significant holders of shares in the Group. The Committee has now formalised a policy on share ownership that requires Executive Directors to hold shares in the Group equivalent to at least 100 per cent of their base salary. Directors are required to apply 30 per cent of their annual bonus after statutory deductions for the purchase of shares until this share ownership requirement is fulfilled. The value of shares in the Group owned by Executive Directors individually at 31 December 2010 was greater than one hundred per cent of base salary. The shareholdings of directors are shown on page 36 of this report.

Annual General Meeting

Resolution 4 to be proposed at the Annual General Meeting deals with the Report on Directors' Remuneration which the Board has decided, in line with best practice, to present to shareholders for approval.

Report on Directors' Remuneration

Directors' Remuneration and Retirement Benefits

The following table presents the remuneration of the Directors in accordance with the Irish Stock Exchange Listing Rules.

	Basic salary 2010 (i) €'000	Performance related pay 2010 (ii) €'000	Pension allowance 2010 (iii) €'000	Other benefits 2010 €'000	Total 2010 €'000	Total 2009 (iii) €'000
Remuneration for 2010						
Executive Directors						
M. Chadwick	635	-	-	30	**665**	661
C.Ó Nualláin	500	300	337	22	**1,159**	856
L. J. Martin	490	100	294	45	**929**	825
J.F. Malone (iv)	187	-	-	13	**200**	265
	1,812	400	631	110	**2,953**	2,607

	Fees 2010 €'000	Total 2010 €'000	Total 2009 €'000
Non-Executive Directors			
A.E. Collins (iv)	25	**25**	70
G. Bowler	70	**70**	70
R.W. Jewson	70	**70**	70
R. Ryan	70	**70**	70
C.M. Fisher	70	**70**	47
P.S. Wood	-	**-**	23
	305	**305**	350

	Total 2010 €'000	Total 2009 €'000
Sub-total	**3,258**	2,957
Share-based payments charge/(credit)	**54**	(172)
Total Directors' Remuneration	**3,312**	2,785

(i) No basic salary increases have been granted to Directors since 1 July 2007.

(ii) Mr. M. Chadwick indicated to the Remuneration Committee that he wished to waive any performance related pay award for 2010.

(iii) Mr. M. Chadwick waived his entitlement to a pension allowance of €307,000 for 2010 and also for 2009.

(iv) Mr. A.E. Collins retired from the Board on 6 May 2010 and Mr. J.F. Malone retired from the Board on 30 September 2010.

Report on Directors' Remuneration

Directors' and Secretary's Interests

The beneficial interests of the Directors in the share capital of the Company were as follows:

Director	31 December 2010 Grafton Units *	31 December 2009 Grafton Units *
M. Chadwick	**19,656,921**	19,656,921
C. Ó Nualláin	**1,141,759**	1,141,759
L.J. Martin	**204,605**	204,605
G. Bowler	**132,000**	132,000
R.W. Jewson	**42,204**	42,204
R. Ryan	**25,000**	25,000
C. M. Fisher	**10,000**	10,000

Mr. Chadwick is an executor of an estate that holds 2,490,330 Grafton Units. He holds a non-beneficial interest in 2,986,560 (2009: 2,986,560) Grafton Units in his capacity as a Trustee of a family trust. He also holds a non-beneficial interest as nominee in 178,640 (2009: 178,640) Grafton Units. At 31 December 2010, Mr. M. Chadwick and Mr. C. Ó Nualláin had a non-beneficial interest in 1,367,255 (2009: 1,582,537) Grafton Units as Trustees of the Grafton Group plc Employee Share Participation Scheme.

Mr. J. F. Malone, who retired on 30 September 2010, acquired 159,192 Grafton Units on 12 April 2010 at €2.07 per Unit in accordance with the rules of the Grafton Group Share Schemes and disposed of 159,192 Grafton Units on 12 and 13 April at an average price of €3.29 per Unit. The closing price of a Grafton Unit on 12 April 2010 and 13 April 2010 was €3.35 and €3.32 respectively.

There have been no changes in the interests of the Directors between 31 December 2010 and the date of this report.

Mr. C. Rinn, Secretary, had a beneficial interest in 263,396 Grafton Units at 31 December 2010 (31 December 2009: 263,396).

*At 31 December 2010, a Grafton Unit comprised one ordinary share of 5 cents each and seventeen 'A' ordinary shares of 0.001 cent each in Grafton Group plc and one 'C' ordinary share of Stg0.0001p in Grafton Group (UK) plc.

Directors' and Secretary's Interests under the Grafton Group Share Schemes

The interests of the Directors and the Secretary to acquire Grafton Units in accordance with the Grafton Group Share Schemes are shown below:

	Number of Units						
	1 January 2010	31 December 2010	Basic	Second Tier	Price €	Period over which Grafton Units may be acquired	
L. J. Martin	120,000	120,000	60,000	60,000	8.11	Oct 2010	Oct 2015
	120,000	120,000	60,000	60,000	11.50	Oct 2011	Oct 2016
	120,000	120,000	60,000	60,000	8.48	Sep 2012	Sep 2017
	120,000	120,000	60,000	60,000	1.66	Apr 2012	Mar 2019
	480,000	480,000	240,000	240,000			
C.Ó Nualláin	160,000	160,000	80,000	80,000	5.45	Nov 2008	Oct 2013
	160,000	160,000	87,500	72,500	6.20	May 2009	Apr 2014
	120,000	120,000	60,000	60,000	8.11	Oct 2010	Oct 2015
	120,000	120,000	60,000	60,000	11.50	Oct 2011	Oct 2016
	120,000	120,000	60,000	60,000	8.48	Sep 2012	Sep 2017
	120,000	120,000	60,000	60,000	1.66	Apr 2012	Mar 2019
	800,000	800,000	407,500	392,500			

Mr. C. Rinn had an interest to acquire 540,177 (31 December 2009: 540,177) Grafton Units at 31 December 2010 at prices ranging between €1.66 and €11.50 in accordance with the 1999 Grafton Group Share Scheme.

The closing price of a Grafton Unit on 31 December 2010 was €3.45 (31 December 2009: €2.94) and the price range during the year was between €2.33 and €3.65 (2009: €1.26 and €3.96).

There has not been any contract or arrangement with the Company or any subsidiary undertaking during the year in which an Officer of the Company was materially interested and which was significant in relation to the Company's business except for remuneration arrangements.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the Group and Company Financial Statements, in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and Company Financial Statements for each financial year. Under that law, the Directors are required to prepare the Group Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and have elected to prepare the Company Financial Statements in accordance with IFRSs as adopted by the EU and as applied in accordance with the Companies Acts, 1963 to 2009.

The Group and Company Financial Statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and performance of the Group and Company. The Companies Acts, 1963 to 2009 provide in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the Group and Company Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRSs as adopted by the EU and in the case of the Company as applied in accordance with the Companies Acts, 1963 to 2009; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

Under applicable law and the requirements of the Listing Rules issued by the Irish Stock Exchange, the Directors are also responsible for preparing a Directors' Report and reports relating to Directors' remuneration and Corporate Governance that comply with that law and those Rules. In particular, in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007 (the Transparency Regulations), the Directors are required to include in their report a fair review of the business and a description of the principal risks and uncertainties facing the Group and the Company and a responsibility statement relating to these and other matters, included below.

The Directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Acts, 1963 to 2009 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation. They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the Republic of Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

For the purpose of Transparency (Directive 2004/109/EC) Regulations 2007 (SI 277/2007) and European Communities (Directive 2006/46/EC) Regulations 2009 (SI 450/2009), pages 16 to 37 of this Annual Report shall be read as a single report of the Directors.

Statement of Directors' Responsibilities

Responsibility Statement, in accordance with the Transparency Regulations

Each of the Directors at 2 March 2011, whose names and functions are listed on page 13, confirm that, to the best of each person's knowledge and belief:

- the Group Financial Statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities and financial position of the Group at 31 December 2010 and its profit for the year then ended;
- the Company Financial Statements, prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the Companies Acts, 1963 to 2009, give a true and fair view of the assets, liabilities and financial position of the Company at 31 December 2010; and
- the Report of the Directors contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that they face.

On behalf of the Board

M. Chadwick
C. Ó Nualláin

Independent Auditor's Report

To the Members of Grafton Group plc

We have audited the Group and Company Financial Statements (the ''financial statements'') of Grafton Group plc for the year ended 31 December 2010 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group and Company Balance Sheets, the Group and Company Cash Flow Statements, the Group and Company Statement of Changes in Equity and the related notes on pages 42 to 121. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 193 of the Companies Act 1990. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's 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 and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditor

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on pages 38 and 39.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with IFRSs as adopted by the EU, and have been properly prepared in accordance with the Companies Acts, 1963 to 2009 and, in the case of the Group Financial Statements, Article 4 of the IAS Regulation. We also report to you, in our opinion whether proper books of account have been kept by the Company; whether at the balance sheet date, there exists a financial situation requiring the convening of an extraordinary general meeting of the Company; and whether the information given in the Report of the Directors is consistent with the financial statements. In addition, we state whether we have obtained all the information and explanations necessary for the purposes of our audit, and whether the Company balance sheet is in agreement with the books of account.

We also report to you if, in our opinion, any information specified by law or the Listing Rules of the Irish Stock Exchange regarding Directors' remuneration and Directors' transactions is not disclosed and, where practicable, include such information in our report.

We are required by law to report to you our opinion as to whether the description of the main features of the internal control and risk management systems in relation to the process for preparing the consolidated group financial statements, set out in the annual Corporate Governance Statement is consistent with the consolidated financial statements. In addition, we review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2008 FRC Combined Code on Corporate Governance specified for our review by the Listing Rules of the Irish Stock Exchange, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Report of the Directors, the Chairman's Statement and the Group Finance Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Independent Auditor's Report

To the Members of Grafton Group plc

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the Group Financial Statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2010 and of its profit for the year then ended;
- the Company Financial Statements give a true and fair view, in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Acts,1963 to 2009, of the state of the Company's affairs as at 31 December 2010;
- the Group Financial Statements have been properly prepared in accordance with the Companies Acts, 1963 to 2009 and Article 4 of the IAS Regulation; and
- the Company Financial Statements have been properly prepared in accordance with the Companies Acts, 1963 to 2009.

Other matters

We have obtained all the information and explanations which we consider necessary for the purposes of our audit. In our opinion, proper books of account have been kept by the Company. The Company balance sheet is in agreement with the books of account.

In our opinion, the information given in the Report of the Directors and the description in the annual corporate governance statement of the main features of the internal control and risk management systems in relation to the process for preparing the consolidated group financial statements is consistent with the consolidated financial statements.

The net assets of the Company, as stated in the Company balance sheet are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2010 a financial situation which under Section 40 (1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the Company.

KPMG
Chartered Accountants
Registered Auditor
Dublin

2 March 2011

Group Income Statement

For the year ended 31 December 2010

	Notes	2010 €'000	2009 €'000
Revenue	1	**2,004,418**	1,979,796
Operating costs and income	2	**(1,971,397)**	(1,974,912)
Operating profit		**33,021**	4,884
Finance expense	6	**(26,001)**	(29,419)
Finance income	6	**18,534**	38,115
Profit before tax		**25,554**	13,580
Income tax	8	**38,432**	(188)
Profit after tax for the financial year		**63,986**	13,392
Earnings per ordinary share - basic	10	**27.68c**	5.81c
Earnings per ordinary share - diluted	10	**27.54c**	5.79c

On behalf of the Board

M Chadwick
C Ó Nualláin
Directors

2 March 2011

Group Balance Sheet

As at 31 December 2010

	Notes	2010 €'000	2009 €'000
ASSETS			
Non-current assets			
Goodwill	11	**552,831**	544,286
Intangible assets	11	**4,453**	6,665
Property, plant and equipment	12	**568,767**	604,838
Deferred tax assets	24	**46,252**	22,459
Retirement benefit assets	30	**1,107**	-
Derivative financial instruments	20	**11,068**	12,524
Investment in associate	13	**3,690**	3,690
Financial assets	13	**176**	211
Total non-current assets		**1,188,344**	1,194,673
Current assets			
Inventories	14	**271,918**	265,748
Trade and other receivables	15	**305,560**	306,863
Derivative financial instruments	20	**5,798**	4,405
Cash and cash equivalents	18	**234,275**	301,985
Properties held for resale	12	**14,693**	12,363
Total current assets		**832,244**	891,364
Total assets		**2,020,588**	2,086,037
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Equity share capital	16	**11,632**	11,598
Share premium account	16	**291,216**	289,800
Capital redemption reserve	17	**905**	905
Revaluation reserve	17	**31,747**	31,952
Other reserves	17	**5,258**	4,677
Cash flow hedge reserve	17	**(1,440)**	(1,182)
Foreign currency translation reserve	17	**(136,310)**	(158,611)
Retained earnings		**793,078**	738,356
Treasury shares held	16	**(5,746)**	(5,746)
Total equity		**990,340**	911,749
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	18	**353,019**	536,789
Provisions	21	**17,555**	16,800
Retirement benefit obligations	30	**18,666**	25,259
Derivative financial instruments	20	**812**	682
Deferred tax liabilities	24	**37,599**	43,965
Total non-current liabilities		**427,651**	623,495
Current liabilities			
Interest-bearing loans and borrowings	18	**151,432**	103,174
Trade and other payables	22	**399,890**	387,331
Current income tax liabilities		**43,959**	51,571
Derivative financial instruments	20	**988**	737
Provisions	21	**6,328**	7,980
Total current liabilities		**602,597**	550,793
Total liabilities		**1,030,248**	1,174,288
Total equity and liabilities		**2,020,588**	2,086,037

On behalf of the Board

M Chadwick
C Ó Nualláin
Directors

2 March 2011

Group Cash Flow Statement

For the year ended 31 December 2010

	Note	2010 €'000	2009 €'000
Profit before taxation		**25,554**	13,580
Finance income	6	**(18,534)**	(38,115)
Finance expense	6	**26,001**	29,419
Operating profit		**33,021**	4,884
Depreciation	12	**44,524**	47,939
Intangible amortisation	11	**2,212**	2,212
Goodwill write-off on termination	11	**-**	135
Goodwill impairment loss	11	**-**	5,469
Share-based payments charge/(credit)		**581**	(1,364)
Non-cash movement in operating provisions		**4,596**	4,420
Non-cash movement on asset impairment	3	**10,039**	-
Profit on sale of property, plant and equipment		**(563)**	(6,819)
Contributions to pension schemes in excess of IAS 19 charge		**(3,799)**	(11,975)
Decrease in working capital	25	**8,792**	93,719
Cash generated from operations		**99,403**	138,620
Interest paid		**(13,955)**	(21,241)
Income taxes paid		**(974)**	(1,069)
Cash flows from operating activities		**84,474**	116,310
Investing activities			
Inflows			
Proceeds from sale of property, plant and equipment		**4,262**	13,210
Investment profit realised in cash		**-**	22,058
Interest received		**7,062**	5,242
Sale of financial assets	13	**44**	35
		11,368	40,545
Outflows			
Acquisition of subsidiary undertakings and businesses	26	**(1,638)**	(2,255)
Net cash acquired with subsidiary undertakings	26	**102**	604
Deferred acquisition consideration paid		**(853)**	(1,556)
Claims paid on provisions	21	**(3,725)**	(1,903)
Purchase of property, plant and equipment	12	**(9,608)**	(12,420)
Investment in associate		**-**	(3,690)
		(15,722)	(21,220)
Cash flows from investing activities		**(4,354)**	19,325
Financing activities			
Inflows			
Proceeds from the issue of share capital		**1,450**	873
Net proceeds from borrowings		**280,984**	73,679
		282,434	74,552
Outflows			
Repayment of borrowings		**(390,460)**	(78,007)
Dividends paid	9	**(11,551)**	-
Purchase of 'A' ordinary shares	9	**-**	(17,276)
Payment of finance lease liabilities		**(520)**	(383)
Redemption of loan notes payable net of derivatives		**(34,776)**	(49,370)
		(437,307)	(145,036)
Cash flows from financing activities		**(154,873)**	(70,484)
Net (decrease)/increase in cash and cash equivalents		**(74,753)**	65,151
Cash and cash equivalents at 1 January		**301,984**	224,827
Effect of exchange rate fluctuations on cash held		**7,044**	12,006
Cash and cash equivalents at 31 December		**234,275**	301,984
Cash and cash equivalents are broken down as follows:			
Cash at bank and short-term deposits		**234,275**	301,985
Overdrafts		**-**	(1)
		234,275	301,984

Group Statement of Comprehensive Income

For the year ended 31 December 2010

	Notes	2010 €'000	2009 €'000
Profit after tax for the financial year		**63,986**	13,392
Other comprehensive income			
Currency translation effects			
- on foreign currency net investments		**25,584**	60,576
- on foreign currency borrowings and derivatives designated as net investment hedges		**(3,283)**	(16,353)
Actuarial gain on Group defined benefit pension schemes	30	**2,971**	4,778
Deferred tax credit on Group defined benefit pension schemes	24	**(889)**	452
Deferred tax on capital gains tax rate increase		**-**	(1,012)
Fair value gain on investment		**-**	22,058
Transfer of gain on investment to income statement		**-**	(22,058)
Fair value movement on cash flow hedges:			
- Effective portion of changes in fair value of cash flow hedges		**(2,481)**	(2,353)
- Net change in fair value of cash flow hedges transferred from equity		**2,175**	994
Deferred tax on cash flow hedge	24	**48**	177
Total other comprehensive income		**24,125**	47,259
Total comprehensive income for the financial year		**88,111**	60,651

On behalf of the Board

M Chadwick
C Ó Nualláin
Directors

2 March 2011

Group Statement of Changes in Equity

	Equity share capital €'000	Share premium account €'000	Capital redemption reserve €'000	Revaluation reserve €'000	Shares to be issued reserve €'000	Cash flow hedge reserve €'000	Foreign currency translation reserve €'000	Retained earnings €'000	Treasury shares €'000	Total equity €'000
Year to 31 December 2010										
At 1 January 2010	**11,598**	**289,800**	**905**	**31,952**	**4,677**	**(1,182)**	**(158,611)**	**738,356**	**(5,746)**	**911,749**
Profit after tax for the financial year	-	-	-	-	-	-	-	63,986	-	**63,986**
Total other comprehensive income										
Actuarial gain on pensions (net of tax)	-	-	-	-	-	-	-	2,082	-	**2,082**
Movement in cash flow hedge reserve (net of tax)	-	-	-	-	-	(258)	-	-	-	**(258)**
Currency translation effect on foreign currency net investments	-	-	-	-	-	-	25,584	-	-	**25,584**
Currency translation effect on foreign currency borrowings and derivatives	-	-	-	-	-	-	(3,283)	-	-	**(3,283)**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**(258)**	**22,301**	**66,068**	**-**	**88,111**
Transactions with owners of the Company recognised directly in equity										
Dividends paid	-	-	-	-	-	-	-	(11,551)	-	**(11,551)**
Issue of Grafton Units (net of issue expenses)	34	1,416	-	-	-	-	-	-	-	**1,450**
Adjustment for share based payments expense	-	-	-	-	581	-	-	-	-	**581**
Transfer from revaluation reserve	-	-	-	(205)	-	-	-	205	-	**-**
	34	**1,416**	**-**	**(205)**	**581**	**-**	**-**	**(11,346)**	**-**	**(9,520)**
At 31 December 2010	**11,632**	**291,216**	**905**	**31,747**	**5,258**	**(1,440)**	**(136,310)**	**793,078**	**(5,746)**	**990,340**
Year to 31 December 2009										
At 1 January 2009	**11,579**	**288,951**	**900**	**32,157**	**6,041**	**-**	**(202,834)**	**737,817**	**(5,746)**	**868,865**
Profit after tax for the financial year	-	-	-	-	-	-	-	13,392	-	**13,392**
Total other comprehensive income										
Actuarial gain on pensions (net of tax)	-	-	-	-	-	-	-	5,230	-	**5,230**
Deferred tax on capital gains tax rate increase	-	-	-	-	-	-	-	(1,012)	-	**(1,012)**
Movement in cash flow hedge reserve (net of tax)	-	-	-	-	-	(1,182)	-	-	-	**(1,182)**
Currency translation effect on foreign currency net investments	-	-	-	-	-	-	60,576	-	-	**60,576**
Currency translation effect on foreign currency borrowings and derivatives	-	-	-	-	-	-	(16,353)	-	-	**(16,353)**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**(1,182)**	**44,223**	**17,610**	**-**	**60,651**
Transactions with owners of the Company recognised directly in equity										
Purchase of 'A' ordinary shares	(5)	-	5	-	-	-	-	(17,276)	-	**(17,276)**
Issue of Grafton Units (net of issue expenses)	24	849	-	-	-	-	-	-	-	**873**
Adjustment for share based payments credit	-	-	-	-	(1,364)	-	-	-	-	**(1,364)**
Transfer from revaluation reserve	-	-	-	(205)	-	-	-	205	-	**-**
	19	**849**	**5**	**(205)**	**(1,364)**	**-**	**-**	**(17,071)**	**-**	**(17,767)**
At 31 December 2009	**11,598**	**289,800**	**905**	**31,952**	**4,677**	**(1,182)**	**(158,611)**	**738,356**	**(5,746)**	**911,749**

Accounting Policies

Statement of Compliance

The consolidated and Company Financial Statements of Grafton Group plc have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

The Company Financial Statements have been prepared in accordance with IFRSs as adopted by the European Union (EU) and as applied in accordance with the Companies Acts, 1963 to 2009. The Company has taken advantage of the exemption in Section 148(8) of the Companies Act 1963 from presenting to its members the Company Statement of Comprehensive Income and related notes which form part of the approved financial statements of the Company, as the Company publishes Company and Group Financial Statements together.

The IFRS's applied in these financial statements were those effective for accounting periods beginning on or after 1 January 2010.

The accounting policies adopted are consistent with those of the previous year except for the following new and amended IFRS and IFRIC interpretations adopted by the Group as of 1 January 2010:

IFRS 3 (Revised 2008) – Business Combinations

The Group has applied IFRS 3 Business Combinations (Revised 2008) in accounting for business combinations. The change in accounting policy has been applied prospectively and has had no impact on earnings per share in the current reporting period.

For acquisitions on or after 1 January 2010, the Group measures goodwill at the acquisition date as the fair value of the consideration transferred (including the fair value of any previously held equity interest in the acquiree) and the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognised immediately in profit and loss.

Transactions costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

The following includes the other new standards that were effective for the Group's financial year ending on 31 December 2010. These standards had no impact on the results or financial position of the Group for the year ended 31 December 2010:

- Amendments to IFRS 2 – Share Based Payment – Group Cash-Settled Share Based Payment Transactions
- Amendments to IAS 27 – Consolidated and Separate Financial Statements
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items
- IFRIC 17 – Distribution of Non-Cash Assets to Owners
- Improvements to IFRSs (issued by IASB in April 2009)

The following new accounting requirements and amendments to existing requirements approved by the IASB in 2009 (but not early adopted by the Group) may impact the Group's financial reporting in future periods. Where applicable they will be adopted in 2011.

- Revised IAS 24 – Related Party Disclosures
- Amendment to IAS 32 – Financial Instruments: Presentation – Classification of Rights Issues
- Amendment to IFRIC 14 – Prepayments of a Minimum Funding Requirement
- IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments

The application of the other forthcoming standards and interpretations which have been endorsed by the EU is not expected to have a material impact on the Group or Company Financial Statements.

Basis of Preparation

The consolidated and Company Financial Statements, which are presented in euro rounded to the nearest thousand are prepared on a going concern basis. The Statements have been prepared under the historical cost convention, as modified by the previous revaluation of land and buildings, the measurement at fair value of share-based payments at initial date of award and the measurement at fair value of all derivative financial instruments. The carrying values of recognised assets and liabilities that are fair value hedged are adjusted to record changes in the fair values attributable to the risks that are being hedged.

The preparation of financial statements in conformity with IFRS as adopted by the EU requires management to exercise judgement in the process of applying the Company's accounting policies. The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant in relation to the consolidated financial statements, relate primarily to accounting for defined benefit pension schemes, financial instruments, share-based payments, impairment provisions, goodwill impairment and taxation.

The financial year-ends of the Group's subsidiaries are coterminous.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company, all subsidiaries drawn up to 31 December each year together with the Group's interest in associates and jointly controlled entities.

Subsidiaries

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control over the operating and financial decisions is obtained and they cease to be consolidated from the date on which control is transferred out of the Group. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain economic benefits from its activities.

Joint ventures

In line with the benchmark accounting methodology in IAS 31 Interests in Joint Ventures, the Group's share of results and net assets of joint ventures, which are entities in which the Group holds an interest on a long-term basis and which are jointly controlled by the Group and one or more other venturers, are accounted for on the basis of proportionate consolidation from the date on which joint control is finalised and are derecognised when joint control ceases. The Group combines its share of the joint ventures individual income and expenses, assets and liabilities and cash flows on a line by line basis with similar items in the Group's financial statements.

Investment in Associates

Associates are those entities in which the Group has a participating interest and over which the Group has significant influence, but not control, of the financial and operating policies. In accordance with IAS 28 Investments in Associates, the equity method is used to account for associates. The equity method is a method of accounting whereby the investment is initially recognised at cost adjusted for post-acquisition changes in the Group's share of net assets, less any impairment in value. The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, except to the extent that the Group has incurred obligations in respect of its associates.

Accounting Policies

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains and income and expenses arising from such transactions, are eliminated in preparing the consolidated financial statements. Transactions with joint ventures and associates are similarly eliminated to the extent of the Group's interest in the equity. Unrealised losses are eliminated in the same way as unrealised gains.

Revenue Recognition

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

In general, revenue is recognised to the extent that it is subject to reliable measurement, that it is probable that economic benefits will flow to the Group and that the significant risks and rewards of ownership have passed to the buyer. In the case of sales of goods, this generally arises when products have either been delivered to or collected by a customer and there is no unfulfilled obligation that could affect the acceptance of the products. Sales are recorded based on the price specified in the sales invoices/contracts net of actual and estimated returns and any discounts granted. Revenue on long-term contracts is recognised in accordance with the percentage-of-completion method with the completion percentage being computed on an input cost basis.

Segment Reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses for which discrete financial information is available, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's Chief Operating Decision Maker, being the Board, to make decisions about resources to be allocated to segments and to assess performance.

Foreign Currency Translation

Functional and presentation currency

The consolidated financial statements are presented in euro which is the Company's functional currency. Items included in the financial statements of each of the Group's entities are measured using its functional currency, the currency of the primary economic environment in which the entity operates which is primarily euro and sterling.

Transaction and balances

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated to the relevant functional currency at the rate of exchange ruling at the balance sheet date. All currency translation differences on monetary assets and liabilities are taken to the income statement except for the effective portion of differences on foreign currency borrowings designated as a hedge of a net investment which are taken directly to other comprehensive income together with the exchange difference on the carrying amount of the related investment.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and any fair value adjustments arising on consolidation, are translated to euro at the foreign exchange rates ruling at the balance sheet date. Results and cash flows of subsidiaries which do not have the euro as their functional currency are translated into euro at average exchange rates for the year and the related balance sheets are translated at the rates of exchange ruling at the balance sheet date. Foreign exchange movements arising on translation of the net investment in a foreign operation, including those arising on long term intra-Group loans deemed to be quasi equity in nature, are recognised directly in other comprehensive income, in the currency translation reserve. The portion of exchange gains or losses on foreign currency borrowings or derivatives used to provide a hedge against a net investment in a foreign operation that is designated as a hedge of those investments is recognised directly in other comprehensive income to the extent that they are determined to be effective. The ineffective portion is recognised immediately in the income statement.

Any movements that have arisen since 1 January 2004, the date of transition to IFRS, are recognised in the currency translation reserve and are reclassified to the income statement on disposal of the related business. Translation differences that arose before the date of transition to IFRS in respect of all non-euro denominated operations are not presented separately.

Exceptional Items

The Group has adopted a policy in relation to its income statement which seeks to highlight any significant items within the Group results. Such items may include significant restructuring, profit and loss on disposal or termination of operations, litigation costs and settlements and impairment of assets. Judgement is used by the Group in assessing the particular items which, by virtue of their scale and nature, should be disclosed in the income statement or related notes.

In accordance with accounting standards, property profit is not disclosed as a separate line item on the face of the Income Statement. Where a material profit arises on the disposal of property, the Board will bring this to shareholders' attention.

Finance Expense

Finance expense comprises interest payable on borrowings calculated using the effective interest rate method, foreign exchange gains and losses on monetary items and gains and losses on hedging instruments that are recognised in the income statement. The finance cost on pension scheme liabilities is recognised as finance expense in the income statement as permitted by IAS 19. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method. Where appropriate the fair value adjustment to hedged items that are the subject of a fair value hedge is also included as finance expense or finance income. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in the income statement as incurred using the effective interest rate method.

Finance Income

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, and gains on hedging instruments that are recognised in profit or loss. The expected return on defined benefit pension scheme plan assets is recognised as finance income in the income statement as permitted by IAS 19. Interest income is recognised in the income statement as it accrues using the effective interest rate method.

Business combinations

IFRS 3, "Business Combinations", has been applied with effect from the transition date of 1 January 2004 and goodwill amortisation ceased from that date.

From 1 January 2010 the Group has applied IFRS 3 Business Combinations (2008) in accounting for business combinations. The change in accounting policy has been applied prospectively and has had no material impact on earnings per share.

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

For acquisitions on or after 1 January 2010, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of the pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

Goodwill

Goodwill is the excess of the consideration paid over the fair value of the identifiable assets, liabilities and contingent liabilities in a business combination and relates to assets which are not capable of being individually identified and separately recognised.

Goodwill acquired is allocated from the acquisition date, to the cash generating unit that is expected to benefit from synergies related to the acquisition. Goodwill is measured at cost less any accumulated impairment losses. The cash generating units represent the lowest level within the Group at which goodwill is monitored for internal management purposes and these units are no larger than the operating segments determined in accordance with IFRS 8 Operating Segments.

Goodwill is subject to impairment testing on an annual basis and at any time during the year if an indicator of impairment exists.

Where the recoverable amount of the cash generating unit is less than the carrying amount, an impairment loss is recognised. Impairment losses arising in respect of goodwill are not reversed once recognised.

Where a subsidiary is sold, any goodwill arising on acquisition, net of any impairments, is included in determining the profit or loss arising on disposal.

Intangible Assets (Other than Goodwill)

An intangible asset, other than goodwill, is recognised to the extent that it is probable that the expected future economic benefits attributable to the asset will flow to the Group and that its fair value can be measured. The asset is deemed to be identifiable when it is separable (i.e. capable of being divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability) or when it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the Group or from other rights and obligations.

Intangible assets acquired as part of a business combination are capitalised separately from goodwill at fair value on the date of acquisition if the intangible asset meets the definition of an asset and the fair value can be reliably measured.

Intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The carrying value of intangible assets is reviewed for impairment at each reporting date and is also subject to impairment testing when events or changes in circumstances indicate that the carrying values may not be recoverable.

The amortisation of intangible assets is calculated to write-off the book value over their useful lives which is currently eight years on a straight-line basis on the assumption of zero residual value.

Property, Plant and Equipment

Property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses. The Group's Irish properties were revalued to fair value in 1998 and are measured on the basis of deemed cost being the revalued amount at the date of that revaluation less accumulated depreciation.

Property, plant and equipment are depreciated over their useful economic life on a straight line basis at the following rates:

Freehold buildings	50-100 years
Freehold land	Not depreciated
Leasehold buildings	Lease term or up to 100 years
Plant and machinery	5-20 years
Motor vehicles	5 years
Plant hire equipment	4-8 years

The residual value and useful lives of property, plant and equipment are reviewed and adjusted if appropriate at each balance sheet date.

On disposal of property, plant and equipment, the cost and related accumulated depreciation and impairments are removed from the balance sheet and the net amount, less any proceeds, is taken to the income statement.

The carrying amounts of the Group's property, plant and equipment are reviewed at each balance sheet date to determine whether there is any indication of impairment. An impairment loss is recognised whenever the carrying amount of an asset or its cash generation unit exceeds its recoverable amount. Impairment losses are recognised in the income statement unless the asset is recorded at a revalued amount in which case it is firstly dealt with through the revaluation reserve relating to that asset with any residual amount being transferred to the income statement.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Subsequent costs are included in an asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the replaced item can be measured reliably. All other repair and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Assets held for Resale

Non-current assets that are expected to be recovered primarily through sale rather than continuing use are classified as held for resale. These assets are shown in the balance sheet at the lower of their carrying amount and fair value less any disposal costs. Impairment losses on initial classification as non-current assets held for resale and subsequent gains or losses on re-measurement are recognised in the income statement.

Accounting Policies

Investments

Investments, other than investments in joint ventures and associates, are stated in the balance sheet at fair value. All other investments are classified as available for sale with changes in fair value recognised directly in other comprehensive income until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is brought into the net profit or loss for the period. All items recognised in the income statement relating to investments, other than investments in joint ventures and associates, are reported as non-operating items.

Where investments are actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date. Where it is impracticable to determine fair value in accordance with IAS 39, unquoted equity investments are recorded at historical cost and are included within financial assets on this basis in the Group Balance Sheet. They are assessed for impairment annually.

Leases

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have transferred to the Group and hire purchase contracts are capitalised in the balance sheet and are depreciated over the shorter of useful life and lease term with any impairment being recognised in accumulated depreciation. The asset is recorded at an amount equal to the lower of its fair value and the present value of the minimum lease payments at the inception of the finance lease. The capital elements of future obligations under leases and hire purchase contracts are included in liabilities in the balance sheet and analysed between current and non-current amounts. The interest elements of the obligations are charged to the income statement over the periods of the leases and hire purchase contracts so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Operating lease rentals are charged to the income statement on a straight-line basis over the lease term. Lease incentives are recognised over the lease term on a straight line basis.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the first-in, first-out principle and includes all expenditure incurred in acquiring the inventories and bringing them to their present location and condition. Raw materials are valued on the basis of purchase cost on a first-in, first-out basis. In the case of finished goods and work-in-progress, cost includes direct materials, direct labour and attributable overheads based on normal operating capacity and excludes borrowing costs. Net realisable value is the estimated proceeds of sale less all further costs to completion and less all costs to be incurred in marketing, selling and distribution.

Trade and Other Receivables and Payables

Trade and other receivables and payables are stated at amortised cost (less any impairment losses), which approximates to fair value given the short-term nature of these assets and liabilities.

Trade receivables are carried at original invoice amount less an allowance for potentially uncollectable debts. Provision is made when there is objective evidence that the Group will not be in a position to collect all of its receivables when they fall due. Bad and doubtful debts are written-off against the provision or directly in the income statement.

Accounting Policies

Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances held for the purposes of meeting short-term cash commitments and money market instruments which are readily convertible to a known amount of cash. Where money market instruments are categorised as cash equivalents, the related balances have an original maturity of three months or less. In addition, for the purposes of the Group Cash Flow Statement, bank overdrafts are netted against cash and cash equivalents where the overdrafts are repayable on demand and form an integral part of cash management. Overdrafts are included within current interest-bearing loans and borrowings in the Group Balance Sheet.

Derivative Financial Instruments and Hedging Activities

The Group uses derivative financial instruments (principally interest rate and currency swaps) to hedge its exposure to foreign exchange and interest rate risks arising from its financing activities.

Derivative financial instruments are recognised initially at fair value and thereafter are subsequently re-measured at their fair value. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arms length transaction. The fair value of interest rate and currency swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest and currency exchange rates and the current creditworthiness of the swap counterparties.

The method of recognising the resulting gain or loss on re-measurement to fair value depends on whether the derivative is designated as a hedging instrument. Where derivatives are not designated or do not fulfil the criteria for hedge accounting, changes in fair values are reported in the income statement. Where derivatives qualify for hedge accounting, recognition of the resulting gains or loss depends on the nature of the item being hedged. The Group designates certain derivatives for various purposes in hedge relationships in one or more of the following types of relationships:

(i) Fair value hedge: Hedges of the fair value of recognised liabilities;

(ii) Cash flow hedge: Hedges of a particular risk associated with a highly probable forecast transaction; or

(iii) Net investment hedge: Hedges of a net investment in a foreign operation.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(i) Fair Value Hedge

Any gain or loss stemming from the re-measurement of the hedging instrument to fair value is reported in the income statement. In addition, any gain or loss on the hedged item which is attributable to the fair value movement in the hedged risk is adjusted against the carrying amount of the hedged item and reflected in the income statement.

Where a derivative financial instrument is used to economically hedge the foreign exchange exposure of a recognised monetary asset or liability, hedge accounting is not applied and any gain or loss accruing on the hedging instrument is recognised as finance income or expense in the income statement.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

(ii) Cash Flow Hedges

The effective part of any gain or loss on the derivative financial instrument is recognised in Other Comprehensive Income and presented in the Cash Flow Hedge Reserve in equity with the ineffective portion being reported as finance expense or income in the income statement. If a hedge of a forecasted transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised in other comprehensive income are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss. For cash flow hedges, other than those covered by the preceding statements, the associated cumulative gain or loss is removed from other comprehensive income and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss. The ineffective part of any gain or loss is recognised immediately in the income statement.

Hedge accounting is discontinued when a hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. The cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is transferred to the income statement in the period.

(iii) Hedge of Net Investment in Foreign Operation

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and presented in the Foreign Currency Translation Reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within Finance Income or Finance Expense. Cumulative gains and losses remain in equity until disposal or partial disposal of the net investment in the foreign operation at which point the related differences are reclassified to the income statement as part of the overall gain or loss on sale.

Interest Bearing Loans and Borrowings

All loans and borrowings are initially recorded at fair value, net of related transaction costs. After initial recognition, current and non-current interest-bearing loans and borrowings are measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method. Amortised cost includes any issue costs and any discount or premium on settlement. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Provisions

A provision is recognised on a discounted basis when the Group has a present (either legal or constructive) obligation as a result of a past event and it is probable that a transfer of economic benefits will be required to settle the obligations and a reliable estimate can be made of the amount required to settle the obligation. A provision for restructuring is recognised when the Group has approved a restructuring plan and the restructuring has commenced. A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable costs of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

Accounting Policies

Retirement Benefit Obligations

Obligations to the defined contribution pension plans are recognised as an expense in the income statement as service is received from the relevant employees. The Group has no obligations to make further contributions to these schemes.

The Group operates a number of defined benefit pension schemes which require contributions to be made to separately administered funds. The Group's net obligation in respect of defined benefit pension schemes is calculated separately for each plan by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan asset is deducted. The discount rate employed in determining the present value of the schemes' liabilities is determined by reference to market yields at the balance sheet date on high quality corporate bonds for a term consistent with the currency and term of the associated post-employment benefit obligations.

The net surplus or deficit arising in the Group's defined benefit pension schemes are shown within either non-current assets or liabilities on the face of the Group Balance Sheet. The deferred tax impact of pension scheme surpluses and deficits is disclosed separately within deferred tax assets or liabilities as appropriate. The Group recognises actuarial gains and losses immediately in other comprehensive income.

Any increase in the present value of the plans' liabilities expected to arise from employee service during the period is charged to operating profit. The expected return on the plans' assets and the expected increase during the period in the present value of the plans' liabilities arising are included in finance income and expense respectively. Differences between the expected and the actual return on plan assets, together with the effect of changes in the current or prior assumptions underlying the liabilities are recognised in other comprehensive income. When the benefits of a defined benefit plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement over the remaining average period until the benefits vest. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

Share-Based Payment Transactions

The 1999 Grafton Group Share Scheme for Senior Executives and the SAYE Scheme for UK employees enable employees to acquire shares in the Company subject to the conditions of these schemes. New shares in the Company are issued to satisfy obligations under both schemes. The grant date fair value of share entitlements granted is recognised as an employee expense in the income statement over the vesting period with a corresponding increase in equity. The fair value is determined by an external valuer using a binomial model. Share entitlements granted by the Company are subject to certain non-market based vesting conditions. Non-market vesting conditions are not taken into account when estimating the fair value of entitlements as at the grant date. The expense for share entitlements shown in the income statement is adjusted to reflect the number of awards for which the related non-market based vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related non-market based vesting conditions at the vesting date.

The proceeds received by the Company on the vesting of share entitlements are credited to share capital and share premium when the share entitlements are converted.

Income Tax

Income tax in the income statement represents the sum of current tax and deferred tax.

Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income.

Current tax is based on taxable profit. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or deductible. The Group's liability for current tax is calculated using rates that have been enacted or substantially enacted at the balance sheet date.

Deferred tax is provided, using the liability method, on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled based on rates that have been enacted or substantially enacted at the balance sheet date.

Deferred tax assets and liabilities are not recognised for the following temporary differences;

- Goodwill not deductible for tax purposes;
- Temporary differences arising from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or taxable profit or loss; and
- Temporary differences associated with investments in subsidiaries in which case deferred tax is only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit would be available to allow all or part of the deferred tax asset to be utilised.

Share Capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Repurchase of share capital

When share capital recognised as equity is purchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity.

Dividends

Dividends on ordinary shares are recognised as a liability in the Group's financial statements in the period in which they are declared by the Company. In the case of interim dividends, these are considered to be declared when they are paid and in the case of final dividends these are declared when authorised by the shareholders in General Meeting.

Earnings per Share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding adjusted for own shares held and for the effects of all dilutive potential ordinary shares related to employee share schemes.

Notes to the Group Financial Statements

1. Segment Information

IFRS 8 Operating Segments requires operating segments to be identified on the basis of internal reports that are regularly reviewed by the Chief Operating Decision Maker in order to allocate resources to the segments and to assess their performance. Three operating segments have been identified, Merchanting, Retailing and Manufacturing.

The Merchanting segment is engaged in the distribution of building and plumbing materials primarily to professional trades people engaged in residential repair, maintenance and improvement projects and also in residential and other new build construction from a network of 520 branches in Britain and Ireland.

The Retailing segment operates Ireland's largest DIY and home improvement business from a network of 41 stores that supply mainly retail customers with a wide range of products for the home and garden, and a kitchen retail business that trades from 8 stores.

The Manufacturing segment includes the largest manufacturer of dry mortar in Britain and mortar, plastics and windows manufacturing businesses in Ireland.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment operating profit/(loss) as included in the internal management reports that are reviewed by the Group's Chief Operating Decision Maker, being the Board. Segment operating profit is used to measure performance, as such information is the most relevant in evaluating the results of the Group's segments.

Segment results, assets and liabilities include all items directly attributable to a segment.

Segment capital expenditure is the total amount incurred during the period to acquire segment assets that are expected to be used for more than one accounting period.

1. Segment Information (continued)

Group Income Statement

	Continuing operations – year ended 31 December							
	Merchanting		Retailing		Manufacturing		Group	
	2010 €'000	2009 €'000	**2010 €'000**	2009 €'000	**2010 €'000**	2009 €'000	**2010 €000**	2009 €'000
Segment revenue	**1,730,610**	1,686,933	**230,528**	247,784	**49,144**	50,985	**2,010,282**	1,985,702
Less: Inter-segment revenue-manufacturing	**-**	-	**-**	-	**(5,864)**	(5,906)	**(5,864)**	(5,906)
	1,730,610	1,686,933	**230,528**	247,784	**43,280**	45,079	**2,004,418**	1,979,796
Segment operating profit/(loss)	**61,524**	39,305	**2,351**	3,274	**(3,457)**	(5,060)	**60,418**	37,519
Restructuring costs	**(5,151)**	(17,014)	**-**	(508)	**(185)**	(1,398)	**(5,336)**	(18,920)
Segment operating profit/(loss) after restructuring costs	**56,373**	22,291	**2,351**	2,766	**(3,642)**	(6,458)	**55,082**	18,599

	Group	
	2010 €000	2009 €'000
Reconciliation to consolidated operating profit		
Segment operating profit after restructuring costs	**55,082**	18,599
Central activities	**(9,810)**	(11,351)
Intangible amortisation	**(2,212)**	(2,212)
Asset impairment - manufacturing segment	**(10,039)**	-
Goodwill impairment - manufacturing segment	**-**	(5,469)
Past service credit on pension schemes	**-**	5,317
Operating profit	**33,021**	4,884
Finance expense	**(26,001)**	(29,419)
Finance income	**18,534**	38,115
Profit before tax	**25,554**	13,580
Income tax	**38,432**	(188)
Profit after tax for the financial year	**63,986**	13,392

The Merchanting Segment result for the year to 31 December 2009 includes a property profit of €6.1 million. Finance income in the year to 31 December 2009 includes an investment profit of €22.1 million.

Notes to the Group Financial Statements

1. Segment Information (continued)

Group Balance Sheet

	Continuing operations – year ended 31 December							
	Merchanting		Retailing		Manufacturing		Group	
	2010 €'000	2009 €'000	**2010 €'000**	2009 €'000	**2010 €'000**	2009 €'000	**2010 €'000**	2009 €'000
Segment assets								
Assets	**1,550,860**	1,559,158	**111,520**	115,013	**55,842**	66,592	**1,718,222**	1,740,763
Reconciliation to total assets per Group Balance sheet								
Deferred tax assets							**46,252**	22,459
Retirement benefit assets							**1,107**	-
Investment in associate							**3,690**	3,690
Financial assets							**176**	211
Derivative financial instruments							**16,866**	16,929
Cash and cash equivalents							**234,275**	301,985
Total assets per Group Balance Sheet							**2,020,588**	2,086,037
Segment liabilities								
Liabilities	**364,679**	352,763	**49,046**	51,887	**10,048**	7,461	**423,773**	412,111
Reconciliation to total liabilities per Group balance sheet								
Interest bearing loans and borrowings (current and non-current)							**504,451**	639,963
Retirement benefit obligations							**18,666**	25,259
Deferred tax liabilities							**37,599**	43,965
Current tax liabilities							**43,959**	51,571
Derivative financial instruments (current and non-current)							**1,800**	1,419
Total liabilities per Group balance sheet							**1,030,248**	1,174,288

Notes to the Group Financial Statements

1. Segment Information (continued)

Other segment information

	Continuing operations – year ended 31 December							
	Merchanting		Retailing		Manufacturing		Total Group	
	2010 €'000	2009 €'000	**2010 €'000**	2009 €'000	**2010 €'000**	2009 €'000	**2010 €'000**	2009 €'000
Capital expenditure	**8,841**	11,825	**646**	526	**121**	69	**9,608**	12,420
Depreciation	**33,289**	36,162	**6,136**	6,367	**5,099**	5,410	**44,524**	47,939

Geographic analysis

The following is a geographic analysis of the information presented above. The analysis of geographic revenue below is the same whether it is based on location of assets or customers.

	Ireland		UK		Group	
	2010 €'000	2009 €'000	**2010 €'000**	2009 €'000	**2010 €'000**	2009 €'000
Segment revenue (continuing operations)	**571,893**	637,842	**1,432,525**	1,341,954	**2,004,418**	1,979,796
Capital expenditure	**1,593**	1,736	**8,015**	10,684	**9,608**	12,420
Segment assets	**405,407**	452,865	**759,984**	743,612	**1,165,391**	1,196,477
Goodwill					**552,831**	544,286
					1,718,222	1,740,763

2. Operating Costs and Income

The following have been charged/(credited) in arriving at operating profit:

	2010 €'000	2009 €'000
Exceptional items:		
Restructuring costs	**5,336**	18,920
Pension-past service gain	**-**	(5,317)
Goodwill impairment - manufacturing segment	**-**	5,469
Asset impairment - manufacturing segment	**10,039**	-
Profit on disposal of property	**-**	(6,055)
Total exceptional items	**15,375**	13,017
(Increase)/decrease in inventories	**(5,556)**	65,839
Purchases and consumables	**1,372,036**	1,297,142
Staff costs (note 5)	**303,556**	313,755
Auditor's remuneration - Group and subsidiaries	**759**	826
Depreciation	**44,524**	47,939
Lease rentals and other hire charges	**59,295**	59,491
Intangible amortisation	**2,212**	2,212
Write-off of goodwill on termination	**-**	135
Profit on sale of scaffolding	**-**	(129)
Profit on disposal of other property, plant and equipment	**(563)**	(635)
Selling, distribution and administrative expenses	**179,759**	175,320
	1,971,397	1,974,912

2. Operating Costs and Income (continued)

During the year, the Group (including its overseas subsidiaries) obtained the following services from KPMG, the Group's Auditor:

	2010	2009
	€'000	€'000
Audit services (i)		
- Group Auditor - KPMG Ireland	**526**	312
- Other network firm - KPMG UK	**30**	328
	556	640
Other assurance services (ii)		
- Group Auditor - KPMG Ireland	**203**	87
- Other network firm - KPMG UK	**-**	99
	203	186
Auditor's remuneration - Group and subsidiaries (i) & (ii)	**759**	826
Tax advisory services		
- Group Auditor - KPMG Ireland	**1,049**	321
- Other network firm - KPMG UK	**507**	638
	1,556	959
Other non-audit services		
- Group Auditor - KPMG Ireland	**-**	200
- Other network firm - KPMG UK	**-**	-
	-	200
Total		
- Group Auditor - KPMG Ireland	**1,778**	920
- Other network firm - KPMG UK	**537**	1,065
	2,315	1,985

Other assurance services relate to the statutory audits of subsidiary companies in the UK and Ireland except for €44,000 in 2010 that relates to the audit of pension funds and grant entitlements.

Taxation advisory services incorporate assistance in the preparation and submission of tax returns to the Revenue authorities in the UK and Ireland and advice on tax matters and transactions.

3. Asset Impairment

The carrying amounts of certain assets within the Irish manufacturing business were written down to the estimated recoverable amount due to ongoing losses and an assessment of trading prospects. The recoverable amount of the underlying assets represents an estimate of the fair value less costs to sell.

Asset impairment-manufacturing segment	**2010**	2009
	€'000	€'000
Property, plant and equipment impairment	**7,446**	-
Inventory impairment	**1,145**	-
Trade and other receivables impairment	**1,448**	-
	10,039	-

4. Directors' Remuneration, Pension Entitlements and Interests

Directors' remuneration, pension entitlements and interests in shares and share entitlements are presented in the Report on Directors' Remuneration on pages 31 to 37.

Notes to the Group Financial Statements

5. Employment

The average number of persons employed during the year by segment was as follows:

	2010	2009
Merchanting	**7,745**	8,365
Retailing	**1,153**	1,177
Manufacturing	**212**	226
Holding company	**17**	18
	9,127	9,786

The aggregate remuneration costs of employees were:	**€'000**	€'000
Wages and salaries	**270,461**	279,434
Social welfare	**26,328**	27,147
Share based payments charge/(credit)	**581**	(1,364)
Defined benefit pension (note 30)	**1,939**	1,794
Pension settlement cost	**-**	1,110
Defined contribution and pension related costs	**4,247**	5,634
Staff costs before exceptional items	**303,556**	313,755
Pension-past service gain	**-**	(5,317)
Termination payments	**4,549**	17,089
Charged to operating profit	**308,105**	325,527
Finance cost on pension scheme liabilities	**11,134**	10,826
Expected return on pension scheme assets	**(12,243)**	(9,721)
Charged to income statement	**306,996**	326,632
Actuarial gain on pension schemes	**(2,971)**	(4,778)
Total employee benefit cost	**304,025**	321,854

In 2009, the share-based payments credit was derived on the basis of the Group's expectation of the number of shares likely to vest having regard to the vesting conditions, the historic performance of the Group over the period since share entitlements were granted and projected future performance over the remaining life of share entitlements.

Key Management

The cost of key management including Directors is set out in the table below:

	2010	2009
Number of Individuals	**10**	10

	2010 €'000	2009 €'000
Short-term employee benefits	**3,098**	2,664
Share-based payment charge/(credit)	**77**	(234)
Retirement benefits expense	**709**	716
Pension settlement cost	**-**	756
Charged to operating profit	**3,884**	3,902

6. Finance Expense and Finance Income

	2010 €'000	2009 €'000
Finance expense:		
Bank overdrafts and bank loans	**9,094***	12,412
Net change in fair value of cash flow hedges transferred from equity	**2,175**	994
Interest on finance leases	**449**	488
Finance cost on pension scheme liabilities	**11,134#**	10,826
Interest on loan notes	**5,434***	7,091
Fair value movement on hedged financial liabilities	**10,168**	(7,720)
Fair value movement on fair value hedges	**(12,691)**	4,682
Ineffectiveness on net investment hedge	**-**	677
Ineffectiveness on cash flow hedges	**75**	60
Foreign exchange loss/(gain)	**163**	(1,009)
Recycling of foreign exchange loss on net investment hedge	**-**	918
	26,001	29,419
Finance income:		
Investment gain realised in cash	**-**	(22,058)
Ineffectiveness on net investment hedge	**(1,284)**	-
Interest income on bank deposits	**(5,007)***	(6,336)
Expected return on pension plan assets	**(12,243)#**	(9,721)
	(18,534)	(38,115)
Net finance expense/(income) recognised in income statement	**7,467**	(8,696)

**Net bank/loan note interest of €9.5 million (2009: €13.2 million)*

#Net expected pension return of €1.1 million (2009: charge of €1.1 million)

Amounts relating to items not at fair value through income statement		
- Total interest expense on financial liabilities	**26,274**	30,726
- Total interest income on financial assets	**(17,250)**	(38,115)

Recognised directly in other comprehensive income	2010 €'000	2009 €'000
Currency translation effects on foreign currency net investments	**25,584**	60,576
Currency translation effects on foreign currency borrowings and derivatives designated as net investment hedges	**(3,283)**	(16,353)
Effective portion of changes in fair value of cash flow hedges	**(2,481)**	(2,353)
Net change in fair value of cash flow hedges transferred to income statement	**2,175**	994
	21,995	42,864

7. Foreign Currencies

The results and cash flows of the Group's United Kingdom subsidiaries have been translated into euro using the average exchange rate for the year. The related balance sheets of the Group's United Kingdom subsidiaries at 31 December 2010 and 31 December 2009 have been translated at the rate of exchange ruling at the balance sheet date.

The average euro/sterling rate of exchange for the year ended 31 December 2010 was Stg85.78p (2009: Stg89.09p). The euro/sterling exchange rate at 31 December 2010 was Stg86.08p (2009: Stg88.81p).

8. Income Tax

(a) Income tax recognised in income statement

	2010 €'000	2009 €'000
Current tax (credit)/expense		
Irish corporation tax	**(7,666)**	(1,875)
UK corporation tax	**620**	(2,562)
	(7,046)	(4,437)
Deferred tax (credit)/expense		
Irish deferred tax expense/(credit) relating to the origination and reversal of temporary differences	**245**	(164)
Deferred tax resulting from change in tax rate	**972**	1,173
UK deferred tax (credit)/expense relating to the origination and reversal of temporary differences	**(32,603)**	3,616
Total deferred tax	**(31,386)**	4,625
Total income tax (credit)/expense in income statement	**(38,432)**	188

The taxation credit of €38.4 million is principally the creation of a deferred tax asset in the UK business related to future deductions that are now agreed.

(b) Reconciliation of effective tax rate

	2010 €'000	2009 €'000
Profit before tax	**25,554**	13,580
Profit before tax multiplied by the standard rate of tax of 12.5% (2009: 12.5%)	**3,194**	1,698
Effects of:		
Expenses not deductible for tax purposes	**2,651**	2,874
Differences in effective tax rates on overseas earnings	**(1,511)**	(2,788)
Recognition of UK deferred tax asset	**(34,157)**	-
Effect of change in tax rate	**972**	1,173
Other differences	**(9,581)**	(2,769)
Total income tax (credit)/expense in income statement	**(38,432)**	188

8. Income Tax (continued)

(c) Deferred tax liability/(asset) recognised directly in other comprehensive income

	2010 €'000	2009 €'000
Property, plant and equipment	-	1,012
Actuarial movement on pension schemes	**889**	(452)
Financing – cash flow hedge	**(48)**	(177)
	841	383

9. Dividend and Purchase of 'A' ordinary shares

	2010 €'000	2009 €'000
Group		
Interim dividend of 2.5 cent per Grafton Unit – paid 31 March 2010	**5,768**	-
Interim dividend of 2.5 cent per Grafton Unit – paid 8 October 2010	**5,783**	-
Purchase of one 'A' ordinary share for 5.0 cent - paid 8 April 2009	-	11,510
Purchase of one 'A' ordinary share for 2.5 cent - paid 9 October 2009	-	5,766
	11,551	17,276

The Board has agreed to pay a second interim dividend of 4.5 cent 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 11 March 2011 (the 'Record Date') and the cash consideration will be paid on 1 April 2011. An interim dividend of 2.5 cent was paid on 8 October 2010 on the 'C' Ordinary shares in Grafton Group (UK) plc from UK-sourced income. The dividend payable on 1 April 2011 is chargeable to reserves in 2011.

Notes to the Group Financial Statements

10. Earnings per Share

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

	2010 €'000	2009 €'000
Numerator for basic, adjusted and diluted earnings per share:		
Profit after tax for the financial year	**63,986**	13,392
Numerator for basic and diluted earnings per share	**63,986**	13,392
Finance income – investment profit	-	(22,058)
Intangible amortisation after tax	**1,936**	1,936
Taxation credit	**(38,432)**	-
Net rationalisation and impairment costs	**15,375**	19,072
Numerator for adjusted earnings per share	**42,865**	12,342

Denominator for basic and adjusted earnings per share:	**Number of Grafton Units**	Number of Grafton Units
Weighted average number of Grafton Units in issue	**231,176,982**	230,467,983
Effect of potential dilutive Grafton Units	**1,202,602**	782,192
Denominator for diluted earnings per share	**232,379,584**	231,250,175
Earnings per share (cent)		
- Basic	**27.68**	5.81
- Diluted	**27.54**	5.79
Adjusted earnings per share (cent)		
- Basic	**18.54**	5.36
- Diluted	**18.45**	5.34

Weighted average potential employee share scheme entitlements over 11,527,842 Grafton Units (2009: 13,135,978) which are currently anti-dilutive are therefore not included in the above calculations for diluted earnings per share and adjusted diluted earnings per share.

11. Intangible Assets and Goodwill

(a) Goodwill

	2010 €'000	2009 €'000
Cost		
At 1 January	**544,286**	532,807
Acquired during the year (note 26)	**678**	972
Goodwill written off	**-**	(135)
Deferred consideration on acquisitions written back (note 21)	**(1,084)**	(3,098)
Goodwill impairment	**-**	(5,469)
Translation adjustment	**8,951**	19,209
At 31 December	**552,831**	544,286

Goodwill acquired during the year

Goodwill acquired during the year in the amount of €678,000 (2009: €972,000), was allocated to the Merchanting cash generating unit (group of units).

Cash-generating units

The Board has concluded, for the purposes of IFRS 8 Operating Segments, that three operating segments exist, Merchanting, Retailing and Manufacturing. Goodwill is reviewed for internal management purposes at segment level determined in accordance with IFRS 8 Operating Segments.

	2010 €'000	2009 €'000
Merchanting	**548,531**	539,986
Retailing	**4,300**	4,300
	552,831	544,286

Impairment testing

Goodwill is subject to impairment testing on an annual basis and during the year if an indicator of impairment is considered to exist.

No impairment loss was recognised by the Group in 2010 (2009: €5,469,000 relating to the manufacturing segment).

Impairment testing methodology

The recoverable amount of each cash generating unit is determined based on value in use calculations. The carrying value of each cash generating unit (group of units) was compared to its estimated value in use. Value in use is calculated on the basis of estimated future cash flows discounted to present value.

Notes to the Group Financial Statements

11. Intangible Assets and Goodwill (continued)

(a) Goodwill (continued)

Estimated future cashflows were determined by reference to the budget for 2011 and management reviewed forecasts for each of the following years from 2012 to 2015 inclusive. A long-term perpetuity growth rate was applied in respect of the years after 2015. The estimates of future cash flows were based on consideration of past experience together with an assessment of the future prospects for the Group's Merchanting and Retailing businesses. This involved making assumptions concerning turnover trends, gross profit margins, overheads and operating profit margins.

The key assumptions used in the value in use calculations are the turnover growth rate, the discount rate and the perpetuity growth rate. The discount rate used was based on the Group's weighted average cost of capital as adjusted to reflect a risk premium. The weighted average cost of capital reflects an assumed equity return, based on the risk free rate for ten year Government bonds adjusted for an equity risk premium and the after-tax cost of debt. The discount rate applied was 8.75 per cent (2009: 8.50 per cent).

In determining a terminal value, it was assumed that cash flows after the first five years will increase at a nominal growth rate in perpetuity of 3 per cent (2009: 3 per cent). The rate assumed was based on an assessment of the likely long term growth prospects.

Significant goodwill amounts

The most significant cash generating unit (group of units) accounting for the majority of the carrying amount of goodwill is Merchanting.

	2010 €'000	2009 €'000
Carrying amount of goodwill	**548,531**	539,986
Carrying amount of intangibles with indefinite lives	**Nil**	Nil
Basis on which recoverable amount assessed	**Value in use**	Value in use
Discount rate	**8.75%**	8.50%

Sensitivity analysis

The value in use calculations are sensitive to changes in assumptions, particularly relating to turnover growth, the discount rate and the nominal growth rate in perpetuity. Sensitivity analysis was performed based on changes in each of these factors. A reduction in the turnover growth rate by 2 percentage points would not give rise to impairment. Similarly, an increase in the discount rate from 8.75 per cent to 10 per cent would not give rise to impairment. A reduction in the nominal growth rate in perpetuity from 3 per cent to 2 per cent would not give rise to impairment.

Expected future cash flows are subject to known and unknown risks, uncertainties and other factors and are not a guarantee of future performance. Actual cash flows may therefore differ materially from estimated future cash flows. Similarly, if different estimates of projected future cash flows were made, a higher discount rate was used, or a lower nominal growth rate in perpetuity was used, then these changes could materially alter the present value of future cash flows.

Management has identified the discount rate as the key assumption that could cause the carrying amount to exceed the recoverable amount. If the discount rate was changed to 13%, the estimated recoverable amount would be equal to the carrying amount.

11. Intangible Assets and Goodwill (continued)

(b) Intangible Assets

	Brands €'000	Customer relationships €'000	Total €'000
Cost			
At 1 January 2010	5,658	12,037	17,695
At 31 December 2010	**5,658**	**12,037**	**17,695**
Amortisation			
At 1 January 2009	2,819	5,999	8,818
Amortised during the year	707	1,505	2,212
At 1 January 2010	3,526	7,504	11,030
Amortised during the year	707	1,505	2,212
At 31 December 2010	**4,233**	**9,009**	**13,242**
Net book amount at 31 December 2010	**1,425**	**3,028**	**4,453**
Net book amount at 31 December 2009	2,132	4,533	6,665

The amortisation charge for the year has been charged to operating expenses in the income statement. Brands and customer relationships are amortised over their estimated useful lives of eight years. Brands relate to the acquisition of Heiton Group plc in 2005.

The value attributable to customer relationships was determined based on management's estimate of the profitability of recurring customers and by discounting the related forecasted cash-flow arising over the asset life.

Notes to the Group Financial Statements

12. Property, Plant and Equipment and Properties held for Resale

(a) Property, plant and equipment

	Freehold land and buildings €'000	Leasehold buildings €'000	Plant machinery and motor vehicles €'000	Total €'000
Cost				
At 1 January 2009	**418,349**	**87,473**	**305,827**	**811,649**
Additions	1,293	1,764	9,363	12,420
Acquisitions (note 26)	-	-	20	20
Disposals	(3,115)	(2,204)	(24,971)	(30,290)
Reclassification to properties held for sale	(13,020)	-	-	(13,020)
Exchange adjustment	18,790	3,621	16,811	39,222
At 1 January 2010	**422,297**	**90,654**	**307,050**	**820,001**
Additions	2,211	70	7,327	9,608
Acquisitions (note 26)	185	-	47	232
Disposals	(252)	(58)	(19,721)	(20,031)
Reclassification to properties held for sale	(3,862)	-	-	(3,862)
Exchange adjustment	8,471	1,728	7,808	18,007
At 31 December 2010	**429,050**	**92,394**	**302,511**	**823,955**
Depreciation				
At 1 January 2009	**22,978**	**17,794**	**137,541**	**178,313**
Charge for year	5,964	3,864	38,111	47,939
Disposals	(274)	(499)	(21,941)	(22,714)
Reclassification to properties held for sale	(657)	-	-	(657)
Exchange adjustment	828	873	10,581	12,282
At 1 January 2010	**28,839**	**22,032**	**164,292**	**215,163**
Charge for year	6,307	4,936	33,281	44,524
Impairment charge (note 3)	2,595	-	4,851	7,446
Disposals	(8)	(7)	(17,335)	(17,350)
Reclassification to properties held for sale	(816)	-	-	(816)
Exchange adjustment	824	546	4,851	6,221
At 31 December 2010	**37,741**	**27,507**	**189,940**	**255,188**
Net book amount				
At 31 December 2010	**391,309**	**64,887**	**112,571**	**568,767**
At 31 December 2009	393,458	68,622	142,758	604,838

12. Property, Plant and Equipment and Properties held for Resale (continued)

The Group's freehold and long leasehold properties located in the Republic of Ireland were professionally valued as at December 1998 by professional valuers in accordance with the Appraisal and Valuation Manual of the Society of Chartered Surveyors. Property acquired/purchased after December 1998 is stated at cost. The valuations which were made on an open market for existing use basis were deemed to be cost for the purpose of the transition to IFRS as adopted by the EU. The remaining properties, which are located in the United Kingdom, are included at cost less depreciation.

The property, plant and equipment of the Group includes leased assets as follows:

	Plant, machinery & motor vehicles		Leasehold properties	
	2010 €'000	2009 €'000	**2010 €'000**	2009 €'000
Cost	**3,514**	3,837	**9,256**	9,215
Accumulated depreciation	**(3,043)**	(2,894)	**(2,505)**	(2,116)
Net book amount	**471**	943	**6,751**	7,099
Depreciation charge for year	**372**	420	**376**	374

During the year, the Group repaid finance leases amounting to €0.5 million (2009: €0.4 million).

(b) Properties held for resale

The Group identified 19 (2009: 17) properties held for resale of which 17 (2009: 15) are located in the United Kingdom and 2 (2009: 2) in Ireland. The net book value of the properties held for resale is €14.69 million (2009: €12.36 million) being the original cost or fair value of €16.14 million (2009: €13.02 million) and depreciation of €1.45 million (2009: €0.66 million). These properties are shown in the balance sheet at the lower of their carrying amount and fair value less any disposal costs.

13. Financial Assets

	Other investments €'000
At 1 January 2009	**227**
Acquisitions	1
Disposals	(35)
Translation adjustment	18
At 31 December 2009	**211**
Disposal	(44)
Translation adjustment	9
At 31 December 2010	**176**

Other investments represent sundry equity investments at fair value.

Notes to the Group Financial Statements

13. Financial Assets (continued)

Interest in Joint Venture

The Group has a fifty per cent interest in Navan Retail Developments Limited, a joint venture company, whose principal activity is the development of a retail park in Navan, Co. Meath. The joint venture has been accounted for using proportionate consolidation accounting. Assets and liabilities included for Navan Retail Developments Limited in the consolidated financial statements are work-in-progress of Nil (2009: €0.8 million); other net current assets of €3.2 million (2009: €2.5 million) and reserves of €3.2 million (2009: €3.3 million) which reflects the net profit the Group has recognised in the income statement in respect of this development.

The registered office of Navan Retail Developments Limited is c/o Grafton Group plc, Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18.

Investment in Associate

The Group owns 49 per cent of the issued share capital of its associate (which was acquired in 2009 at a cost of €3.69 million).

The Group's share of the associate's profit after tax is equity accounted for and is presented as a single-line item in the Group Income Statement. No profit or loss was recognised in 2010 (2009: Nil).

The principal activity of the associate is builders merchanting.

The Group's share of the associate is as follows:

	€'000
Revenue	7,449
Profit before finance costs	20
Finance costs	(20)
Profit before taxation	-
Taxation	-
Profit after taxation	-

There were no material capital commitments or contingencies outstanding in relation to joint ventures and associates as at 31 December 2010.

14. Inventories

	2010 €'000	2009 €'000
Raw materials	**1,468**	1,326
Work in progress	**-**	760
Finished goods	**5,560**	6,364
Goods purchased for resale	**264,890**	257,298
	271,918	265,748

The inventory provision at 31 December 2010 was €18.4 million (31 December 2009: €20.2 million) and includes an impairment provision of €1.15 million relating to the manufacturing segment (note 3).

15. Trade and Other Receivables

	2010 €'000	2009 €'000
Amounts falling due within one year:		
Trade receivables	**213,840**	225,652
Other receivables	**91,720**	81,211
	305,560	306,863

The carrying amount of trade and other receivables represents the maximum credit exposure.

The maximum exposure to credit risk for trade and other receivables at the reporting date by geographic region was:

	Carrying Amount	
	2010 €'000	2009 €'000
Ireland	**76,783**	98,857
United Kingdom	**228,777**	208,006
	305,560	306,863

There is no material concentration of credit risk to individual end-user customers in the construction industry included in trade and other receivables.

The ageing of trade and other receivables at 31 December was:

	Gross Value 2010 €'000	**Impairment 2010 €'000**	Gross Value 2009 €'000	Impairment 2009 €'000
Not Past Due	**261,449**	**-**	268,353	-
Past Due				
0-30 days	**30,761**	**(2,367)**	23,027	(1,332)
30-60 days	**26,781**	**(12,506)**	33,152	(17,037)
+60 days	**4,323**	**(2,881)**	4,651	(3,951)
	61,865	**(17,754)**	60,830	(22,320)
	323,314	**(17,754)**	329,183	(22,320)

Movement in Impairment Provision

	2010 €'000	2009 €'000
At 1 January	**22,320**	27,309
Written off during year	**(17,478)**	(17,717)
Additional provision	**12,648**	11,930
Translation adjustment	**264**	798
At 31 December	**17,754**	22,320

The additional provision in 2010 includes an impairment provision of €1.45 million relating to the manufacturing segment (note 3).

16. Share Capital and Share Premium

Group and Company	2010 €'000	2009 €'000
Authorised:		
Equity shares		
300 million ordinary shares of 5c each	**15,000**	15,000
30 billion 'A' ordinary shares of 0.001c each	**300**	300
	15,300	15,300

	Issue Price €	Number of Shares	2010 Nominal Value €'000	2009 Nominal Value €'000
Issued and fully paid:				
Ordinary shares				
At 1 January		**231,176,763**	**11,559**	11,535
Issued under UK SAYE scheme		**10,232**	**1**	-
Grafton Group Share Schemes				
Date options and entitlements to acquire shares granted				
July 1999	1.81	**-**	**-**	22
May 2000	2.07	**594,317**	**30**	2
May 2001	2.83	**74,289**	**3**	-
		668,606	**33**	24
At 31 December		**231,855,601**	**11,593**	11,559
'A' ordinary shares				
At 1 January		**3,930,004,971**	**39**	44
'A' ordinary shares issued in year		**11,540,246**	**-**	-
Purchase of 1 'A' ordinary share per Grafton Unit		**-**	**-**	(2)
Purchase of 1 'A' ordinary share per Grafton Unit		**-**	**-**	(3)
At 31 December		**3,941,545,217**	**39**	39
Total nominal share capital issued			**11,632**	11,598

16. Share Capital and Share Premium (continued)

Share Premium

Group and Company	2010 €'000	2009 €'000
At 1 January	**289,800**	288,951
Premium on issue of shares under UK SAYE scheme	**29**	7
Premium on issue of shares under Grafton Group Share Scheme	**1,409**	855
Cost of share issues	**(22)**	(13)
At 31 December	**291,216**	289,800

Grafton Units issued during 2010

The number of Grafton Units issued during the year under the Group's Executive Share Schemes was 678,838 (2009: 482,628) and the total consideration received amounted to €1,472,000 (2009: €886,000). Costs relating to the issues were €22,000 (2009: €13,000).

Grafton Units

At 31 December 2010 and at 31 December 2009, a Grafton Unit comprised one ordinary share of 5 cent and seventeen 'A' ordinary shares of 0.001 cent each in Grafton Group plc and one 'C' ordinary share of Stg0.0001p in Grafton Group (UK) plc.

Ordinary shares

The holders of ordinary shares are entitled to attend, speak and vote at all General Meetings of the Company.

'A' ordinary shares

At 31 December 2010, there were seventeen 'A' Ordinary Shares per Grafton Unit.

All 'A' ordinary shares purchased from 2004 to 2009 were cancelled.

The 'A' ordinary shares rank pari passu with ordinary shares regarding any dividends declared. On a return of capital on a winding up or otherwise (other than on conversion, redemption or purchase of shares), the holders of 'A' ordinary shares are entitled, pari passu with the holders of the ordinary shares, to the repayment of their nominal value of 0.001 cent per share, with no right to participate any further. The holders of the 'A' ordinary shares are not entitled to receive notice of any general meeting of Grafton or to attend, speak or vote at any such general meeting, unless the business of the meeting includes a resolution varying or abrogating any of the special rights attaching to such shares.

16. Share Capital and Share Premium (continued)

'C' ordinary shares

The 'C' ordinary shares do not entitle their holders to receive notice of, attend or vote at any general meeting of Grafton Group (UK) plc unless the business of the meeting includes a resolution varying or abrogating any of the special rights attaching to such shares. If dividends are declared on 'C' ordinary shares, the holder of a Grafton Unit shall be entitled to be paid dividends in respect of the 'C' ordinary shares comprised in such Grafton Unit. On a return of capital on a winding up or otherwise (other than on conversion, redemption or purchase of shares) the holders of 'C' ordinary shares are entitled, pari passu with the holders of the 'A' ordinary shares and 'B' ordinary shares in Grafton Group (UK) plc, to the repayment of their nominal value of Stg0.0001p per share, with no right to participate any further. Any holder of a 'C' ordinary share, with the prior approval of an extraordinary resolution of the holders of the 'C' ordinary shares or with the prior consent in writing of the holders of at least three quarters in nominal value of the issued 'C' ordinary shares, is entitled to call for all the holders of the 'A' ordinary shares and/or 'B' ordinary shares to acquire all the 'C' ordinary shares at their nominal value.

Treasury Shares

The Group holds 500,000 (2009: 500,000) Grafton Units (cost: €5,746,000) as treasury shares.

17. Group Statement of Changes in Equity

The capital redemption reserve is a legal reserve which arose from the purchase of 'A' ordinary shares, the redemption of redeemable shares in prior years and from shares bought back and cancelled in 2007.

The revaluation reserve was created as a result of a property revaluation in 1998.

The shares to be issued reserve comprises amounts expensed in the income statement in connection with share-based payments, net of transfers to retained earnings on the exercise of share entitlements.

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

The foreign currency translation reserve arises from the currency effect of the investment in the UK group as adjusted for foreign currency borrowings and derivatives designated as net investment hedges.

Notes to the Group Financial Statements

18. Interest Bearing Loans and Borrowings

	2010 €'000	2009 €'000
Non-current liabilities		
Sterling bank loans	**1,318**	71,613
Euro bank loans	**259,466**	341,357
2005 unsecured senior US dollar loan notes	**58,466**	83,819
2005 unsecured senior US dollar loan notes (Stg)	**27,319**	33,098
Finance leases	**6,450**	6,902
	353,019	536,789

	2010 €'000	2009 €'000
Current liabilities		
Bank overdrafts	**-**	1
Sterling bank loans	**72,225**	36,534
Euro bank loans	**40,000**	29,497
2005 unsecured senior US dollar loan notes	**31,843**	29,649
2005 unsecured senior US dollar loan notes (Stg)	**6,830**	6,620
Vendor loan notes	**17**	311
Finance leases	**517**	562
	151,432	103,174

Refinancing of Bank Debt

On 30 August 2010, the Group completed a refinancing of existing bank debt. The proceeds from the drawdown of borrowings and the repayment of existing borrowings have been presented gross in the cash flow statement.

2005 Unsecured Senior US Dollar Loan Notes

In June 2005, the Group completed a US$325 million debt financing at fixed interest rates ranging from 4.68 per cent to 4.88 per cent in the US Private Placement Market and issued unsecured senior loan notes maturing between 2008 and 2015. US$250 million of the US dollar proceeds were swapped into sterling using a cross currency interest rate derivative which also changed the interest rate payable on the loan notes to sterling variable by reference to six month LIBOR rates plus a margin. The balance of US$75 million was received in sterling and the interest rate payable on the loan notes is currently variable by reference to three month LIBOR rates.

Vendor Loan Notes

Loan notes were issued to vendors of businesses acquired and are redeemable at the option of the note holders on specified dates during 2011. The interest rates payable on these loan notes are set at fixed rates or on terms directly related to LIBOR.

18. Interest Bearing Loans and Borrowings (continued)

Maturity of Financial Liabilities

The maturity profile of the Group's interest bearing financial liabilities (bank debt, loan notes and finance leases) can be summarised as follows:

	Bank loans and overdrafts 2010 €'000	**Loan notes 2010 €'000**	**Finance leases 2010 €'000**	**Total 2010 €'000**	Bank loans and overdrafts 2009 €'000	Loan notes 2009 €'000	Finance leases 2009 €'000	Total 2009 €'000
Due within one year	**112,225**	**38,690**	**517**	**151,432**	66,032	36,580	562	103,174
Between one and two years	**50,199**	**39,021**	**472**	**89,692**	297,248	36,539	471	334,258
Between two and three years	**209,664**	**15,588**	**472**	**225,724**	115,722	36,539	471	152,732
Between three and four years	**199**	**15,588**	**472**	**16,259**	-	14,613	471	15,084
Between four and five years	**199**	**15,588**	**472**	**16,259**	-	14,613	471	15,084
After five years	**523**	**-**	**4,562**	**5,085**	-	14,613	5,018	19,631
	373,009	**124,475**	**6,967**	**504,451**	479,002	153,497	7,464	639,963
Derivatives				**(15,066)**				(15,510)
Gross Debt				**489,385**				624,453
Cash and short-term deposits				**(234,275)**				(301,985)
Net debt				**255,110**				322,468
Shareholders' funds				**990,340**				911,749
Gearing				**26%**				35%

18. Interest Bearing Loans and Borrowings (continued)

The following table indicates the effective interest rates at 31 December 2010 in respect of interest bearing financial assets and financial liabilities and the periods in which they re-price. The effective interest rate and timing of re-pricing were both adjusted for the effect of derivatives.

	Effective Interest Rate	Total €'000	6 months or less €'000	6 to 12 months €'000	1-2 years €'000	2-5 years €'000	More than 5 years €'000
Sterling deposits	0.72%	142,183	142,183	-	-	-	-
Euro deposits	1.35%	24,904	24,904	-	-	-	-
US Dollar deposits	0.65%	1,885	1,885	-	-	-	-
Cash at bank	0%-0.50%	65,303	65,303	-	-	-	-
Cash and cash equivalents		234,275	234,275	-	-	-	-
Floating rate debt:							
Euro loans	2.24%	(163,466)	(163,466)	-	-	-	-
Sterling loans	1.36%	(73,543)	(73,543)	-	-	-	-
Total floating rate debt		(237,009)	(237,009)	-	-	-	-
Fixed rate debt:							
Euro loans	5.06%	(136,000)	(76,000)	-	(20,000)	(40,000)	-
Finance leases	6.00%	(6,967)	(517)	-	(472)	(1,416)	(4,562)
Total fixed rate debt		(142,967)	(76,517)	-	(20,472)	(41,416)	(4,562)
Floating rate loan notes:							
US dollar loan notes 2005	1.60%	(90,309)	(90,309)	-	-	-	-
US dollar loan notes 2005 (Stg)	1.28%	(34,149)	(34,149)	-	-	-	-
Vendor loan notes		(17)	(17)	-	-	-	-
Total loan notes		(124,475)	(124,475)	-	-	-	-
Derivatives		15,066	15,860	-	(265)	(529)	-
Total Net Debt		(255,110)	(187,866)	-	(20,737)	(41,945)	(4,562)

Borrowing Facilities

The Group had an undrawn committed borrowing facility at 31 December 2010 of €68.35 million (2009: €2.8 million) in respect of which all conditions precedent were met and which expires in 2013.

18. Interest Bearing Loans and Borrowings (continued)

The following table indicates the effective interest rates at 31 December 2009 in respect of interest bearing financial assets and financial liabilities and the periods in which they re-price. The effective interest rate and timing of re-pricing were both adjusted for the effect of derivatives.

	Effective Interest Rate	Total €'000	6 months or less €'000	6 to 12 months €'000	1-2 Years €'000	2-5 Years €'000	More than 5 years €'000
Sterling deposits	2.74%	152,655	124,505	28,150	-	-	-
Euro deposits	2.32%	106,185	96,185	10,000	-	-	-
Cash at bank	1.00%	43,145	43,145	-	-	-	-
Cash and cash equivalents		301,985	263,835	38,150	-	-	-
Sterling bank overdrafts	2.00%	(1)	(1)	-	-	-	-
Deposits and cash less overdrafts		301,984	263,834	38,150			
Floating rate debt:							
Euro loans	1.22%	(234,854)	(234,854)	-	-	-	-
Sterling loans	1.44%	(108,147)	(108,147)	-	-	-	-
Total floating rate debt		(343,001)	(343,001)	-	-	-	-
Fixed rate debt:							
Euro loans	2.70%	(136,000)	-	-	(136,000)	-	-
Finance leases	6.00%	(7,464)	(562)	-	(471)	(1,413)	(5,018)
Total fixed rate debt		(143,464)	(562)	-	(136,471)	(1,413)	(5,018)
Floating rate loan notes:							
US dollar loan notes 2005	1.40%	(113,468)	(113,468)	-	-	-	-
US dollar loan notes 2005 (Stg)	1.13%	(39,718)	(39,718)	-	-	-	-
Vendor loan notes	1.48%	(311)	(311)	-	-	-	-
Total loan notes		(153,497)	(153,497)	-	-	-	-
Derivatives		15,510	16,929	-	(1,419)	-	-
Total net debt		(322,468)	(216,297)	38,150	(137,890)	(1,413)	(5,018)

19. Financial Instruments and Financial Risk

The fair values of financial assets and liabilities together with the carrying amounts shown in the balance sheet are as follows:

At 31 December 2010	Cashflow and net investment hedges €'000	Fair value hedges €'000	Receivables €'000	Liabilities at amortised cost €'000	Total carrying value €'000	Fair value €'000
Other investments	-	-	176	-	176	176
Trade receivables and other receivables	-	-	305,560	-	305,560	305,560
Cash and cash equivalents	-	-	234,275	-	234,275	234,275
Cross-currency interest rate swaps	22,552	(5,686)	-	-	16,866	16,866
	22,552	(5,686)	540,011	-	556,877	556,877
Interest rate swaps	(1,800)	-	-	-	(1,800)	(1,800)
Euro bank loans	-	-		(299,466)	(299,466)	(298,325)
Sterling bank loans	-	-	-	(73,543)	(73,543)	(71,664)
Finance leases	-	-	-	(6,967)	(6,967)	(6,967)
2005 unsecured Senior US Dollar Loan notes	-	(90,309)	-	(34,149)	(124,458)	(122,127)
Vendor loan notes	-	-	-	(17)	(17)	(17)
	(1,800)	(90,309)	-	(414,142)	(506,251)	(500,900)

At 31 December 2009	Cashflow and net investment hedges €'000	Fair value hedges €'000	Receivables €'000	Liabilities at amortised cost €'000	Total carrying value €'000	Fair value €'000
Other investments	-	-	211	-	211	211
Trade receivables and other receivables	-	-	306,863	-	306,863	306,863
Cash and cash equivalents	-	-	301,985	-	301,985	301,985
Cross-currency interest rate swaps	32,912	(15,983)	-	-	16,929	16,929
	32,912	(15,983)	609,059	-	625,988	625,988
Interest rate swaps	(1,419)	-	-	-	(1,419)	(1,419)
Euro bank loans	-	-	-	(370,854)	(370,854)	(349,944)
Sterling bank loans	-	-	-	(108,147)	(108,147)	(91,418)
Bank overdrafts	-	-	-	(1)	(1)	(1)
Finance leases	-	-	-	(7,464)	(7,464)	(7,464)
2005 unsecured Senior US Dollar Loan notes	-	(113,468)	-	(39,718)	(153,186)	(135,290)
Vendor loan notes	-	-	-	(311)	(311)	(311)
	(1,419)	(113,468)	-	(526,495)	(641,382)	(585,847)

19. Financial Instruments and Financial Risk (continued)

Fair Value

A number of the Group's accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. Set out below is an analysis of financial instruments carried at fair value, by valuation method. The different levels in the fair value hierarchy have been defined as follows:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within level 1 that are observable, either directly or indirectly
- Level 3: inputs that are not based on observable market data.

Fair values have been determined for measurement and/or disclosure purposes based on the following methods.

Trade and other receivables/trade and other payables

For receivables and payables with a remaining life of less than six months or demand balances, the amount that is payable contractually less impairment provision, where appropriate, is deemed to reflect fair value. All other receivables and payables are discounted to fair value on initial recognition and subsequent fair value.

Cash and cash equivalents, including short-term bank deposits

For short term bank deposits and cash and cash equivalents, all of which have a remaining maturity of less than three months, the nominal amount is deemed to reflect fair value.

Derivative instruments (Cross currency interest rate swaps and interest rate swaps)

The fair values of cross currency interest rate swaps and 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.

Interest bearing loans and borrowings

In the case of fixed rate borrowings which are designated in a fair value hedge relationship, the carrying value of the instruments is adjusted for measurement purposes for changes in the fair value attributable to the hedged risk. This is calculated by reference to the present value of the contracted future cash flows based on the terms and maturity of each loan instrument to which prevailing market interest rates, applicable for a similar instrument at the measurement date, are applied to adjust the carrying value to fair value following which it is translated into euro at appropriate foreign currency rates. The total amount of fair value changes that were recognised in the income statement for the year is shown in note 6 to the Group Financial Statements.

The fair value calculated for disclosure purposes of other interest-bearing loans and borrowings which are carried at amortised cost is based on the fair value of the expected future principal and interest cash flows discounted at interest rates effective at the balance sheet date and adjusted for movements in credit spreads.

Finance lease liabilities

Fair value is based on the present value of future cash flows discounted at market rates.

19. Financial Instruments and Financial Risk (continued)

At 31 December 2010 and 31 December 2009, the Group held the following financial instruments at fair value:

	2010 Total €'000	2010 Level 1 €'000	2010 Level 2 €'000	2010 Level 3 €'000
Assets measured at fair value				
Cross-currency interest rate swaps	**16,866**	**-**	**16,866**	**-**
Liabilities measured at fair value				
2005 unsecured Senior US Dollar loan notes	**(90,309)**	**-**	**(90,309)**	**-**
Interest rate swaps	**(1,800)**	**-**	**(1,800)**	**-**

	2009 Total €'000	2009 Level 1 €'000	2009 Level 2 €'000	2009 Level 3 €'000
Assets measured at fair value				
Cross-currency interest rate swaps	16,929	-	16,929	-
Liabilities measured at fair value				
2005 unsecured Senior US Dollar loan notes	(113,468)	-	(113,468)	-
Interest rate swaps	(1,419)	-	(1,419)	-

Risk Exposures and Group Treasury Policy

The Group's operations expose it to various financial risks that include credit risk, liquidity risk, currency risk and interest rate risk. The Group's treasury policies, which are regularly reviewed, are designed to reduce financial risk in a cost efficient way. A limited number of foreign exchange swaps, spot foreign currency contracts and interest rate swaps are undertaken periodically to hedge underlying interest rate, fair value and currency exposures and it is Board policy to manage these risks in a non-speculative manner.

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- currency risk
- interest rate risk

19. Financial Instruments and Financial Risk (continued)

The manner in which the Group is exposed to each of these risks and the risk management policies applied are discussed below.

The Board of Directors has the overall responsibility for the establishment and oversight of the Group's risk management framework. The Board is responsible for developing and monitoring the Group's risk management policies.

The Board and the Audit Committee have reviewed the process for identifying and evaluating the significant risks affecting the business and the policies and procedures by which these risks will be managed effectively.

Credit Risk

Credit risk arises from credit to customers, a joint venture and an associate arising on outstanding receivables and outstanding transactions. Credit risk also arises on cash and cash equivalents, derivative financial instruments and cash and deposits with banks and financial institutions.

Exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed regularly. New customers are subject to initial credit checks including trade and bank references. New customers may also be subject to restricted credit limits prior to a credit history being established. Due to the established nature of the businesses and customer relationships, the majority of the customers have long-standing trading histories with the Group companies.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures and a collective loss component established for groups of similar assets in respect of losses that may have been incurred but not yet identified.

Cash and short term bank deposits are invested with a range of Irish and UK banks.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet. The maximum exposure to credit risk at 31 December 2010 was:

	2010 €'000	2009 €'000
Other financial assets	**176**	211
Investment in associate	**3,690**	3,690
Trade and other receivables	**305,560**	306,863
Cash and cash equivalents	**234,275**	301,985
Cross currency interest rate swaps	**16,866**	16,929
	560,567	629,678

Additional disclosures in relation to the Group's exposure to credit risk arising from trade and other receivables is set out in note 15.

19. Financial Instruments and Financial Risk (continued)

The maximum exposure to credit risk for cash and cash equivalents at the reporting date was:

	Carrying Amount	
	2010	2009
	€'000	€'000
Domestic financial institutions	**47,672**	262,175
United Kingdom financial institutions	**186,603**	39,810
	234,275	301,985

The cash on deposit is primarily held with Ulster Bank, Lloyds and Bank of Ireland.

Foreign Currency Risk Management

Transactional foreign exchange risk arises from foreign currency transactions, assets and liabilities. Management requires all Group operations to manage foreign exchange trading risks against the functional currency. The majority of trade conducted by the Group's Irish businesses is in euro. Sterling is the principal currency for the Group's UK businesses. Therefore the level of transactional foreign exchange exposure is not significant. These currency risks are regularly monitored and managed by utilising spot and forward foreign currency contracts as appropriate for settling liabilities arising from the purchase of goods for resale in non-functional currencies. The vast majority of transactions entered into by Group entities are denominated in functional currencies and no significant level of hedging is required.

A significant part of the Group's net worth is denominated in sterling reflecting ongoing profit after tax reserves retained in sterling in the UK business. The Group is therefore subject to a structural foreign exchange exposure. This is addressed in the sensitivity analysis below.

Borrowings made in a non-functional currency are immediately swapped into a functional currency.

Sensitivity Analysis

A ten per cent strengthening of the euro exchange rate against the sterling exchange rate during the year would have decreased equity and profit after tax by the amount shown below. This assumes that all variables, in particular the results and financial position of each sterling functional currency entity and interest rates, remained constant. A ten per cent weakening of the euro exchange rate against the sterling exchange rate would have an equal and opposite effect on the amounts shown below on the basis that all variables remain constant.

	Equity €'000	**Profit after tax €'000**
31 December 2010 **10% strengthening of euro currency against sterling**	(74,000)	(7,500)
31 December 2009 10% strengthening of euro currency against sterling	(65,000)	(3,900)

19. Financial Instruments and Financial Risk (continued)

Hedging

The Group has exposure to changes in interest rates on certain debt instruments and took the decision to eliminate an element of this risk by entering into interest rate swaps. The nominal value of contracts outstanding is €136,000,000 and the period hedged is from January 2009 to January 2014.

The Group classified its interest rate swaps as cash flow hedges and stated them at their fair value. The fair value of these swaps at 31 December 2010 was €1.80 million (31 December 2009: €1.42 million). An entry of €306,000 (2009: €1.36 million) was recorded in the cash flow hedge reserve in other comprehensive income with the balance of €75,000 (2009: €60,000) being the ineffective portion of the hedge taken to the Group Income Statement (see Note 6).

The Group has exposure to fair value risk and US dollar fluctuations through certain fixed rate US dollar Private Placements. The Group's policy is to hedge this exposure to currency and fair value movements. This is achieved by matching the funding with the currency in which the finance raised will be used. In order to achieve this objective the Group entered into a number of cross currency interest rate swaps to swap the debt into floating rate sterling.

The Group has designated its cross currency interest rate swaps (CCIRS) as both a hedge of its fair value exposure to interest rate fair value and currency risk associated with its fixed rate firm commitment in its US$ Senior Notes and a hedge of the Group's exposure to foreign currency risk arising on its net investment hedge in operations in the UK. The fair value of these swaps at 31 December 2010 was an asset of €16,866,000 and was included in current assets (€5,798,000) and non-current assets (€11,068,000). The fair value of these swaps at 31 December 2009 was an asset of €16,929,000.

To the extent that the CCIRS are designated in a fair value hedging relationship, movements in fair value have been recognised in the income statement as set out in Note 6. The effective portion of fair value movements attributable to the hedge of net investments in foreign operations is recorded in other comprehensive income.

Interest Rate Risk

The majority of the Group's ongoing operations are financed from a mixture of cash generated from operations and borrowings. Other than the US dollar borrowings which were secured at fixed interest rates, borrowings are initially secured at floating interest rates and interest rate risk is monitored on an ongoing basis. Interest rate swaps are used to manage interest rate risk when considered appropriate having regard to the interest rate environment.

Cash Flow Sensitivity Analysis for Variable Rate Instruments

A reduction of 100 basis points in interest rates at the reporting date would have increased profit before tax by €2.6 million (2009: €3.2 million) on the basis of the Group's net debt of €255 million remaining unchanged and assuming that the Group's cash deposits earn a rate of interest equivalent to the interest rate payable on gross debt. This also assumes that all other variables including foreign currency rates remain constant. An increase of 100 basis points on the same basis would have an equal and opposite effect.

19. Financial Instruments and Financial Risk (continued)

Capital Management

Capital comprises share capital, share premium and other reserves.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and in order to finance the future development of the business. The Board also seeks to maintain a balance between the potentially higher returns that might be achievable with higher levels of borrowings and the advantages and security afforded by a capital position with a lower level of debt.

There were no changes in the Group's approach to capital management during the year.

The Directors monitor the Company's share price and may from time to time exercise their powers to make market purchases of the Company's own shares, at price levels which they consider to be in the best interests of the shareholders generally, after taking account of the Company's overall financial position.

Details of bank covenants are outlined in the Group Finance Review on page 12.

Funding and Liquidity

The Group has cash resources at its disposal which together with undrawn bank facilities and cash-flow from operations should provide flexibility in financing its operations.

The following are the undiscounted contractual maturities of financial liabilities, including interest payments and excluding the impact of netting arrangements:

31 December 2010	Carrying Amount	Contractual Cash Flow*	Within 1 Year	Between 1 and 2 Years	Between 2 and 5 Years	Greater Than 5 years
	€'000	€'000	€'000	€'000	€'000	€'000
Non-Derivative Financial Instruments						
Bank Loans	373,009	402,593	123,171	60,113	218,696	613
US dollar loan notes	124,458	127,272	41,064	39,512	46,696	-
Vendor loan notes	17	17	17	-	-	-
Finance lease liabilities	6,967	19,241	947	947	2,662	14,685
Trade and other payables	399,890	399,890	399,890	-	-	-
Provisions	23,883	23,883	6,328	17,555	-	-
Derivative Financial Instruments						
Cross currency swaps used for hedging						
- Outflow	-	75,574	27,044	26,838	21,692	-
- Inflow	(16,866)	(92,033)	(33,841)	(32,376)	(25,816)	-
Interest rate swaps used for hedging	1,800	2,019	1,281	556	182	-
	913,158	958,456	565,901	113,145	264,112	15,298

**includes interest*

19. Financial Instruments and Financial Risk (continued)

31 December 2009	Carrying Amount €'000	Contractual Cash Flow €'000	Within 1 Year €'000	Between 1 and 2 Years €'000	Between 2 and 5 Years €'000	Greater Than 5 years €'000
Non-Derivative Financial Instruments						
Bank Loans	479,001	493,517	73,129	302,775	117,613	-
US dollar loan notes	153,186	159,172	39,778	38,344	66,775	14,275
Vendor loan notes	311	311	311	-	-	-
Finance lease liabilities	7,464	20,376	1,207	1,207	2,507	15,455
Trade and other payables	387,331	387,331	387,331	-	-	-
Provisions	24,780	24,780	7,980	16,800	-	-
Bank overdraft	1	1	1	-	-	-
Derivative Financial Instruments						
Cross currency swaps used for hedging						
- Outflow	-	101,929	26,614	27,151	41,346	6,818
- Inflow	(16,929)	(118,111)	(32,747)	(31,388)	(46,357)	(7,619)
Interest rate swaps used for hedging	1,419	1,562	1,318	375	(131)	-
	1,036,564	1,070,868	504,922	355,264	181,753	28,929

The following table indicates the periods in which cash flows associated with derivatives that are cash flow hedges are expected to occur.

31 December 2010	**Carrying Amount €'000**	**Expected Cash Flow €'000**	**6 Months or Less €'000**	**6 to 12 Months €'000**	**1 to 2 Years €'000**	**2 to 3 Years €'000**	**3 to 4 Years €'000**	**4 to 5 Years €'000**
Interest rate swaps	**(1,800)**	**(2,019)**	**(834)**	**(447)**	**(556)**	**(170)**	**(12)**	**-**

31 December 2009	**Carrying Amount €'000**	**Expected Cash Flow €'000**	**6 Months or Less €'000**	**6 to 12 Months €'000**	**1 to 2 Years €'000**	**2 to 3 Years €'000**	**3 to 4 Years €'000**	**4 to 5 Years €'000**
Interest rate swaps	(1,419)	(1,562)	(1,083)	(235)	(375)	(1)	99	33

20. Derivatives

	2010 €'000	2009 €'000
Included in non-current liabilities:		
Fair value of interest rate swaps	**(812)**	(682)
Included in current liabilities:		
Fair value of interest rate swaps	**(988)**	(737)
	(1,800)	(1,419)
Included in non-current assets:		
Fair value of cross currency swaps	**11,068**	12,524
Included in current assets:		
Fair value of cross currency swaps	**5,798**	4,405
	16,866	16,929

Nature of Derivative Instruments as at 31 December 2010

	Hedge Period	Nature of hedging instrument	Notional payable amount of contracts outstanding	Notional receivable amount of contracts outstanding	Fair value asset €'000	Fair value liability €'000
Cross Currency Swap	June 2005 to June 2015	Fixed Rate USD $ to floating Stg £	USD $113,571,428	STG£62,539,333	16,866	-

	Hedge Period	Nature of hedging instrument	Notional payable amount of contracts outstanding	Notional receivable amount of contracts outstanding	Fair value asset €'000	Fair value liability €'000
Interest Rate Swap	Jan 2009 to Jan 2014	Floating interest rate to fixed interest rate	€136,000,000	€136,000,000	-	(1,800)

20. Derivatives (continued)

Nature of Derivative Instruments as at 31 December 2009

	Hedge Period	Nature of hedging instrument	Notional payable amount of contracts outstanding	Notional receivable amount of contracts outstanding	Fair value asset €'000	Fair value liability €'000
Cross Currency Swap	June 2005 to June 2015	Fixed Rate USD $ to floating Stg £	USD$154,285,713	Stg £84,959,094	16,929	-

	Hedge Period	Nature of hedging instrument	Notional payable amount of contracts outstanding	Notional receivable amount of contracts outstanding	Fair value asset €'000	Fair value liability €'000
Interest Rate Swap	Jan 2009 to Jan 2014	Floating interest rate to fixed interest rate	€136,000,000	€136,000,000	-	(1,419)

21. Provisions

	2010 €'000	2009 €'000
Non-current liabilities		
Insurance provision	**13,950**	13,747
Onerous leases	**1,343**	1,309
Dilapidation provision	**2,262**	1,744
	17,555	16,800
Current liabilities:		
Insurance provision	**3,397**	3,255
Deferred acquisition consideration	**2,681**	4,475
WEEE provision	**250**	250
	6,328	7,980

21. Provisions (continued)

Insurance provision	Non-current 2010 €'000	Non-current 2009 €'000	Current 2010 €'000	Current 2009 €'000	Total 2010 €'000	Total 2009 €'000
At 1 January	**13,747**	-	**3,255**	-	**17,002**	-
Reclassification from accruals	**-**	14,141	**-**	2,589	**-**	16,730
Charged	**3,183**	1,128	**887**	1,047	**4,070**	2,175
Paid during the year	**(2,980)**	(1,522)	**(745)**	(381)	**(3,725)**	(1,903)
At 31 December	**13,950**	13,747	**3,397**	3,255	**17,347**	17,002

Deferred acquisition consideration	Non-current 2010 €'000	Non-current 2009 €'000	Current 2010 €'000	Current 2009 €'000	Total 2010 €'000	Total 2009 €'000
At 1 January	**-**	1,680	**4,475**	6,831	**4,475**	8,511
Reclassification to short term	**-**	(1,680)	**-**	1,680	**-**	-
Deferred consideration written back (note 11)	**-**	-	**(1,084)**	(3,098)	**(1,084)**	(3,098)
Paid during the year	**-**	-	**(853)**	(1,556)	**(853)**	(1,556)
Foreign exchange	**-**	-	**143**	618	**143**	618
At 31 December	**-**	-	**2,681**	4,475	**2,681**	4,475

The deferred acquisition consideration is payable over the period from January to December 2011 subject to certain conditions. The deferred acquisition consideration written back was due to performance targets not being met.

Other provisions	Onerous leases non-current 2010 €'000	Onerous leases non-current 2009 €'000	WEEE provision current 2010 €'000	WEEE provision current 2009 €'000
At 1 January	**1,309**	-	**250**	245
Charged	**34**	1,309	**-**	5
At 31 December	**1,343**	1,309	**250**	250

	Dilapidation provision non- current 2010 €'000	Dilapidation provision non- current 2009 €'000
At 1 January	**1,744**	-
Reclassification from accruals	**-**	813
Charged	**492**	931
Foreign exchange	**26**	-
At 31 December	**2,262**	1,744

Notes to the Group Financial Statements

22. Trade and Other Payables

	2010 €'000	2009 €'000
Trade payables	**300,936**	282,761
Accruals	**81,159**	80,989
Social welfare	**3,205**	3,145
Income tax deducted under PAYE	**3,647**	3,706
Value added tax	**10,943**	16,730
	399,890	387,331

23. Obligations under Finance Leases

	2010			2009		
	Minimum lease payments €'000	**Interest €'000**	**Principal €'000**	Minimum lease payments €'000	Interest €'000	Principal €'000
Committed finance lease obligations:						
Within one year	**947**	**430**	**517**	1,207	645	562
Between one and five years	**3,609**	**1,721**	**1,888**	3,714	1,830	1,884
Later than five years	**14,685**	**10,123**	**4,562**	15,455	10,437	5,018
	19,241	**12,274**	**6,967**	20,376	12,912	7,464

Under the terms of the leases, no contingent rents are payable.

24. Deferred Taxation

Recognised deferred tax assets and liabilities	**Assets 2010 €'000**	**Liabilities 2010 €'000**	**Net (assets)/ liabilities 2010 €'000**	Assets 2009 €'000	Liabilities 2009 €'000	Net (assets)/ liabilities 2009 €'000
Property, plant and equipment	**(26,563)**	**36,626**	**10,063**	(6,692)	42,559	35,867
Intangible assets	**-**	**557**	**557**	-	833	833
Financing	**(15,443)**	**-**	**(15,443)**	(8,847)	-	(8,847)
Other items	**(2,212)**	**416**	**(1,796)**	(3,002)	573	(2,429)
Pension	**(2,034)**	**-**	**(2,034)**	(3,918)	-	(3,918)
(Assets)/liabilities	**(46,252)**	**37,599**	**(8,653)**	(22,459)	43,965	21,506

24. Deferred Taxation (continued)

Analysis of net deferred tax (asset)/liability

	Balance 1 Jan 10 €'000	Recognised in income €'000	Recognised in other comprehensive income €'000	Foreign exchange retranslation €'000	Arising on acquisitions €'000	Balance 31 Dec 10 €'000
Property, plant and equipment	35,867	(26,434)	-	585	45	10,063
Intangible assets	833	(276)	-	-	-	557
Financing	(8,847)	(6,295)	(48)	(253)	-	(15,443)
Other items	(2,429)	574	-	59	-	(1,796)
Pension	(3,918)	1,045	889	(50)	-	(2,034)
	21,506	(31,386)	841	341	45	(8,653)

	Balance 1 Jan 09 €'000	Recognised in income €'000	Recognised in other comprehensive income €'000	Foreign exchange retranslation €'000	Arising on acquisitions €'000	Balance 31 Dec 09 €'000
Property, plant and equipment	33,278	605	1,012	971	1	35,867
Intangible assets	1,109	(276)	-	-	-	833
Financing	(9,770)	1,882	(177)	(782)	-	(8,847)
Other items	(3,679)	766	-	484	-	(2,429)
Pension	(5,110)	1,648	(452)	(4)	-	(3,918)
	15,828	4,625	383	669	1	21,506

25. Movement in Working Capital

	Inventory €'000	Trade and other receivables €'000	Trade and other payables €'000	Total €'000
At 1 January 2009	331,124	353,581	(416,498)	268,207
Translation adjustment	12,383	24,188	(29,949)	6,622
Interest accrual and other movements	-	822	2,492	3,314
Acquisitions (note 26)	463	660	(267)	856
Movement in 2009	(78,222)	(72,388)	56,891	(93,719)
At 1 January 2010	**265,748**	**306,863**	**(387,331)**	**185,280**
Translation adjustment	**4,997**	**6,594**	**(6,810)**	**4,781**
Interest accruals and other movements	**-**	**(1,719)**	**(60)**	**(1,779)**
Asset impairment	**(1,145)**	**(1,448)**	**-**	**(2,593)**
Acquisitions (note 26)	**614**	**277**	**(200)**	**691**
Movement in 2010	**1,704**	**(5,007)**	**(5,489)**	**(8,792)**
At 31 December 2010	**271,918**	**305,560**	**(399,890)**	**177,588**

26. Acquisition of Subsidiary Undertakings and Businesses

In the twelve months to 31 December 2010 the Group made three single branch acquisitions in the merchanting sector. These were Corgi Direct (acquired: 22 April 2010), Unvented Components Limited (acquired: 10 May 2010) and Bain, Morrison & Co. Limited (acquired: 13 December 2010).

In 2009 the Group made one acquisition, Secon Solar Limited (acquired: 31 July 2009), a distributor to the solar thermals market and based in Sunderland.

Acquisitions would have contributed €3.2 million and €4.2 million to revenue in the years ended 31 December 2010 and 2009 respectively assuming that they had been acquired on 1 January of each year.

Acquisitions would have contributed €nil and €0.6 million to operating profit in the years ended 31 December 2010 and 2009 respectively assuming that they had been acquired on 1 January of each year.

The 2010 acquisitions contributed €1.2 million (2009 acquisitions: €1.6 million) to revenue and a loss of €0.1 million (2009 acquisitions: profit of €0.3 million) since acquisition.

26. Acquisition of Subsidiary Undertakings and Businesses (continued)

	2010 €'000	2009 €'000
The fair values of assets and liabilities acquired are set out below:		
Property, plant and equipment	**232**	20
Financial assets	**-**	1
Inventories	**614**	463
Trade and other receivables	**277**	660
Trade and other payables	**(200)**	(267)
Corporation tax	**(20)**	(197)
Deferred tax liability	**(45)**	(1)
Net assets acquired excluding cash and overdrafts	**858**	679
Goodwill	**678**	972
Consideration	**1,536**	1,651
Satisfied by:		
Cash paid	**1,638**	2,255
Cash acquired	**(102)**	(604)
Net cash outflow	**1,536**	1,651

The fair value of net assets acquired was €858,000.

	Fair Values €'000	**Consideration €'000**	**Goodwill €'000**
Total acquisitions	858	1,536	678

The fair values were calculated as follows:

	Book Values €'000	**Fair Value Adjustment €'000**	**Fair Values €'000**
Property, plant and equipment	232	-	232
Working capital	686	5	691
Corporation tax	(20)	-	(20)
Deferred tax	-	(45)	(45)
	898	(40)	858

The provisional fair value adjustments noted above have arisen under IFRS 3 Business Combinations. Inventories have been valued at selling price adjusted for the cost of disposal and a reasonable profit allowance for selling effort.

26. Acquisition of Subsidiary Undertakings and Businesses (continued)

Deferred tax has arisen on the difference between the fair value of the properties acquired and their tax base.

Goodwill on these acquisitions reflects the anticipated purchasing and operational synergies for the businesses acquired as part of the enlarged Group.

The fair value of net assets acquired in 2009 was €679,000.

	Fair Values	Consideration	Goodwill
	€'000	€'000	€'000
Total acquisitions	679	1,651	972

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

	2010 €'000	2009 €'000
Net (decrease)/increase in cash and cash equivalents	(74,753)	65,151
Net movement in derivative financial instruments	(381)	(1,419)
Cash flow from movement in debt and lease financing	144,772	54,081
Change in net debt resulting from cash flows	69,638	117,813
Non-cash movement on finance lease extinguished	-	1,185
Translation adjustment	(2,280)	(5,846)
Movement in net debt in the year	67,358	113,152
Net debt at 1 January	(322,468)	(435,620)
Net debt at 31 December	(255,110)	(322,468)

28. Capital Expenditure Commitments

At the year end the following commitments authorised by the Board had not been provided for in the financial statements:

	2010 €'000	2009 €'000
Contracted for	**9,994**	815
Not contracted for	**23,501**	6,587
	33,495	7,402

Capital commitments in the UK and Ireland amounted to €30.9 million (2009: €6.5 million) and €2.6 million (2009: €0.9 million) respectively and relates mainly to replacement of the distribution fleet and store development projects.

29. Operating Leases

Total commitments payable under non cancellable operating leases are as follows:

	Land and buildings 2010 €'000	**Other 2010 €'000**	Land and buildings 2009 €'000	Other 2009 €'000
Operating lease payments due:				
Within one year	**60,680**	**1,004**	57,756	695
Between two and five years	**231,260**	**652**	221,111	575
Over five years	**634,636**	**5**	662,334	-
	926,576	**1,661**	941,201	1,270

The Group leases a number of properties under operating leases. The leases typically run for a period of 15 to 25 years. Rents are generally reviewed every five years.

During the year ended 31 December 2010, €59.3 million (2009: €59.5 million) was recognised as an expense in the Income Statement in respect of operating leases.

30. Pension Commitments

A number of defined benefit and defined contribution pension schemes are operated by the Group and the assets of the schemes are held in separate trustee administered funds.

The actuarial reports are not available for public inspection.

IAS 19 – Employee Benefits

The Group operates five defined benefit schemes in Ireland and two in the UK. All actuarial valuations were updated to 31 December 2010 by a qualified independent actuary. All schemes except one are closed to new entrants and as a result the current service cost will increase as members of the schemes approach retirement.

30. Pension Commitments (continued)

Financial assumptions

The financial assumptions used to calculate the retirement benefit liabilities under IAS 19 were as follows:

	At 31 Dec 2010	**At 31 Dec 2010**	At 31 Dec 2009	At 31 Dec 2009
	Irish schemes	**UK schemes**	Irish schemes	UK schemes
Valuation method	**Projected Unit**	**Projected Unit**	Projected Unit	Projected Unit
Rate of increase in salaries	**3.00%***	**2.55%**	3.00%*	2.75%
Rate of increase of pensions in payment	**-**	**3.30%**	-	3.45%
Discount rate	**5.30%**	**5.50%**	5.60%	5.85%
Inflation rate increase	**2.00%**	**3.30%****	2.25%	3.45%

* 3% is assumed to apply from January 2014

**The inflation assumption shown for the UK is based on the Retail Price Index (RPI). Following changes to the statutory indices in the UK, a separate assumption of 2.55% is made relating to increases in the Consumer Price Index (CPI) and this assumption is also used in setting the assumed future rate of salary increase.

The future life expectancy at age 65 for males and females (currently aged 55 and 65), inherent in the mortality tables used for the 2010 and 2009 year end IAS19 disclosures are as follows:

2010 Mortality		**Years**	2009 Mortality		Years
Future pensioner aged 65:	**Male**	**21.8**	Future pensioner aged 65:	Male	21.7
	Female	**24.1**		Female	23.9
Current pensioner aged 65:	**Male**	**21.1**	Current pensioner aged 65:	Male	21.0
	Female	**23.7**		Female	23.7

30. Pension Commitments (continued)

Scheme Assets

The assets in these schemes and the long-term rates of return expected at 31 December 2010 and 31 December 2009 are set out below:

	2010 **Irish schemes**	**2010** **UK schemes**	2009 Irish schemes	2009 UK schemes
Equities	**7.5%**	**7.5%**	8.0%	8.0%
Bonds	**4.0%**	**5.0%**	4.0%	5.0%
Property	**6.5%**	**7.0%**	6.5%	7.0%
Cash	**3.5%**	**2.0%**	3.5%	2.0%

		2010		2009
	%	**€'000**	%	€'000
Equities	**74**	**142,001**	75	124,777
Bonds	**15**	**28,852**	14	22,837
Property	**6**	**11,457**	6	9,498
Cash	**5**	**8,633**	5	8,652
	100	**190,943**	100	165,764
Actuarial value of liabilities		**(208,502)**		(191,023)
Deficit in the schemes		**(17,559)**		(25,259)

The net pension deficit of €17,559,000 is shown in the Group balance sheet as retirement benefit assets (non-current assets) of €1,107,000 relating to the two UK schemes and as retirement benefit obligations (non-current liabilities) of €18,666,000 relating to the five Irish schemes.

30. Pension Commitments (continued)

History of scheme assets, liabilities and deficit in the schemes

Historical information	2010 €'000	2009 €'000	2008 €'000	2007 €'000	2006 €'000
Assets at bid value	**190,943**	165,764	133,855	223,700	223,125
Actuarial value of liabilities	**(208,502)**	(191,023)	(174,747)	(239,023)	(257,288)
Deficit in the schemes	**(17,559)**	(25,259)	(40,892)	(15,323)	(34,163)

Historical information	2010 €'000	2009 €'000	2008 €'000	2007 €'000	2006 €'000
Experience adjustment on scheme liabilities	**(1,580)**	4,156	3,905	(4,430)	(5,815)
As % of scheme liabilities	**0.8%**	2.2%	2.2%	1.9%	2.3%
Experience adjustment on scheme assets	**9,580**	15,331	(72,585)	(13,792)	10,717
As % of scheme assets	**5.0%**	9.2%	54.2%	6.2%	4.8%

The expected rates of return for each of the categories of the schemes' assets are based on current long term expectations for such rates. The rates of return for equities and property are based on current long term government bond yields plus an appropriate risk premium. The long term rates of return on bonds and cash investments are set in line with market yields at the balance sheet date. The overall expected rate of return is based on the weighted average of the assumed returns on the major asset classes as outlined. The expected long term rate of return on the total assets as at 31 December 2010 of the Group's schemes is 6.8% (31 December 2009: 7.2%).

The actual return on plan assets is set out below:

	2010 €'000	2009 €'000
Actual return on plan assets	**21,823**	25,052

Sensitivity of pension liability to judgmental assumptions

Assumption	Change in Assumptions	Impact on Scheme Liabilities
Discount rate	Increase by 0.25%	Reduce by 4.3%
Rate of salary growth	Increase by 0.25%	Increase by 0.9%
Rate of inflation*	Increase by 0.25%	Increase by 2.8%
Life expectancy	Increase by 1 year	Increase by 2.3%

*Assumed that an increase of 0.25% in the inflation assumption would also give rise to an increase in the salary increase assumption of 0.25%.

30. Pension Commitments (continued)

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

	Year ended 31 December					
	Assets		Liabilities		Net asset/(deficit)	
	2010 €'000	2009 €'000	**2010 €'000**	2009 €'000	**2010 €'000**	2009 €'000
At 1 January	**165,764**	133,855	**(191,023)**	(174,747)	**(25,259)**	(40,892)
Expected return on plan assets	**12,243**	9,721	**-**	-	**12,243**	9,721
Contributions by employer	**5,738**	9,562	**-**	-	**5,738**	9,562
Contributions by members	**2,127**	2,298	**(2,127)**	(2,298)	**-**	-
Benefit payments	**(7,091)**	(5,401)	**7,091**	5,401	**-**	-
Current service cost	**-**	-	**(2,064)**	(3,069)	**(2,064)**	(3,069)
Past service credit*	**-**	-	**-**	5,317	**-**	5,317
Settlement loss	**-**	(4,435)	**-**	3,325	**-**	(1,110)
Curtailment gain	**-**	-	**125**	1,275	**125**	1,275
Interest cost on scheme liabilities	**-**	-	**(11,134)**	(10,826)	**(11,134)**	(10,826)
Actuarial gains/(losses)	**9,580**	15,331	**(6,609)**	(10,553)	**2,971**	4,778
Translation adjustment	**2,582**	4,833	**(2,761)**	(4,848)	**(179)**	(15)
At 31 December	**190,943**	165,764	**(208,502)**	(191,023)	**(17,559)**	(25,259)
Related deferred tax asset (net)					**2,034**	3,918
Net pension liability					**(15,525)**	(21,341)

*The past service credit of €5,317,000 in 2009 arose from a benefit change under the Group's Irish defined benefit pension schemes.

30. Pension Commitments (continued)

Expense recognised in operating costs

	2010 €'000	2009 €'000
Past service (credit)/cost (i)	-	(5,317)
Settlement loss (ii)	-	1,110
Curtailment gain (iii)	(125)	(1,275)
Current service cost	2,064	3,069
Total operating charge/(credit)	1,939	(2,413)

(i) The past service credit of €5.317 million in 2009 arose from a benefit change under the Group's Irish defined benefit pension schemes. Pensionable salaries for members of Irish defined benefit schemes are to remain at 2009 levels for the period to 2014.

(ii) The 2009 settlement loss arose due to members leaving the scheme which gave rise to transfer payments out of the scheme.

(iii) The curtailment gain arose in respect of redundancies in 2010 and 2009.

Recognised directly in other comprehensive income

	2010 €'000	2009 €'000
Actuarial gain on pensions	2,971	4,778
Deferred tax on pensions	(889)	452
	2,082	5,230

The expense/(credit) is recognised in the following lines in the income statement:

	2010 €'000	2009 €'000
Operating costs	1,939	(2,413)
Finance income (expected return on scheme assets)	(12,243)	(9,721)
Finance expense (interest on scheme liabilities)	11,134	10,826
Total operating charge/(credit)	830	(1,308)

Cumulative net actuarial losses reported in the Group Statement of Comprehensive Income since 1 January 2004, the transition date, to 31 December 2010 is €32.8 million (2009: €35.8 million). The contributions expected to be paid to the Group's defined benefit schemes in 2011 are approximately €6.5 million (2010: €5.7 million).

31. Share Based Payments

Up to April 2009 key executives could acquire shares in the Group so as to provide an incentive to perform strongly over an extended period and to align their interests with those of shareholders. Under the terms of the 1999 Grafton Group Share Scheme, two types of share were available subject to the conditions set out below:

(i) Basic shares which cannot be converted before the expiration of five years, unless the Remuneration Committee agrees to a shorter period which shall not be less than three years, and may be converted any time after that to the end of their contractual life provided the Company's earnings per share has grown at not less than the rate of growth in the Consumer Price Index plus 5 per cent compounded during that period.

(ii) Second tier shares which cannot be converted before the expiration of five years and at any time thereafter up to the end of their contractual life, only if over a period of at least five years the growth in the Group's earnings per share would place it in the top 25 per cent of the companies listed on the Irish Stock Exchange Index over the same period and provided that such shares shall be acquired only if the Company's earnings per share growth over the relevant period is greater, by not less than 10 per cent on an annualised basis, than the increase in the Consumer Price Index over that period.

The share scheme has a ten year life for the award of entitlements and this period has now expired. The percentage of share capital which may be issued under the scheme and individual grant limits comply with Institutional Guidelines. Basic shares granted after 8 May 2008 cannot be converted before the expiration of three years.

Share Schemes

The number of Grafton Units issued during the year under the Company's Executive Share Schemes was 668,606 (2009: 480,229) and the total consideration received amounted to €1,442,000 (2009: €879,000). Costs relating to the issues were €22,000 (2009: €13,000). No entitlements to acquire Grafton Units, under the 1999 Grafton Group Share Scheme, were granted during the year (2009: 3,155,000). Entitlements outstanding at 31 December 2010 amounted to 12,870,047 (2009: 14,345,263). Grafton Units may be acquired, in accordance with the terms of the schemes, at prices ranging between €1.66 and €11.50 during the period to 2019.

UK SAYE Scheme

Options over 2,258,093 (2009: 2,540,033) Grafton Units were outstanding at 31 December 2010, pursuant to a 2008 three year saving contract under the Grafton Group (UK) plc Savings Related Share Option Scheme at a price of €2.96. These options are normally exercisable within a period of six months after the third anniversary of the savings contract, being May 2012. The number of Grafton Units issued during the year under the Company's 2008 SAYE Scheme for good leavers was 10,232 (2009: 2,399) and the total consideration received amounted to €30,000 (2009: €7,000). Options forfeited in the year were 271,708 (2009: 414,808).

31. Share Based Payments (continued)

No entitlements to acquire Grafton Units, under the 1999 Grafton Group Share Scheme, were granted during the year. The share scheme has a ten year life for the award of entitlements and this period has now expired. A summary of the share entitlements granted in 2009 is set out below:

	1999 Grafton Group Share Scheme 2009
Grant Date	3 April 2009
Share price at grant date	€1.66
Exercise price	€1.66
Number of employees	161
Shares under option	3,155,000
Vesting period	3-5 years
Expected volatility	40%
Option life	10 years
Expected life	7 years
Risk free rate	4.16%
Expected dividends expressed as dividend yield	5.03%
Possibility of ceasing employment before vesting	0%
Valuation model	Binomial model
Fair value per option	€0.39

This expected volatility is based on historic volatility over the last 5 years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero coupon government bonds of a term consistent with the assumed option life. Reconciliation of share entitlements under the Grafton Group Share Option Scheme and the 1999 Grafton Group Share Scheme is as follows:

	2010		2009	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
		€		€
Outstanding at 1 January	**14,345,263**	**6.07**	11,875,801	7.06
Granted	**-**	**-**	3,155,000	1.66
Forfeited	**(806,610)**	**6.96**	(205,309)	5.52
Expired	**-**	**-**	-	-
Exercised	**(668,606)**	**2.16**	(480,229)	1.83
Outstanding at 31 December	**12,870,047**	**6.22**	14,345,263	6.07
Exercisable at 31 December	**5,757,746**	**6.11**	5,005,862	4.77

Share entitlements under both schemes are exercisable within six months upon a change of control of the Company. The weighted average remaining contractual life of the share entitlements is 5 years (2009: 6 years).

32. Accounting Estimates and Judgements

The Group's main accounting policies affecting its results and financial condition are set out on pages 47 to 57. Judgements and assumptions have been made by management by applying the Group's accounting policies in certain areas. Actual results may differ from estimates calculated using these judgements and assumptions. Key sources of estimation uncertainty and critical accounting judgements are as follows:

Goodwill

The Group has capitalised goodwill of €552.8 million at 31 December 2010 (2009: €544.3 million). Goodwill is required to be tested for impairment at least annually or more frequently if changes in circumstances or the occurrence of events indicate potential impairment exists. The Group uses value in use to determine the recoverable amount of cash generating units containing goodwill. Value in use is calculated as the present value of future cash flows. In calculating value in use, management judgement is required in forecasting cash flows of the segments including assumptions relating to turnover growth, gross margins and overheads and in selecting an appropriate discount rate and nominal growth rate in perpetuity. No goodwill impairment charge was recognised by the Group in 2010. (2009: €5,469,000)

Post-retirement benefits

The Group operates a number of defined benefit retirement plans. The Group's total obligation in respect of defined benefit plans is calculated by independent, qualified actuaries and updated at least annually and totals €208.5 million at 31 December 2010 (2009: €191.1 million). Plan assets at 31 December 2010 amounted to €190.9 million (2009: €165.8 million) giving a net scheme deficit of €17.6 million (2009: €25.3 million). The size of the obligation is sensitive to actuarial assumptions. The key assumptions are the discount rate, the rate of inflation, life expectancy, pension benefits and rate of salary increases. Plan assets are sensitive to asset returns and the level of contributions made by the Group.

Insurance provisions

Insurance provisions of €17.4 million (2009: €17.0 million) shown in note 21 were based on a review of self-insured claims undertaken by an independent firm of actuaries and consultants. Claims beyond specified limits are covered by external insurers.

33. Related Party Transactions

The principal related party transactions that require disclosure under IAS 24: Related Party Disclosures relate to subsidiaries, a joint venture, an associate, key management personnel and post employment benefit plans.

Subsidiaries

The consolidated accounts of the Company and its subsidiaries include the following transactions that have been eliminated on consolidation:

- Management charges made by the Company to the subsidiaries of €9.9 million (2009: €13.5 million) for the year ended 31 December 2010;
- No dividend income was received by the Company from subsidiaries during the year (2009: Nil);
- Loans were granted to and by the Company to its subsidiaries.

Joint Venture

During the year there were no sales or purchases or other transactions conducted with the joint venture. The joint venture company Navan Retail Developments Limited is owed €2.36 million by the Company (2009: €2.44 million).

33. Related Party Transactions (continued)

Associates

During the year there were no sales or purchases or other transactions conducted with the associate in the ordinary course of business. At the year end, there were no outstanding balances included in payables or receivables with the associate. Details of the investment made in the associate are disclosed in note 13 to the financial statements.

Key Management Personnel

The term key management personnel for 2010 comprise the Board of Grafton Group plc and the Company Secretary/Group Financial Controller. The cost of key management personnel is analysed in note 5 to the Group Financial Statements. The Report on Directors' Remuneration on pages 31 to 37 provides detailed disclosure for 2010 and 2009 salaries, fees, performance-related pay, pension allowance, other benefits and entitlements to acquire Grafton Units in accordance with the rules of the Grafton Group Share Schemes.

Post Employment Benefit Plans

Pension commitments to existing and former employees under defined benefit pension scheme arrangements are disclosed in note 30 to the Group Financial Statements.

34. Events after the Balance Sheet Date

The Group recently completed the acquisition of 12 plumbing and heating branches in England and Wales from Travis Perkins Group plc. The acquisition occured on 25 February 2011 and the initial accounting for this transaction was not completed at the date of approval of the financial statements.

35. Approval of Financial Statements

The Board of Directors approved the Group Financial Statements on pages 42 to 108 on 2 March 2011.

Company Balance Sheet

As at 31 December 2010

	Notes	2010 €'000	2009 €'000
ASSETS			
Non-current assets			
Property, plant and equipment	3	**215**	392
Deferred tax asset	10	**2**	8
Investments in subsidiary undertakings	4	**360,935**	359,017
Financial assets	4	**13**	13
Receivables from Group companies	5	**60,812**	23,519
Total non-current assets		**421,977**	382,949
Current assets			
Receivables from Group companies	5	**682,009**	672,633
Other receivables	5	**6,287**	6,705
Cash and cash equivalents		**7,061**	31,598
Total current assets		**695,357**	710,936
Total assets		**1,117,334**	1,093,885
EQUITY			
Capital and reserves			
Equity share capital	6	**11,632**	11,598
Share premium account	6	**291,216**	289,800
Capital redemption reserve		**905**	905
Other reserve		**5,258**	4,677
Retained earnings		**316,599**	319,151
Treasury shares held	6	**(5,746)**	(5,746)
Total equity		**619,864**	620,385
LIABILITIES			
Non-current liabilities			
Retirement benefit obligations	14	**-**	-
Total non-current liabilities		**-**	-
Current liabilities			
Interest-bearing loans and borrowings	7	**-**	1
Payables to Group companies	9	**487,268**	462,990
Other payables	9	**10,191**	10,495
Current income tax liabilities		**11**	14
Total current liabilities		**497,470**	473,500
Total liabilities		**497,470**	473,500
Total equity and liabilities		**1,117,334**	1,093,885

On behalf of the Board

M. Chadwick
C Ó Nualláin
Directors

2 March 2011

Company Cash Flow Statement

For the year ended 31 December 2010

	Notes	2010 €'000	2009 €'000
Profit before tax		3,242	5,986
Finance income		(746)	(666)
Finance expense		107	134
Operating profit		2,603	5,454
Depreciation	3	204	102
Share-based payments charge/(credit)		105	(304)
Contributions to pension schemes in excess of IAS 19 charge		-	(2,197)
Increase in working capital	11	(244)	(3,222)
Cash generated/(used) in operations		2,668	(167)
Interest paid		(48)	(134)
Income taxes paid		(8)	(2)
Cash flows from operating activities		2,612	(303)
Investing activities			
Inflows			
Interest received		1,030	329
Outflows			
Investment in subsidiary undertakings		(1,442)	(880)
Purchase of property, plant and equipment		(27)	(10)
		(1,469)	(890)
Cash flows from investing activities		(439)	(561)
Financing activities			
Inflows			
Proceeds from the issue of share capital		1,450	873
Movement on Group payables		24,278	39,029
		25,728	39,902
Outflows			
Dividends paid	16	(5,768)	-
Purchase of 'A' ordinary shares	16	-	(17,276)
Movement on Group receivables		(46,669)	1,641
		(52,437)	(15,635)
Cash flows from financing activities		(26,709)	24,267
Net (decrease)/increase in cash and cash equivalents		(24,536)	23,403
Cash and cash equivalents at 1 January		31,597	8,194
Effect of exchange rate fluctuations on cash held		-	-
Cash and cash equivalents at 31 December		7,061	31,597
Cash and cash equivalents are broken down as follows:			
Cash at bank and short-term deposits		7,061	31,598
Overdrafts		-	(1)
		7,061	31,597

Company Statement of Changes in Equity

	Equity share capital €'000	Share premium account €'000	Capital redemption reserve €'000	Shares to be issued reserve €'000	Retained earnings €'000	Treasury shares €'000	Total equity €'000
Year to 31 December 2010							
At 1 January 2010	11,598	289,800	905	4,677	319,151	(5,746)	**620,385**
Profit after tax for the financial year	-	-	-	-	3,231	-	**3,231**
Total other comprehensive income							
Actuarial loss on pensions (net of tax)	-	-	-	-	(15)	-	**(15)**
Total comprehensive income	-	-	-	-	3,216	-	**3,216**
Transactions with owners of the Company recognised directly in equity							
Dividends	-	-	-	-	(5,768)	-	**(5,768)**
Issue of Grafton Units (net of issue expenses)	34	1,416	-	-	-	-	**1,450**
Adjustment for share based payments expense	-	-	-	581	-	-	**581**
	34	**1,416**	**-**	**581**	**(5,768)**	**-**	**(3,737)**
At 31 December 2010	**11,632**	**291,216**	**905**	**5,258**	**316,599**	**(5,746)**	**619,864**
Year to 31 December 2009							
At 1 January 2009	**11,579**	**288,951**	**900**	**6,041**	**331,837**	**(5,746)**	**633,562**
Profit after tax for the financial year	-	-	-	-	5,703	-	**5,703**
Total other comprehensive income							
Actuarial loss on pensions (net of tax)	-	-	-	-	(1,113)	-	**(1,113)**
Total comprehensive income	**-**	**-**	**-**	**-**	**4,590**	**-**	**4,590**
Transactions with owners of the Company recognised directly in equity							
Purchase of 'A' ordinary shares	(5)	-	5	-	(17,276)	-	**(17,276)**
Issue of Grafton Units (net of issue expenses)	24	849	-	-	-	-	**873**
Adjustment for share-based payments credit	-	-	-	(1,364)	-	-	**(1,364)**
	19	**849**	**5**	**(1,364)**	**(17,276)**	**-**	**(17,767)**
At 31 December 2009	**11,598**	**289,800**	**905**	**4,677**	**319,151**	**(5,746)**	**620,385**

Notes to the Company Financial Statements

1. Income Statement

In accordance with Section 148(8) of the Companies Act, 1963, the income statement and related notes of the parent undertaking have not been presented separately in these financial statements. There was a profit after tax of €3.2 million (2009: €5.7 million) attributable to the parent undertaking for the financial year.

2. Statutory and Other Information

The following items have been charged to the company income statement:

	2010 €'000	2009 €'000
Statutory audit (refer to Note 2 of Group Financial Statements)	**60**	65
Depreciation	**204**	102
Operating lease costs	**515**	515
Directors' remuneration	**3,312**	2,785

The Directors' remuneration is set out in detail in the Report on Directors' Remuneration on pages 31 to 37.

The average number of persons employed by the Company during the year was 17 (2009: 18).

	2010 €'000	2009 €'000
The aggregate remuneration costs of employees were:		
Wages and salaries	**4,250**	4,116
Social welfare	**380**	429
Share-based payments charge/(credit)	**105**	(304)
Defined benefit pension	**-**	13
Pension settlement cost	**-**	756
Defined contribution and pension related costs	**804**	1,284
Staff costs before exceptional items	**5,539**	6,294
Termination payments	**-**	220
Charged to operating profit	**5,539**	6,514
Finance cost on pension scheme liabilities	**59**	126
Expected return on pension scheme assets	**(74)**	(92)
Charged to Income Statement	**5,524**	6,548
Actuarial loss on pension scheme	**15**	1,272
Total employee benefit cost	**5,539**	7,820

Notes to the Company Financial Statements

2. Statutory and Other Information (continued)

Key Management

The cost of key management including Directors is set out in the table below:

	2010	2009
Number of Individuals	**10**	10

	2010	2009
	€'000	€'000
Short-term employee benefits	**3,098**	2,664
Share-based payment charge/(credit)	**77**	(234)
Retirement benefits expense	**709**	716
Pension settlement cost	**-**	756
Charged to operating profit	**3,884**	3,902

3. Plant and equipment

Plant and equipment in the Company is stated as follows:

	Plant and equipment	
	2010 €'000	2009 €'000
Company		
Cost		
At 1 January	**1,761**	1,751
Additions	**27**	10
At 31 December	**1,788**	1,761
Depreciation		
At 1 January	**1,369**	1,267
Charge for year	**204**	102
At 31 December	**1,573**	1,369
Net book amount		
At 31 December	**215**	392
At 1 January	**392**	484

Notes to the Company Financial Statements

4. Financial Assets

	Other investments €'000	Investments in subsidiary undertakings €'000	Total €'000
At 1 January 2009	**13**	**359,197**	**359,210**
Acquisitions	-	880	880
Capital contribution – share-based payments	-	(1,060)	(1,060)
At 31 December 2009	**13**	**359,017**	**359,030**
Acquisitions	-	1,442	1,442
Capital contribution – share-based payments	-	476	476
At 31 December 2010	**13**	**360,935**	**360,948**

Other investments represent sundry equity investments at fair value.

5. Trade and Other Receivables

	2010 €'000	2009 €'000
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	**682,009**	672,633
Other receivables	**6,287**	6,705
	688,296	679,338
Amounts falling due after one year:		
Amounts owed by subsidiary undertakings	**60,812**	23,519

None of the amounts owed from subsidiary undertakings of €742.8 million (2009: €696.2 million) is considered overdue for payment or is believed not to be recoverable.

6. Share Capital and Share Premium

Details of equity share capital and share premium are set out in note 16 to the Group Financial Statements.

7. Interest Bearing Loans and Borrowings

	2010 €'000	2009 €'000
Current Liabilities		
Bank overdrafts	**-**	**1**

8. Financial Instruments and Financial Risk

There is no difference between the fair value and carrying value of the financial assets and financial liabilities for the Company.

The maximum credit risk is represented by the carrying amount of the asset. The cash on deposit at the year end is primarily held with Lloyds Banking Group plc.

The majority of foreign exchange exposure in the Company relates to inter-group balances and transactions.

There is no significant cashflow sensitivity for variable rate instruments in the Company.

31 December 2010	**Carrying amount**	**Contractual cash flow**	**Within 1 Year**
	€'000	**€'000**	**€'000**
Non-Derivative Financial Instruments			
Payable to group companies	**487,268**	**487,268**	**487,268**
Bank overdraft	-	-	-
	487,268	**487,268**	**487,268**

31 December 2009	**Carrying amount**	**Contractual cash flow**	**Within 1 Year**
	€'000	**€'000**	**€'000**
Non-Derivative Financial Instruments			
Payable to group companies	462,990	462,990	462,990
Bank overdraft	1	1	1
	462,991	462,991	462,991

9. Trade and Other Payables

	2010 €'000	2009 €'000
Trade and other payables		
Accruals	**10,191**	10,495
Amounts owed to subsidiary undertakings	**487,268**	462,990
	497,459	473,485

10. Deferred Taxation

Recognised deferred tax (assets) and liabilities	Assets 2010 €'000	Liabilities 2010 €'000	Net (assets)/ liabilities 2010 €'000	Assets 2009 €'000	Liabilities 2009 €'000	Net (assets)/ liabilities 2009 €'000
Other items	**(2)**	**-**	**(2)**	(8)	-	(8)

2010	Balance 1 Jan 10 €'000	Recognised in income €'000	Recognised in other comprehensive income €'000	Foreign exchange retranslation €'000	Arising on acquisitions €'000	Balance 31 Dec 10 €'000
Other items	**(8)**	**6**	**-**	**-**	**-**	**(2)**

2009	Balance 1 Jan 09 €'000	Recognised in income €'000	Recognised in other comprehensive income €'000	Foreign exchange retranslation €'000	Arising on acquisitions €'000	Balance 31 Dec 09 €'000
Other items	(14)	6	-	-	-	(8)
Pension	(116)	275	(159)	-	-	-
	(130)	281	(159)	-	-	(8)

11. Movement in Working Capital

	Trade and other receivables €'000	Trade and other payables €'000	Total €'000
At 1 January 2009	7,016	(14,365)	(7,349)
Interest accrual and other movements	337	-	337
Movement in 2009	(648)	3,870	3,222
At 1 January 2010	**6,705**	**(10,495)**	**(3,790)**
Interest accrual and other movements	**(358)**	**-**	**(358)**
Movement in 2010	**(60)**	**304**	**244**
At 31 December 2010	**6,287**	**(10,191)**	**(3,904)**

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

	2010 €'000	2009 €'000
Net (decrease)/increase in cash and cash equivalents	**(24,536)**	23,403
Cash flow from movement in debt and lease financing	**-**	-
Change in net debt resulting from cash flows	**(24,536)**	23,403
Net cash at 1 January	**31,597**	8,194
Net cash at 31 December	**7,061**	31,597

13. Operating Leases

Total commitments payable under non-cancellable operating leases are as follows:

	Land and Buildings 2010 €'000	Land and Buildings 2009 €'000
Operating lease payments due:		
Within one year	**515**	515
Between two and five years	**2,060**	2,060
Over five years	**4,120**	4,635
	6,695	7,210

14. Pension Commitments

A defined benefit scheme and defined contribution pension scheme are operated by the Company and the assets of the schemes are held in separate trustee administered funds.

The actuarial reports are not available for public inspection.

IAS 19 – Employee Benefits

An actuarial valuation was updated to 31 December 2010 by a qualified independent actuary.

14. Pension Commitments (continued)

Financial Assumptions

The financial assumptions used to calculate the retirement benefit liabilities under IAS 19 were as follows:

	At 31 Dec 2010 Company scheme	At 31 Dec 2009 Company scheme
Valuation Method	**Projected Unit**	Projected Unit
Rate of increase of pensions in payment	**-**	-
Discount rate	**5.30%**	5.60%
Inflation rate increase	**2.00%**	2.25%

The Company's obligations to the scheme at the end of 2010 were limited to providing a pension to an executive who retired during the prior year on a fixed pension.

	Year ended 31 December					
	Assets		**Liabilities**		**Net asset/(deficit)**	
	2010 €'000	2009 €'000	**2010 €'000**	2009 €'000	**2010 €'000**	2009 €'000
At 1 January	**1,091**	1,310	**(1,091)**	(2,235)	**-**	(925)
Expected return on plan assets	**74**	92	**-**	-	**74**	92
Contributions by employer	**-**	3,000	**-**	-	**-**	3,000
Contributions by members	**-**	3	**-**	(3)	**-**	-
Benefit payments	**(78)**	(151)	**78**	151	**-**	-
Current service cost	**-**	-	**-**	(13)	**-**	(13)
Past service cost	**-**	-	**-**	-	**-**	-
Settlement loss	**-**	(1,800)	**-**	1,044	**-**	(756)
Interest cost on scheme liabilities	**-**	-	**(59)**	(126)	**(59)**	(126)
Actuarial gains/(losses)	**20**	(1,363)	**(35)**	91	**(15)**	(1,272)
At 31 December	**1,107**	1,091	**(1,107)**	(1,091)	**-**	-
Related deferred tax asset (net)					**-**	-
Net pension liability					**-**	-

14. Pension Commitments (continued)

Expense recognised in operating costs

	2010 €'000	2009 €'000
Past service cost	-	-
Settlement loss	-	756
Current service cost	-	13
Total operating charge	-	769

Recognised directly in other comprehensive income

	2010 €'000	2009 €'000
Actuarial loss on pensions	(15)	(1,272)
Deferred tax on pensions	-	159
	(15)	(1,113)

The (credit)/expense is recognised in the following lines in the income statement:

	2010 €'000	2009 €'000
Operating costs	-	769
Finance income (expected return on scheme assets)	(74)	(92)
Finance expense (interest on scheme liabilities)	59	126
Total operating (credit)/charge	(15)	803

The contributions expected to be paid to the Company's defined benefit scheme in 2011 are €nil (2010: €nil).

15. Share-Based Payments

Please refer to the Group Share-Based Payments note (note 31) set out on pages 105 and 106.

16. Dividend and Purchase of 'A' Ordinary Shares

	2010 €'000	2009 €'000
Company		
Interim dividend of 2.5 cent per Grafton unit – paid 31 March 2010	5,768	-
Purchase of one 'A' ordinary share for 5.0 cent – paid 8 April 2009	-	11,510
Purchase of one 'A' ordinary share for 2.5 cent – paid 9 October 2009	-	5,766
	5,768	17,276

Notes to the Company Financial Statements

17. Related Party Transactions

The principal related party transactions that require disclosure under IAS 24: Related Party Disclosures relate to subsidiaries, a joint venture, an associate, key management personnel and past employment benefit plans.

Subsidiaries

The consolidated accounts of the Company and its subsidiaries include the following transactions that have been eliminated on consolidation:

- Management charges made by the Company to the subsidiaries of €9.9 million (2009: €13.5 million) for the year ended 31 December 2010;
- No dividend income was received by the Company from subsidiaries during the year (2009: Nil);
- Loans were granted to and by the Company to its subsidiaries.

Joint Venture

During the year there were no sales or purchases or other transactions conducted with the joint venture. The joint venture company Navan Retail Developments Limited is owed €2.36 million by the Company (2009: €2.44 million).

Key Management Personnel

The term key management personnel comprise the Board of Grafton Group plc and the Company Secretary/Group Financial Controller. The cost of key management personnel is analysed in note 2 to the Company Financial Statements and in note 5 to the Group Financial Statements. The Report on Directors' Remuneration on pages 31 to 37 provides detailed disclosure for 2010 and 2009 salaries, fees, performance-related pay, pension allowance, other benefits and entitlements to acquire Grafton Units in accordance with the rules of the Grafton Group Share Scheme.

Post Employment Benefit Plans

Pension commitments to existing and former employees under defined benefit pension scheme arrangements are disclosed in note 14 to the Company Financial Statements.

18. Guarantees and Principal Operating Subsidiaries

The Company has given guarantees in respect of the bank borrowings of subsidiary undertakings which amounted to €499.7 million at the balance sheet date. The Company has also guaranteed certain property lease obligations of subsidiary undertakings. Pursuant to the provisions of Section 17, Companies (Amendment) Act, 1986, the Company has guaranteed the liabilities of its Irish subsidiaries the result of which is to exempt them from the provisions of Section 7, Companies (Amendment) Act, 1986.

The principal operating subsidiaries operating in Ireland as set out below are covered by this guarantee.

Name of Company	Nature of Business
Grafton Merchanting ROI Limited	Builders merchants
Chadwicks Limited	Builders merchants
Woodie's DIY Limited	DIY superstores
Atlantic Home Care Limited	DIY superstores
Panelling Centre Limited	Kitchen/Bedroom Panel Products

18. Guarantees and Principal Operating Subsidiaries (continued)

This guarantee also applies to all other wholly owned subsidiaries, whose Registered Office is c/o Grafton Group plc, Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18: Absolute Bathrooms Limited, Athina Limited, Atlantic DIY Limited, Atlantic Home Care and Garden Centre Limited, Barretts of Ballinasloe Limited, Beralt Developments Limited, Bluebell Sawmills Limited, Cardston Properties Limited, Chadwicks Holdings Limited, Cheshunt Limited, Cork Builders Providers Limited, CPI Limited, Davies Limited, Denningco Limited, Doorplan Ireland Limited, Drainage Systems Dublin Limited, Dunmore Holdings Limited, Eddie's Hardware Limited, F&T Buckley (Holdings) Limited, F & T Buckley Limited, Frank Barrett & Sons Limited, Garvey Builders Providers Limited, Gillespie Building Supplies (Carlow) Limited, Grafton Financial Services Limited, Grafton Group Holdings Limited, Grafton Group Investments Limited, Grafton Group Management Services Limited, Grafton Group Secretarial Services Limited, Grafton NPI 2005 plc, Heatovent Ireland Limited, Heiton Buckley Limited, Heiton Group plc, Heiton McCowen Limited, Heiton McFerran Limited, House of Woods Limited, J.E. Telford Limited, Jarkin Properties Limited, Karindell Property Limited, Kenn Truss Limited, Knottingley Limited, Lacombe Properties Limited, Leeway Properties Limited, Leo Wright Holdings Limited, Market Hardware Limited, MB Doorplan Limited, MFP Plastics Limited, MFP Sales Limited, Mooney & O'Dea Limited, Morgan McMahon & Co. Limited, Multy Products (Ireland) Limited, Paddy Power (Kilbarry) Limited, Payless D.I.Y. Limited, Pechura Limited, Plumbing Distributors Limited, Plumbland Limited, Pouladuff Developments Limited, Pouladuff Manufacturing Limited, Powlett Properties Limited, Pulsar Direct Limited, Raftor Limited, Resadale Properties Limited, Sam Hire Holdings Limited, Sam Hire Limited, Sandtex Ireland Limited, Stettler Properties Limited, Telford Group Limited, Telfords (Athy) Limited, Telfords (Portlaoise) Limited, Timber Frame Limited, Tiska Limited, Titanium Limited, Topez Limited, Tribiani Limited, Tullamore Hardware Limited, Universal Providers Limited, W&S Timber Components Limited, Weeksbury Limited.

The Company owns 100 per cent of the ordinary shares, the only class of shares in issue, of its principal operating subsidiary undertakings. The registered office of principal subsidiary undertakings operating in Ireland is c/o Grafton Group plc, Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18.

As explained above, where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements and accounts for them as such. The Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make such a payment under the guarantee contracts with third parties.

The principal operating subsidiaries operating in the United Kingdom are:

Name of Company	Nature of Business
Grafton Merchanting GB Limited	Builders merchants
Macnaughton Blair Limited	Builders merchants
Selco Trade Centres Limited	Builders merchants
CPI Mortars Limited	Mortar manufacturers

The registered office of Grafton Merchanting GB Limited, CPI Mortars Limited and Selco Trade Centres Limited is PO Box 1224, Pelham House, Canwick Road, Lincoln, LN5 5NH. The registered office of Macnaughton Blair Limited is 10 Falcon Road, Belfast, BT12 6RD, Northern Ireland.

19. Approval of Financial Statements

The Board of Directors approved the Company Financial Statements in respect of the year ended 31 December 2010 on 2 March 2011.

Corporate Information

Auditor	KPMG
Bankers	Bank of Ireland Ulster Bank HSBC Bank plc Lloyds Banking Group plc Société Générale Danske Bank (t/a National Irish Bank)
Solicitors	Arthur Cox, Dublin A&L Goodbody, Dublin Lyons Davidson, Bristol
Stockbrokers	Goodbody Stockbrokers, Dublin
Corporate & Registered Office	Heron House Corrig Road Sandyford Industrial Estate Dublin 18 Phone: 00-353-1-216 0600 Fax: 00-353-1-295 4470 Email: email@graftonplc.com
Registrars	Capita Registrars (Ireland) Ltd. Unit 5, Manor Street Business Park, Manor Street, Dublin 7. Phone; 00-353-1-8102400 Email: enquiries@capitacorporateregistrars.ie www.capitacorporateregistrars.ie

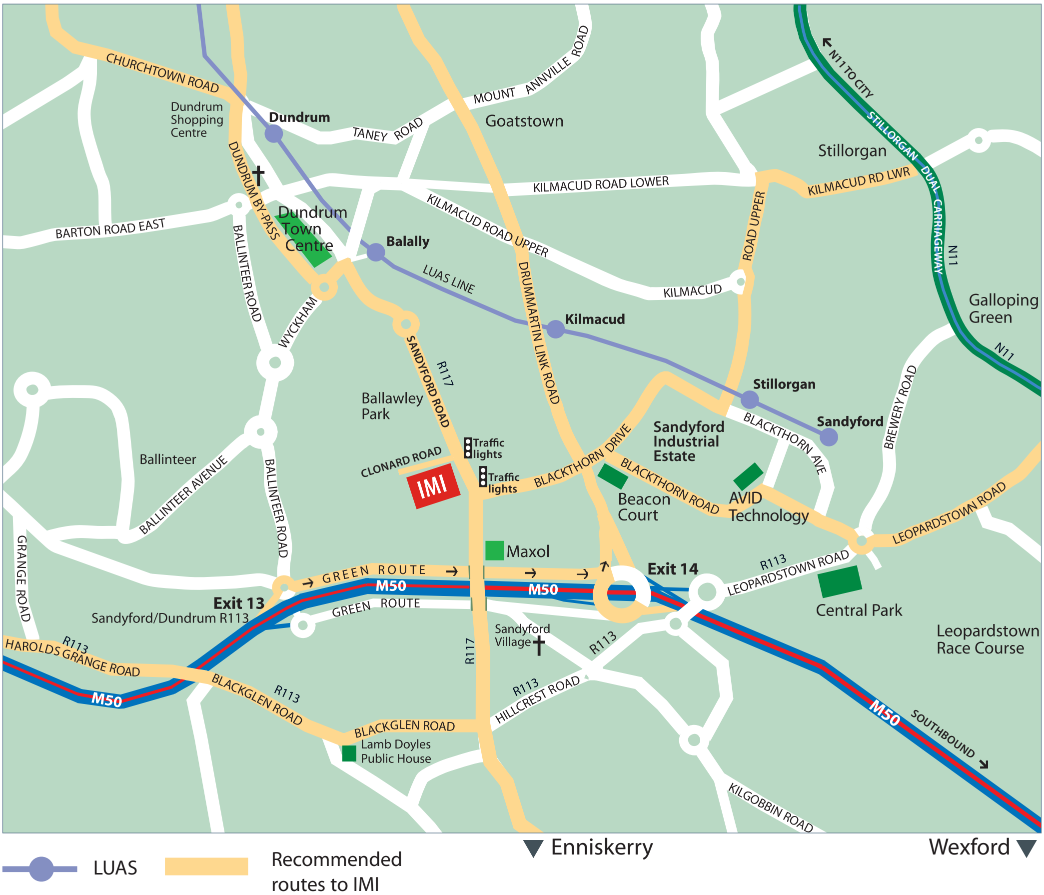
Financial Calendar

Results	
Half-yearly results	31 August 2010
Full year results	3 March 2011
Annual general meeting	4 May 2011
Interim Dividend	
Record Date	10 September 2010
Record Date	11 March 2011

Location of Annual General Meeting

The Annual General Meeting of the Company will be held on 4 May 2011 at 10.30am in the

IMI Conference Centre, Sandyford Road, Dublin 16.Tel: (01) 207 8400



BY CAR

From the North, West and South

Using the M50 going south, take Exit 13 (Sandyford/Dundrum/R113), then take the Green Route to Sandyford Industrial Estate. Turn left onto Blackthorn Drive at Beacon Court.
At the next T-junction, turn right onto Sandyford Road.
IMI is the next turn left, 100 yards away.

From the East and South East

Travelling north on the N11, take the M50 at Loughlinstown. Take Exit 13 to Sandyford Industrial Estate.
Turn left onto Blackthorn Drive at Beacon Court.
At the next T-junction, turn right onto Sandyford Road.
IMI is the next turn left, 100 yards away.

Should you require assistance regarding your transport to the IMI Conference Centre, or have any queries on the day of the AGM, please call 087 971 0851.

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