Grafton Group plc

Annual Report 2011

2011

Contents

Group Strategy and Profile

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

Grafton's strategy is to be an international trade supplier of construction products and related activities, built on service, supported by a strong financial base and operated within a framework of high business ethics and integrity and recognised by investors as a progressive, cash-generative business.

Grafton is a branch-based, sales-led organisation with a cohesive strategy, retaining the flexibility in its business model to adjust to new ways of working, whether driven by technology or an evolution in customers' requirements and demands. The Group aims to stay close to its customers as they will help to define the future shape of the business.

The Merchanting segment operates from 539 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 incorporates the largest merchanting business in Ireland. The network of merchanting branches supply mainly trade customers engaged in residential repair, maintenance and improvement projects.

The Retailing segment incorporates the largest DIY retailing business in Ireland, trading nationally from 40 stores primarily under the Woodie's DIY brand, and an 8 store kitchens business that trades under the In-House and Panelling Centre brands.

The Manufacturing segment comprises mainly 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 2011, 73 per cent of Group turnover was generated in the UK. The Merchanting, DIY and Mortar Manufacturing markets should offer attractive growth prospects with the potential to earn above average returns on invested capital.

Financial Highlights

- Revenue up 3% to €2.05 billion
- Underlying operating profit up 13% to €54.7 million and €56.9 million excluding amortisation
- Underlying profit before taxation up 3% to €42.3 million
- Underlying adjusted basic earnings per share of 15.4 cent
- Strong cash flow from operations of €96.9 million
- Dividend per unit up by 7% to 7.5 cent including second interim dividend of 4.75 cent
- Like for like turnover growth of 4.3% in the UK merchanting business
- UK revenue and profits increase

	2011	2010
	€'m	€'m
Revenue	**2,054**	2,004
Underlying (before exceptional items):		
Operating profit*	**54.7**	48.4
Profit before tax*	**42.3**	40.9
Profit after tax*	**33.7**	79.4
Adjusted basic earnings per share	**15.4c**	18.5c
Statutory:		
Operating profit	**22.7**	33.0
Profit before tax	**10.3**	25.6
Profit after tax	**2.5**	64.0
Earnings per share – basic	**1.1c**	27.7c
Dividend for year	**7.5c**	7.0c

** Includes an intangible amortisation charge of €2.2 million (2010: €2.2 million)*

Financial Overview of 2011

- Group revenue stabilised at over €2 billion
- Group adjusted operating profit doubled over the past two years
- Dividend increase of 50% over last two years
- Recurring savings from cost reduction programme realised
- Adjusted operating profit of UK merchanting business ahead on lower volumes
- Adjusted operating profit increased in Irish business despite turnover decline
- Strong cash generation and debt reduction

Operational Overview of 2011

- Significant action taken on restructuring
- Progress made implementing self-help measures including branch consolidations and since the year end closure of concrete products manufacturing division in Ireland
- Management succession and development provides renewed capacity to improve performance in difficult markets

Segment Trading Locations

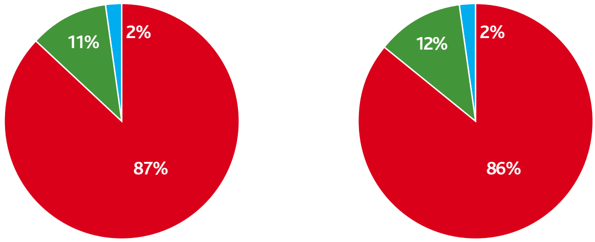
	Trading Locations			
	UK	Ireland	Belgium	Total
Builders Merchanting	254	46	9	**309**
Plumbers Merchanting	226	4	-	**230**
Merchanting Segment	480	50	9	**539**
Retailing Segment	-	48	-	**48**
Manufacturing Segment	9	2	-	**11**
Total	489	100	9	**598**

2011
€2.05bn

2010
€2.00bn

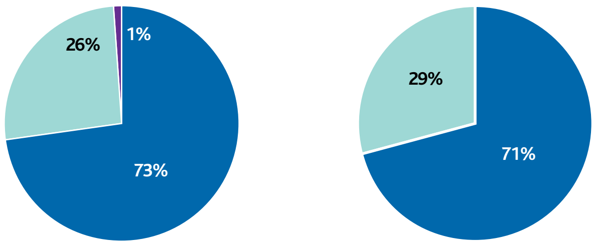
Segment Revenue

- Merchanting
- Retailing
- Manufacturing

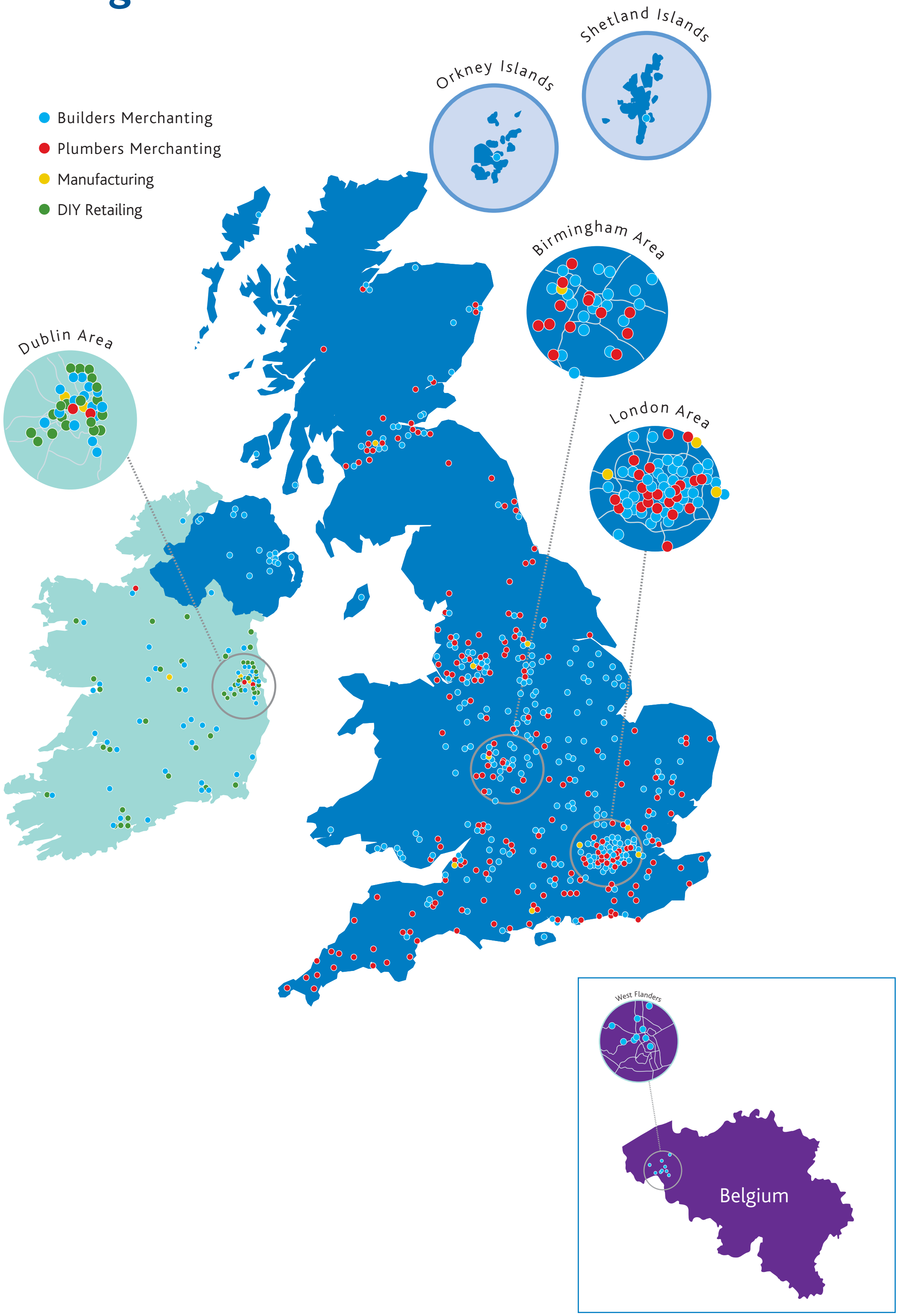


Geographic Revenue

- UK
- Ireland
- Belgium



Trading Locations



Principal Brands

Merchanting

The builders merchanting division trades from 309 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 230 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 40 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

In 2011, Grafton navigated its way through challenging trading conditions to deliver sales growth, further recovery in underlying operating profit and substantial cash generation.

Trading and Profitability

Volumes were lower in the UK merchanting market, for the fourth consecutive year, as weak economic growth, declining incomes and difficult credit conditions contributed to lower spending on housing RMI projects, the Group's principal market. The Irish economy faced significant challenges during 2011 and the Group experienced volume contraction in its merchanting and DIY businesses that was offset by cost reductions and procurement gains.

Profit before tax and exceptionals was up 3 per cent to €42.3 million (2010: €40.9 million). The Group continued to be highly cash generative with a well-financed balance sheet.

The Group is well-positioned to benefit from a recovery in its markets from cyclical lows, with significant spare capacity in its branch network in the UK and Ireland, but remains cautious about the immediate outlook.

Dividend

Payment of a second interim dividend of 4.75 cent per Grafton Unit was approved which together with the first interim dividend of 2.75 cent represents a total dividend for the year of 7.5 cent, an increase of 7.1 per cent on dividends of 7.0 cent paid for 2010.

Strategy

The Group's strategy is primarily focussed on the distribution of building materials to trade customers in Britain and Ireland for use in the repair, maintenance, improvement and construction of houses. The Group is also a distributor of building materials to the commercial and infrastructure markets and operates the leading DIY business in Ireland.

The emphasis of management in recent years has been concentrated on stabilising the business and providing a platform to deliver a recovery in operating margins and earnings as market conditions normalise. The Group is now well placed to consider development opportunities in its core and related markets which offer the prospect of good financial returns.

Geographic expansion of the builders merchanting business outside of Britain and Ireland commenced in 2009 with a small investment in the Belgian merchanting market through a joint venture arrangement. This business established a more significant position in that market during 2011 through a number of acquisitions.

Board

Gavin Slark joined the Group and the Board as Chief Executive designate on 1 April 2011 and was appointed 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.

On the appointment of Gavin Slark as Chief Executive Officer, I retired from my executive responsibilities and continue as Chairman in a non-executive capacity.

Leo Martin, the Group's former Chief Operating Officer, retired from his executive role and from the Board on 31 December 2011. Leo joined the Group and the Board in January 2005 and was responsible for the merchanting operations where he played a central role in managing and integrating the business through the downturn. The Board thanks Leo for his commitment and distinguished service to the Group.

Annette Flynn was appointed as a non-executive director on 15 March 2011. She is a non-executive director of United Drug plc, the international healthcare services company having previously served as an executive director of the company for seven years.

Chairman's Statement

Gillian Bowler did not seek re-election at the 2011 AGM and retired from the Board. Gillian's substantial contribution to the Board was noted in the 2010 Chairman's Statement and again I wish to thank her for her service to the Board.

The Board agreed that all Directors will retire and seek re-election at the 2012 AGM. This is not required legally or by the Company's Articles of Association but is in line with best practice and the provisions of the 2010 UK Corporate Governance Code. The Board recommends that each of the Directors going forward be re-elected at the Annual General Meeting on 10 May 2012.

During the year the roles of Chairman and Chief Executive were separated and the process of Board refreshment continued with a long serving non-executive Director retiring from the Board and the appointment of a new non-executive Director. Membership of the Audit and Remuneration Committees was also refreshed during the year.

Management and Staff

On behalf of the Board, I thank Gavin Slark and all Grafton management and staff for their work and commitment in responding to challenging trading conditions in the Group's markets.

Michael Chadwick

Chairman

Chief Executive Officer's Review

Overview

2011 was a year of further progress for the Group against the background of challenging trading conditions in its principal markets, particularly Ireland. The turnaround in performance that commenced in 2010 continued, leading to increased revenue and adjusted profits (before exceptional items and intangible amortisation).

Revenue stabilised at over €2 billion over the past three years and adjusted operating profit doubled between 2009 to 2011 due to a reduction in overheads in response to a prolonged period of challenging trading conditions in the Group's markets.

Group revenues increased to €2.05 billion in 2011 from €2.00 billion in 2010. Adjusted operating profit (before exceptional items and intangible amortisation) increased by 12.5 per cent to €56.9 million (2010: €50.6 million). The UK business, which accounted for over 70 per cent of Group revenue, increased revenue and operating profit in a reasonably resilient housing repair, maintenance and improvement (RMI) market. The rate of decline in turnover in the Irish business moderated and operating profit increased due to the benefits of cost reductions implemented in 2011 and prior years.

The net finance charge increased to €12.4 million (2010: €7.5 million) due to the higher bank margin on debt refinanced during 2010, compared to the favourable arrangements put in place prior to the credit crisis. Adjusted profit before taxation (before exceptional items and intangible amortisation) increased by 3.2 per cent to €44.5 million (2010: €43.1 million).

The statutory result for 2011 was influenced by measures taken to mitigate the impact of adverse market conditions. The charge for restructuring costs and the onerous lease provision amounted to €32.1 million. The Group continued to implement restructuring and cost saving initiatives principally in response to the decline in turnover and excess capacity in the merchanting branch network and manufacturing business in Ireland. The cost of implementing these measures was €12.7 million and there will be an incremental benefit of circa €6.0 million in 2012 from the lower cost base. A charge of €19.4 million was recognised in respect of a small number of onerous leases and related asset impairment primarily in the Irish retailing businesses.

The Group generated cashflow of €96.9 million (2010: €95.7 million) from operations and ended the year in a strong financial position with modest gearing and net debt refinanced out to 2016.

The Belgian builders merchanting business, in which the Group has a 53 per cent interest, traded successfully and completed three acquisitions during the year increasing its annualised turnover to circa €55 million. The business now trades from nine locations.

Management

The senior executive management team in the merchanting business continued to evolve over recent months with a number of appointments. Mark Kelly joined the Group in February 2012 with responsibility for Buildbase, Plumbase, Jackson Building Centres and the specialist merchanting brands. Chris Cunliffe was appointed Managing Director of Selco Builders Warehouse having previously served as Chief Operating Officer. Andrew Gribble joined the Group as Managing Director of Plumbase and Jonathon Jennings was appointed to the newly created role of Group Property Director. These individuals have strong track records and bring extensive business and industry experience to their new roles and are well placed to make a significant contribution to the operational and strategic development of the business.

Dividend

In view of the Group's strong cash flows and increase in underlying profit, the second interim dividend has been increased to 4.75 cent (2010: 4.5 cent) per Grafton Unit. The payment will be made on 13 April 2012. This will result in a total dividend for the year of 7.5 cent (2010: 7.0 cent), an increase of 7.1 per cent on the dividend paid for 2010.

Operations Review

Merchanting

Turnover in the merchanting business increased by 3.2 per cent to €1.79 billion (2010: €1.73 billion). Operating profit for the segment was €64.9 million (2010: €61.5 million), an increase of 6 per cent.

UK merchanting branches increased turnover by 4.0 per cent to €1.46 billion (2010: €1.40 billion). Sterling turnover increased by 5.2 per cent and average daily like for like turnover increased by 4.3 per cent. UK operating profit before restructuring costs increased by 3.5 per cent to €59.9 million (2010: €57.9 million). The operating profit margin was unchanged at 4.1 per cent.

Trading in the UK merchanting market was influenced by weak economic growth as a decline in real incomes (due to above trend inflation and subdued consumer confidence) reduced spending. Lower volumes in the UK merchanting market, for the fourth consecutive year, were also influenced by tight credit conditions and the focus of households on paying down debt. Equity withdrawal, traditionally an important source of funding for investment in housing RMI, was lower as households preferred to increase the equity in their homes. Housing transactions, a forward indicator of demand in the merchanting market, remained relatively flat for the fourth consecutive year, at almost half the pre-downturn level.

Following average daily like for like growth of 4.7 per cent in the first half, average daily like for like turnover increased by 4.0 per cent in the second half. This increase reflected a recovery of commodity-based price increases and a small gain in market share.

Buildbase traded in a relatively stable market with mainly price-driven turnover growth in its general merchanting branches where demand was primarily influenced by housing RMI activity. The specialist branches performed strongly, increasing volumes supplied to the new housing market. Two single branch acquisitions were completed. Trading conditions in the East Midlands market moved towards stabilisation and the performance of Jacksons' business benefitted from operating efficiencies and a lower cost base. A new branch in Worksop is scheduled to open in May 2012 and redevelopment of the Grimsby branch is due for completion at the end of March 2012. Plumbase increased turnover in its like for like business and improved geographic coverage with the acquisition of 16 plumbing and heating branches in England and Wales and the opening of two heating spares branches.

Selco Builders Warehouse, the trade-only builders' merchant, reported strong growth in turnover and operating profit. Development of the business continued with the successful opening of the fourteenth London store at Catford and a store in Slough, Berkshire. The Swansea and Minworth, Birmingham stores were relocated to larger properties in October 2011. The business now trades from 30 stores and a further three stores are scheduled to open in London in the second half of 2012.

In Northern Ireland, turnover stabilised in the Macnaughton Blair business against the backdrop of a fragile economic recovery. The new housing market continued to weaken but the housing RMI market returned to growth and the business also benefitted from a number of public sector new build and RMI projects. With an increased gross margin and a lower cost base due to the restructuring measures taken in recent years, operating profit advanced strongly from a low base. The Derry branch was successfully relocated to a larger property.

Turnover in the Irish merchanting branches declined by 6.4 per cent to €306.8 million (2010: €327.8 million). Operating profit increased by 12.5 per cent to €4.1 million (2010: €3.7 million).

The Irish economy stabilised in 2011 following three years of decline. The domestic economy remained weak due to a fall in disposable incomes and weak consumer confidence which contributed to lower spending on housing RMI projects. All indicators of housing market activity remained very weak. House completions fell further and are believed to be at or close to a cycle floor. Individual properties, which are mainly built to demand, accounted for a high proportion of residential construction and the supply of apartments and scheme houses fell to historically low levels. A sharp fall in mortgage lending and reduced access to credit contributed to lower house building and RMI activity.

The Chadwicks and Heiton Buckley branch network responded well to the challenging business conditions and continued to outperform the market. The decline in turnover moderated in the second half of 2010 and there was a continuation of this trend through 2011. Turnover was underpinned by housing RMI activity and benefitted from promotional activity and marketing nationally to trade customers and households. The decline in turnover in the like for like business was lower than the headline rate of decline due to branch consolidations in 2010 and 2011. Gross margins were maintained in a competitive market with the benefit of procurement gains. A significant reduction in overheads more than offset the impact on profit of lower turnover. Operating profit was marginally higher for the year.

The restructuring measures adopted in 2010 and 2011, including consolidation of branches and a reduction in employment levels in response to the decline in volumes, contributed to the fall in overheads. Tight management of customer credit exposures resulted in a material decline in the charge for bad debts.

Savings of €50 million were realised in the Irish merchanting business in the three years to the end of 2011 through cost reductions and branch consolidations. These savings were critical to maintaining profitability in response to sharp declines in volumes and should result in significant operational leverage when the Irish merchanting market recovers.

Retailing

Turnover declined by 4.7 per cent to €219.7 million (2010: €230.5 million) and operating profit of €2.1 million was down from €2.4 million.

Consumer spending was influenced by declining disposable incomes, a weak labour market and a high savings ratio. Consumers also continued to pay down debt. Core retail sales volumes registered growth for the year following a recovery in the last quarter that was partly weather-related and also influenced by discounting and promotions. Discretionary spending categories including DIY experienced a further decline in volumes as financially stretched households remained cautious about the outlook for their personal finances.

The Woodie's business had a strong start to the year benefitting from easier comparatives and driven by very favourable weather conditions in the first four months that brought forward sales of gardening and seasonal products. These early gains were more than offset by tougher trading conditions in the seasonally important months of May and June. Turnover trends were more even in the second half of the year reflecting the weaker backdrop for consumer spending.

Woodie's retained its position as the leading retailer in a well-developed market for DIY and garden centre products. Store footfall was strong and the business completed almost nine million customer transactions during 2011. This compared favourably with the prior year in a more challenging retail market. Average transaction values declined at a time of lower consumer spending on discretionary higher value products. Outdoor seasonal products including garden furniture, BBQs, lawnmowers and furniture experienced a drop in volumes. Sales of DIY, decorative and building products were resilient and electrical, paint and decorative products benefitted from improved merchandising. New ranges of own brand power and hand tools, timber flooring, floor tiles and lighting were successfully rolled out across the network.

A reduction in sales of higher value lower margin products, reduced discounting on seasonal ranges and product sourcing gains contributed to an increase in gross margin. The improvement offset most of the impact on profit of lower turnover.

The store at Airside Retail Park, North County Dublin was successfully upgraded and increased turnover for the year. Extensions to two long-established stores in Glasnevin, North Dublin City and Blanchardstown, West Dublin will be completed in April 2012 enabling both stores to carry wider product ranges in a larger store format.

In-House, the eight store kitchens business, performed in line with the prior year on lower turnover. The business has a strong presence in the Dublin market and also operates a number of stores in regional cities where market conditions were more challenging due to competitive pressures from industry overcapacity.

Manufacturing

Turnover increased by 9.8 per cent to €47.5 million (2010: €43.3 million) and the operating loss before rationalisation costs reduced to €0.54 million from €3.5 million in 2010. The segment was cash generative after rationalisation costs due to the significant non-cash charge for depreciation in arriving at the segment result.

The UK Mortar business increased turnover by 16 per cent to €34.4 million (2010: €29.7 million) with the benefit of improved weather conditions in the early and final months of the year. Housing starts, an indicator of activity levels in the business' principal market, were down by 4 per cent in England and the supply of new housing was approximately half of the pre-downturn level. CPI Mortars performed strongly despite the decline in housing starts and increased volumes supplied to the sector. The business also benefitted from the development of innovative products and logistical solutions for the supply of sprayed concrete to a number of infrastructure projects. CPI Mortars improved volumes in a fairly stable market and also reduced its cost base to report a strong improvement in profit.

Turnover in the Irish manufacturing businesses declined by 3.4 per cent to €13.1 million (2010: €13.6 million). Operating losses were materially reduced and further rationalisation measures were implemented including closure, since the year end, of the concrete products division in Dublin.

Outlook

In the UK, growth is forecast to remain subdued in the near term before starting to improve as households' real incomes gradually recover following an easing of the high rate of inflation experienced over recent years. The fiscal consolidation programme, tight credit conditions and households saving a high proportion of income are likely to weigh on housing transactions and a recovery in volumes in the RMI market. Medium-term demand fundamentals for the housing RMI market remain exceptionally strong in view of the decline in volumes by over 30 per cent since 2007 and the need for investment in an aging housing stock.

In Ireland, the economy has stabilised but the immediate outlook is challenging due to pressure on disposable incomes, concerns about employment prospects and very tight credit conditions. Demand is expected to remain weak in the Irish merchanting and DIY businesses.

Group turnover in the UK Merchanting business in January and February continued on a similar trend to 2011 with average daily like for like growth of 4.0 per cent. Market conditions remained difficult in Ireland with average daily turnover in the Merchanting branches down by 11 per cent in the like for like business after adjusting for branch consolidations. A decline in turnover by 8 per cent in the Irish Retailing business was largely offset by an improved gross margin.

The Group is targeting further operating profit growth for 2012 based on cost savings and modest turnover growth, subject to market conditions.

Grafton's strategically important market positions, high operating cashflow and reduced cost base provide a good platform to benefit from a recovery in its markets from current cyclical lows.

Gavin Slark

Chief Executive Officer

Group Finance Review

Overview

A continued recovery in underlying operating profit and substantial cash generation was achieved in 2011 despite challenging economic and market conditions. Cash flow was used to increase dividends, reduce net debt and invest in the business to create a stronger platform for future growth. A strong year-end balance sheet incorporated a significant freehold estate, a low level of gearing, loans with a maturity profile of almost five years, substantial deposits and undrawn long-term bank facilities.

Cashflow

Cashflow from operations of €96.9 million (2010: €95.7 million) demonstrated the strength of the Group's proven cash generating business model. Adjusted operating cashflow, which excludes rationalisation costs of €10.7 million (2010: €5.3 million), was €107.6 million (2010: €101.0 million). Cash conversion increased by €18.3 million (2010: €8.8 million) from continued tight management of working capital.

Capital expenditure on property, plant and equipment of €35.3 million (2010: €9.6 million) was concentrated on asset replacement and renewal projects and also included new branch openings that support long-term growth and strengthen strategic market positions. The disposal of a number of surplus properties with limited development potential and the routine disposal of non-property assets generated cashflow of €8.7 million (2010: €4.3 million). The spend on acquisitions in the UK merchanting market and further investment in the Belgian Joint Venture was €12.8 million (2010: €2.4 million).

Net Debt

The Group continued to use its strong liquidity from operations to reduce net debt for the fifth consecutive year. Net debt at the year end, which benefits from a seasonally lower level of investment in working capital, reduced to €225.9 million from €255.1 million at the end of 2010. The gearing ratio fell to 23 per cent from 26 per cent.

Good flexibility in managing the liquidity of the business was maintained through the holding of substantial deposits and cash balances that amounted to €134.6 million at the year end. The Group also had access to a significant source of liquidity in the form of undrawn committed revolving term bank facilities of €120 million. In October 2011, as part of the Group's ongoing capital markets programme, new five year revolving bank facilities for €75 million were put in place and the maturity profile of existing debt of €195 million was extended to 2016. In addition, a bank facility for €85 million was extended by one year to mature in 2014 and a new three year bank facility for €35 million was agreed.

The principal covenants are a net debt to equity ratio limit of 85 per cent, EBITDA/interest cover increasing from three in 2011 to four in 2013 and a minimum shareholders' equity of €783 million at 31 December 2011.

At 31 December 2011 the net debt to equity ratio was 21 per cent and shareholders' equity was €1.09 billion both as defined for covenant purposes. Adjusted EBITDA for the year was €97.4 million and EBITDA interest cover for 2011 was 7.2.

The cash generated from operations, as the main source of liquidity, combined with substantial cash deposits and undrawn term bank facilities provide the Group with the resources to finance appropriate organic and acquisition-led development opportunities.

Net Finance Income and Expense

The interest charge on net bank and loan note debt increased to €15.3 million (2010: €9.5 million). The increased interest charge was due to the higher bank margin on debt refinanced at the end of August 2010 compared to the favourable arrangements put in place prior to the credit crisis. The majority of the Group's debt was set at floating rates to take advantage of low interest rates at this stage in the economic cycle. In view of the improving conditions in international debt markets and the Group's access to significant undrawn committed revolving term facilities, cash deposits were reduced to minimise net interest costs in a low interest rate environment.

Shareholders' Funds

Shareholders' funds of €982.8 million (31 December 2010: €990.3 million) increased by underlying profit after tax of €33.7 million and an exchange gain of €25.5 million on translation of the net assets in the UK business at a more favourable sterling/euro exchange rate. Shareholders' funds were reduced by restructuring costs and an onerous lease provision of €32.1 million, an actuarial loss after tax of €19.1 million on defined benefit pension schemes and dividend payments of €16.8 million.

Taxation

The taxation charge of €7.7 million is primarily a non-cash charge due to the unwinding of deferred tax assets and provisions recognised in prior years. The charge also reflects a reduction in UK deferred tax assets due to a fall in the UK rate of corporation tax and an increase in Irish deferred tax liabilities due to an increase in the rate of capital gains tax. No taxation benefit arose in the year from the charge for restructuring costs and the onerous lease provisions related to the Irish business. Taxation paid of €3.1 million reflected the availability of tax deductions carried forward from prior years.

Pensions

The deficit on defined benefit pension schemes was €28.6 million (31 December 2010: €15.5 million) net of the related deferred tax asset. The market value of scheme assets was €191.1 million (31 December 2010: €190.9 million). A fall in the rate used to discount liabilities, in line with changes in corporate bond yields, contributed to the increase in scheme liabilities to €224.6 million (31 December 2010: €208.5 million).

Colm Ó Nualláin

Finance Director

Board of Directors and Secretary

Michael Chadwick
BA, MSc

NON-EXECUTIVE CHAIRMAN

Michael Chadwick joined the Group in 1975, was appointed to the Board on 4 December 1979 and became Executive Chairman in 1985. He retired as Executive Chairman on 1 July 2011 following the appointment of a new Chief Executive Officer and continued 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.

Mr. Chadwick was responsible for the entrepreneurial leadership that led to the growth and development of Grafton from a small Irish business to its current status as an international building materials business with a significant market capitalisation, and the third largest builders merchanting business in Britain. He also brings to the Board considerable governance and business experience from his board membership of public and private companies.

Gavin Slark
(UK)

CHIEF EXECUTIVE OFFICER

Gavin Slark joined the Group and the Board as Chief Executive Designate on 1 April 2011 and was appointed 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.

Mr. Slark is an experienced Chief Executive Officer having gained extensive strategic, financial, corporate development and capital markets experience as Group Chief Executive of BSS Group plc, where he successfully led the growth of the business and created significant value for shareholders. He has strong leadership, people management and operational skills gained from working in a range of companies and industries over the past 25 years.

Colm Ó Nualláin
B Comm, FCA

FINANCE DIRECTOR

Colm Ó Nualláin joined the Group as Financial Controller in 1989 and was appointed to the Board as Finance Director on 1 May 1990. He previously held senior financial positions in a number of public and semi-state companies.

Mr. Ó Nualláin is an experienced finance professional having extensive experience in senior financial roles. He brings to the Board experience in finance, capital markets, corporate transactions, strategic development, international business, financial reporting, taxation and risk management through his role as Finance Director.

Richard W. Jewson
(UK) MA

NON-EXECUTIVE DIRECTOR

Richard Jewson joined the Board on 14 June 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.

Mr. Jewson has significant experience of the merchanting industry in Britain having previously served as Chairman and Group Managing Director of Meyer International plc, a major UK quoted timber and builders merchants group. He has significant experience as a non-executive director of a range of publicly quoted and private companies where he also gained extensive strategic, governance and financial oversight experience through the roles of Board and Board Committee chairmanship.

Roderick Ryan
B.Comm, FCA, AITI

NON-EXECUTIVE DIRECTOR

Roderick Ryan joined the Board on 15 March 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 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.

Mr. Ryan has significant leadership experience as a former Managing Partner of Arthur Andersen in Ireland and he also has significant experience of international business as a non-executive director of Glen Dimplex and through serving on Andersen's European Executive Committee. He has an expert knowledge of financial reporting, corporate taxation, governance and regulatory developments.

Charles M. Fisher
(UK) MA

NON-EXECUTIVE DIRECTOR

Charles Fisher was appointed to the Board on 1 May 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 2001. 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.

Mr. Fisher led the entrepreneurial growth and development of two successful regional businesses in England operating in the merchanting and DIY markets. He has a broad knowledge and experience of the business environment and also has extensive corporate strategic development and operational experience from his roles as Chairman and non-executive director of a number of publicly quoted companies.

Annette Flynn
B.Comm, FCCA

NON-EXECUTIVE DIRECTOR

Annette Flynn 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 for seven years and previously held senior positions with Kerry Group plc, the international food ingredients business.

Ms. Flynn brings to the Board significant operational, financial control and risk management experience and expertise from her roles in a number of industries where she held senior executive positions. She also has significant experience of strategy development and implementation through acquisition-led expansion by Irish based international businesses into overseas markets.

Charles Rinn
MBA FCCA

GROUP FINANCIAL CONTROLLER AND SECRETARY

Board Service

Director	Length of Service
M. Chadwick	32.3 years
G. Slark	1.0 years
C. Ó Nualláin	21.9 years
R. W. Jewson	16.8 years
R. Ryan	6.0 years
C. M. Fisher	2.9 years
A. Flynn	1.0 years

Board Committee Membership and Length of Service

Audit		Remuneration		Nomination		Finance	
Membership	Length of Service	Membership	Length of Service	Membership	Length of Service	Membership	Length of Service
R. Ryan (Chairman)	5.5 years	C. M. Fisher (Chairman)	1.8 years	R. Ryan (Chairman)	1.8 years	G. Slark (Chairman)	1.0 years
A. Flynn	1.0 years	A. Flynn	0.4 years	R. W. Jewson	16.7 years	C. Ó Nualláin	21.7 years
C. M. Fisher	0.4 years	R. Ryan	1.8 years	M. Chadwick	18.3 years	C. Rinn	8.0 years
				C. M. Fisher	1.8 years		

Financial Review

Group Income Statements	2011 €'m	2010 €'m	2009 €'m	2008 €'m	2007 €'m	2006 €'m	2005 €'m	2004 €'m	2003 €'m	2002 €'m
	IFRS								Irish GAAP	
Revenue	**2,053.8**	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
Operating profit	**22.7**	33.0	4.9	99.2	263.5	242.7	213.8	161.1	115.8	89.7
Property profit	**-**	-	-	-	7.3	38.0	9.6	7.5	3.4	3.7
Finance (expense)/income (net)	**(12.4)**	(7.4)	8.7	(35.1)	(35.0)	(31.4)	(31.2)	(22.8)	(17.2)	(13.2)
Profit before taxation	**10.3**	25.6	13.6	64.1	235.8	249.3	192.2	145.8	102.0	80.2
Taxation	**(7.7)**	38.4	(0.2)	(6.4)	(30.6)	(32.4)	(26.1)	(19.9)	(15.3)	(12.0)
Profit after taxation	**2.6**	64.0	13.4	57.7	205.2	216.9	166.1	125.9	86.7	68.2

Balance Sheets	2011 €'m	2010 €'m	2009 €'m	2008 €'m	2007 €'m	2006 €'m	2005 €'m	2004 €'m	2003 €'m	2002 €'m
Capital employed										
Goodwill and intangibles	**568.5**	557.3	551.0	541.7	611.9	596.2	547.8	247.1	210.8	100.4
Property, plant and equipment	**564.9**	568.8	604.8	633.3	703.7	686.2	623.2	406.2	346.8	302.3
Financial assets	**0.2**	3.9	3.9	0.2	0.9	0.4	0.3	47.0	33.7	33.6
Net current assets*	**145.1**	142.0	138.1	202.6	350.3	335.6	303.2	195.2	198.5	144.3
Other net non-current liabilities	**(69.9)**	(26.5)	(63.6)	(73.3)	(48.7)	(53.2)	(76.5)	(50.8)	(28.3)	(18.0)
	1,208.8	1,245.5	1,234.2	1,304.5	1,618.1	1,565.2	1,398.0	844.7	761.5	562.6
Financed as follows:										
Shareholders' equity	**982.8**	990.4	911.7	868.9	1,067.7	1,014.3	813.8	495.5	449.8	322.0
Net debt/(cash)	**226.0**	255.1	322.5	435.6	550.4	550.9	584.2	349.2	311.7	240.6
	1,208.8	1,245.5	1,234.2	1,304.5	1,618.1	1,565.2	1,398.0	844.7	761.5	562.6
Other Information										
Acquisitions & investments	**12.8**	2.4	6.9	28.1	89.2	87.1	477.7	88.7	220.1	88.8
Purchase of fixed assets	**35.3**	9.6	12.4	78.6	104.7	124.4	100.6	88.9	69.3	68.0
	48.1	12.0	19.3	106.7	193.9	211.5	578.3	177.6	289.4	156.8
Depreciation and intangible amortisation	**42.7**	46.7	50.2	56.5	59.0	55.4	50.4	34.6	37.6	26.6

Financial Highlights	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Adjusted EPS** (cent)	**15.4**	18.5	5.4	32.2	84.3	78.0	67.8	56.1	45.1	37.0
Dividend/share purchase per share (cent)	**7.5**	7.0	5.0	15.0	22.0	18.75	15.75	13.0	10.5	8.5
Cashflow per share (cent)#	**28.7**	52.2	29.9	49.7	108.3	100.4	88.3	72.4	58.7	52.0
Net assets per share (cent)	**423.9**	428.1	395.2	377.4	465.2	424.0	342.8	232.2	211.5	181.6
Net finance cost cover on EBITDA (times)	**7.9**	12.7	5.5	4.9	9.4	10.7	8.8	8.9	9.1	9.1
Dividend/share purchase cover	**2.1**	2.6	1.1	2.1	3.8	4.2	4.3	4.3	4.3	4.4
Net debt to shareholders' funds	**23%**	26%	35%	50%	52%	54%	72%	70%	69%	75%

The summary financial information is stated under IFRS for 2004 to 2011 and under Irish GAAP for all years from 1991 to 2003.

* Excluding net debt/(cash)

** Before intangible amortisation, onerous lease provision and 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, onerous lease provision, impairment and excluding material property profits in previous years

Financial Review

Irish GAAP

2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
€'m	€'m	€'m	€'m	€'m	€'m	€'m	€'m	€'m	€'m	€'m
988.8	830.5	620.2	427.6	327.6	244.0	195.7	169.0	133.2	122.4	119.9
77.3	64.6	46.3	33.1	25.6	19.1	14.2	11.3	6.1	6.5	6.1
2.3	-	-	-	-	1.8	0.8	-	-	-	-
(12.4)	(11.8)	(8.1)	(4.9)	(2.4)	(1.3)	(1.1)	(1.2)	(0.9)	(1.6)	(1.6)
67.2	52.8	38.2	28.2	23.2	19.6	13.9	10.1	5.2	4.9	4.5
(8.7)	(6.9)	(4.6)	(4.0)	(3.5)	(2.9)	(2.5)	(2.1)	(1.1)	(1.2)	(1.1)
58.5	45.9	33.6	24.2	19.7	16.7	11.4	8.0	4.1	3.7	3.4

2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
€'m	€'m	€'m	€'m	€'m	€'m	€'m	€'m	€'m	€'m	€'m
62.5	51.7	31.7	9.8	-	-	-	-	-	-	-
251.5	209.6	175.9	140.7	61.8	48.5	43.2	40.1	35.9	33.0	33.7
33.6	18.9	19.0	0.2	12.5	0.1	-	1.2	3.4	1.0	1.9
129.5	106.5	76.2	60.2	29.4	21.4	21.5	18.2	17.9	18.4	18.6
(17.7)	(16.1)	(14.1)	(12.4)	(1.2)	(1.1)	(1.1)	(1.1)	(1.1)	(1.0)	(1.0)
459.4	370.6	288.7	198.5	102.5	68.9	63.6	58.4	56.1	51.4	53.2
264.5	216.5	181.3	139.8	78.6	70.6	57.7	49.9	45.7	42.2	40.7
194.9	154.1	107.4	58.7	23.9	(1.7)	5.9	8.5	10.4	9.2	12.5
459.4	370.6	288.7	198.5	102.5	68.9	63.6	58.4	56.1	51.4	53.2
61.8	56.6	63.6	53.4	29.7	8.0	1.4	5.8	2.7	-	1.2
42.0	43.2	29.5	20.6	14.6	7.6	7.7	5.7	5.2	2.4	5.9
103.8	99.8	93.1	74.0	44.3	15.6	9.1	11.5	7.9	2.4	7.1
21.9	16.5	12.6	7.2	5.4	4.2	3.6	3.0	2.6	2.1	2.1

2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
32.1	25.9	19.5	14.2	11.6	9.0	6.5	4.8	2.5	2.2	2.0
7.5	6.1	4.5	3.3	2.7	2.1	1.5	1.0	0.9	0.8	0.7
44.9	36.2	27.5	19.4	15.7	12.2	9.0	7.0	4.3	3.7	3.5
150.2	124.3	104.9	84.9	48.8	44.2	36.6	31.7	29.3	27.0	26.2
8.2	6.9	7.2	8.3	12.9	20.2	17.1	12.4	9.9	5.5	5.0
4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.7	2.9	2.9	2.7
74%	71%	59%	42%	30%	-	10%	17%	23%	22%	31%

Report of the Directors

The Directors present their report to the shareholders together with the audited financial statements for the year ended 31 December 2011.

Group Results

Group revenue of €2.05 billion was 3 per cent higher than Group revenue of €2.00 billion in 2010. Operating profit (before exceptional items and intangible amortisation costs) was €56.9 million compared to €50.6 million in 2010 an increase of 12 per cent. Exceptional items of €32.1 million (2010: €15.3 million) related to an onerous lease provision and related asset impairment of €19.4 million and restructuring costs of €12.7 million (2010: €5.3 million). The net finance expense charge was €12.4 million (2010: €7.5 million). Group profit before taxation amounted to €10.3 million compared with €25.6 million in the previous year. An income tax charge of €7.7 million (2010: credit of €38.4 million) reduced profit after tax to €2.5 million compared to €64.0 million in 2010. Basic earnings per share were 1.1 cent compared with 27.7 cent in the previous year. Adjusted earnings per share (before intangible amortisation and exceptional items) declined by 17 per cent to 15.4 cent from 18.5 cent in 2010. Dividends paid in the year amounted to €16.8 million.

The Group and Company Financial Statements for the year ended 31 December 2011 are set out in detail on pages 46 to 130.

Dividends

A second interim dividend of 4.75 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 16 March 2012 (the 'Record Date'). The cash consideration will be paid on 13 April 2012. The first interim dividend in the amount of 2.75 cent was paid on 7 October 2011 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, Chief Executive Officer's Review and Group Finance Review which contain a review of operations and the financial performance of the Group for 2011, the outlook for 2012 and the key performance indicators 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 which it faces. The principal risks and uncertainties are set out below:

- Trading in the Group's business 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 and lower profits in the Group's businesses. It is not possible to predict the duration of current market conditions or the strength of any future recovery in the UK and Irish economies.
- 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 Group's 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.
- Sterling weakness could lead to lower reported Group earnings and net assets on translation of the results and net assets of the UK business into euro.

- The Group faces strong ongoing competition in its merchanting, DIY and manufacturing businesses. Actions by competitors and by the Group to maintain its market positions may impose pressure on margins and profitability. Competitors with greater financial resources and purchasing economies may exert competitive pressure leading to lower sales and profits.
- Under-performance over the long term in the Group's Merchanting segment could require a goodwill impairment charge that would have a non-cash impact on the income statement and on shareholders' funds.
- The Group's ability to access liquidity to fund its business and participate in development opportunities may be affected during periods of tight credit conditions and where funding is not available at a reasonable cost.
- The Group is exposed to the risk of default by customers who purchase products in the ordinary course of trade and other parties with whom it has entered into financial and other arrangements.
- Growth through acquisition is an important element of the Group's long-term development strategy. This is dependent on the availability of suitable acquisition opportunities and on the Group's ability to complete transactions on acceptable terms, to integrate the businesses acquired and to realise the anticipated returns.
- The Group is dependent on the successful recruitment and retention of executives with the appropriate experience and qualifications to run the overall Group and its businesses.
- The assets and liabilities in the Group's defined benefit pension scheme may be subject to volatility due to changes in asset valuations, changes in bond yields and longevity of scheme members. These factors may create deficits that require additional funding by way of cash contributions.

Cautionary Statement

The Chairman's Statement, Chief Executive Officer's Review 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 6 March 2012, 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

Ms. Annette Flynn was appointed to the Board as a non-executive director on 15 March 2011. Ms. G. Bowler retired from the Board at the conclusion of the Annual General Meeting of the Company on 4 May 2011. Mr. G. Slark was appointed to the Board on 1 April 2011 and was appointed Chief Executive Officer from 1 July 2011. Mr. M. Chadwick retired as Executive Chairman on 1 July 2011 following the appointment of Mr. G. Slark as Chief Executive Officer and he continued to serve on the Board from that date as Non-executive Chairman. Mr. L. Martin retired from the Board on 31 December 2011.

Under the Company's Articles of Association, Directors are required to submit themselves to shareholders for election at the Annual General Meeting following their appointment and all the Directors are required to submit themselves for re-election at intervals of not more than three years. However, in accordance with the provisions contained in the 2010 UK Corporate Governance Code, the Board has decided that all Directors should retire at the 2012 Annual General Meeting and offer themselves for re-election.

Share Capital

At 31 December 2011, 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 17 to the Group Financial Statements.

Report of the Directors

The Group has in place a number of employee share schemes, the details of which are set out in the Report of the Remuneration Committee on Directors' Remuneration and in note 32 to the Group 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 2011 Annual General Meeting, shareholders gave the Company and/or any of its subsidiaries authority to make market purchases of up to 10 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, and the purchase would result in an increase in earnings per share.

The authorities which will be sought at the forthcoming AGM to disapply pre-emption rights and purchase the Company's Units will, if granted, expire on the earlier of the date of the Annual General Meeting in 2013 or 10 August 2013.

Report of the Remuneration Committee on Directors' Remuneration

Resolution 4, to be proposed at the Annual General Meeting, deals with the Report of the Remuneration Committee 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.

Substantial Holdings

So far as the Company is aware, in addition to the Chairman, Mr. Michael Chadwick, whose holding of 22,079,441 Grafton Units represents 9.52 per cent of the Units in issue (excluding treasury shares), the following held shares representing 3 per cent or more of its ordinary share capital (excluding treasury shares) at 6 March 2012:

Name	No. of units	%
Investec Asset Management Limited*	29,770,621	12.84
Capital Research and Management Company*	22,903,000	9.88
Sprucegrove Investment Management*	14,872,420	6.41
Franklin Templeton Institutional, LLC*	13,946,454	6.02
Invesco Limited*	11,743,757	5.07
FMR LLC (Fidelity International)*	7,800,017	3.36

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

Report of the Directors

Apart from these holdings, the Company has not been notified at 6 March 2012 of any interest of 3 per cent or more in its ordinary share capital.

Director's and Secretary's interests in the share capital of the Company are set out in the Report of the Remuneration Committee 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 17 to the Group Financial Statements. Details of employee share schemes are set out in note 32. In the event of a change of control, the vesting/conversion/exercise of share entitlements/options may be accelerated. The Group's borrowing 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 Statement on Corporate Governance which is set out on pages 25 to 33 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 pages 129 and 130.

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 Thursday 10 May 2012 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

G. Slark
C. Ó Nualláin

Directors

6 March 2012

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 taking a balanced view on economic, social and environmental issues when making business decisions.

The Environment

The Group supplies a range of environmental and sustainable products to customers. The Group also promotes the conservation and sustainable use of natural resources to minimise environmental pollution in its activities.

Waste Management

As a 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. The UK Merchanting business has reduced its waste to landfill through this partnership. 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 has been awarded the Carbon Trust Standard. Grafton Merchanting has set a target to reduce carbon emissions by 3 per cent a year. The Group is striving to reduce the UK merchanting business' carbon footprint and improve performance in other environmentally sensitive areas.

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

The UK Merchanting business has car replacement policies based on low emission cars to help reduce its carbon footprint.

Plumbworld have introduced a new carbon offset scheme. Contributions from customers concerned about the environment will be used to purchase and plant traditional broadleaf woodland trees, such as oak, elm and ash in conjunction with The Heart of England Forest Project, the Woodland Trust and local village schemes.

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. 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. 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. The merchanting branches stock condensing boilers which 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. Buildbase policy is that its natural timber products are FSC/PEFC accredited. The entire operation is independently audited and completely transparent to guarantee that timber is legally harvested and originates from a sustainable source.

The UK merchanting brands are ISO 14001 certified. Branches have an environmental champion who is responsible for managing environmental policies and procedures.

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. A webpage "Go Green at Grafton Merchanting GB" was set up to make this information more accessible.

Health and Safety

The Group is committed to achieving the best practicable standard of health and safety for its employees, customers and visitors to 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 that are safe and healthy, and in compliance with statutory requirements. Accidents are monitored so that corrective action may be taken where appropriate to reduce the number of incidents and the cost of claims from employees and customers. A new health and safety initiative was rolled out in the UK Merchanting Business in 2011 with the aim of reducing workplace accidents.

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 experience, expertise and skills 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 are recognised as good employers in both the UK and Ireland. The Group aims to reward management and staff fairly by reference to skills, performance, peers and 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 and staff 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 £129,340 in 2011 through fundraising by Grafton Merchanting GB. Selco Builders Warehouse was awarded 'Champion' status by the NSPCC (National Society for the Prevention of Cruelty to Children) in 2011 after it raised £50,000 for the charity through fundraising. Woodie's DIY continued its sponsorship of the Athletic Association of Ireland at grass roots level throughout Ireland. Woodie's DIY is the main sponsor of GIY Ireland which aims to promote the growing of vegetables.

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 applied the principles set out in the 2010 UK Corporate Governance Code (the 2010 Code) and the requirements set out in the Annex to the Listing Rules of the Irish Stock Exchange (the Irish Corporate Governance Annex), which supplements the 2010 Code with additional corporate governance provisions.

The Board

Composition

It is the Company's policy that the Board comprises a majority of non-executive Directors. At 31 December 2011, the Board of Directors was made up of seven members comprising the non-executive Chairman, two executive Directors and four other non-executive Directors. Mr. Roderick Ryan is Senior Independent Director. Directors' biographical details are set out on page 15. The Board considers that its current size and structure is appropriate to the scale, complexity and geographic spread of its operations.

The number of non-executive Directors is considered sufficient to enable the Board and its committees to operate effectively without excessive reliance on any individual non-executive Director. The Board believes that executive and non-executive Directors between them have the necessary skills, knowledge and experience, gained from a diverse range of industries and backgrounds, that is required to manage the Group. The skills, expertise and experience of the Board is used to review strategy, allocate capital, monitor financial performance and consider executive managements' response to market developments and operational matters.

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, approval of interim and final dividends and share purchases, material changes to the capital structure including tax and treasury management, major items of capital expenditure, approval of half-yearly and annual 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 delegates some of its responsibilities to committees of the Board.

It is Board policy that no individual or small group of individuals can dominate its decision making.

The roles of Chairman and Chief Executive were split with effect from 1 July 2011 following the appointment of Mr. Gavin Slark to succeed Mr. Chadwick in managing the Group. Mr. Slark joined the Group and the Board as Chief Executive Designate on 1 April 2011 and was appointed Chief Executive Officer on 1 July 2011. There is a clear division of responsibility between the Chairman and the Chief Executive Officer. Mr. Slark, as Chief Executive Officer, is responsible for day-to-day management of the Group and is accountable to the Board as Chief Executive Officer for all authority delegated to executive management. The Chairman is responsible for leading the Board and ensuring its effectiveness on all aspects of its role.

Directors' Statement on Corporate Governance

Non-Executive Directors act constructively to challenge management proposals and review the performance of the business and management. The Board has delegated some of its responsibilities to the Audit, Remuneration, Nomination and Finance Committees.

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 annually in order to help Directors gain a deeper understanding of the Group's operations and markets.

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

Four non-executive Directors, Mr. Charles M. Fisher, Mr. Richard W. Jewson, Ms. Annette Flynn 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 2010 Code.

Mr. Jewson was appointed to the Board in 1995. The length of his service on the Board exceeds nine years and the 2010 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 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.

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. However, in accordance with the provisions in the 2010 Code, the Board has decided that all Directors should retire at the 2012 Annual General Meeting and offer themselves for re-election. It is Board Policy that non-executive Directors are normally appointed for an initial period of three years, which is then reviewed.

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 all directors who are proposed for re-election continue to discharge their obligations as Directors and contribute effectively to the work of the Board and its committees.

Directors' Statement on Corporate Governance

The overall composition and balance of the Board is kept under review as detailed below in the programme of work undertaken by the Nomination Committee. The Board will continue to manage the orderly succession of non-executive Directors.

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 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 the objective of which is to 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.

An objective evaluation of the Board in 2011 was achieved through discussion between each Director and the Senior Independent Director. The Senior Independent Director met with each Director on an individual basis for in-depth discussions about the Board's role and structure using a rigorous questionnaire that covered Board Performance; Committee Performance; Board Processes and Procedures; Performance of Special Functions including the Chairman and Company Secretary and Individual Assessment of each non-executive and executive Director. The evaluation concluded that, as a whole, the Board and its committees were functioning well, that the contribution and commitment of each Director was good and that non-executive Directors provided a robust challenge where appropriate. The results of the evaluation were considered by the Board including areas where improvements could be made and related recommendations are being implemented.

The Board confirmed that each non-executive and executive director continues to perform effectively and demonstrate a strong committment to the role.

The Board expects to engage an external facilitator to conduct the 2012 evaluation.

Succession Planning

The Boards' general policy is to keep the overall composition and balance of the Board under review and to manage the orderly succession of non-executive Directors without compromising the effectiveness and continuity of the Board and its committees.

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 all announcements including the half-yearly and annual results and investor presentations. The Board receives reports on feedback from investors and also receives analysts' reports on the Group. Non-executive Directors are offered an opportunity to attend meetings with major shareholders. The Chairman is available to meet with shareholders if they have concerns which have not been resolved through the normal channels of Chief Executive Officer and 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. A special resolution requires a majority of at least 75 per cent of the votes cast to be passed.

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.

Directors' Statement on Corporate Governance

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	-	-	5	4	-	-	3	3
G. Slark	5	5	-	-	4	4	-	-	-	-
C. Ó Nualláin	7	7	-	-	5	5	-	-	-	-
L. Martin*	7	7	-	-	5	3	-	-	-	-
R. W. Jewson	7	7	5	5	-	-	5	5	3	3
R. Ryan	7	7	6	6	-	-	5	5	3	3
C. M. Fisher	7	7	1	1	-	-	5	5	3	3
G. Bowler**	3	3	4	3	-	-	3	0	3	3
A. Flynn	5	5	3	3	-	-	-	-	-	-

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 by the Directors during the period the Director was a member of the Board and/or Committee

* L. Martin retired from the Board and the Finance Committee on 31 December 2011.

** G. Bowler retired from the Board, the Audit Committee, the Remuneration Committee and the Nomination Committee at the conclusion of the AGM on 4 May 2011.

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 2010 Code 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 15. The Company Secretary is secretary of the Audit, Remuneration and Nomination Committees.

Audit Committee

During the year, the Audit Committee comprised Mr. Roderick Ryan, who chairs the Committee, Ms. Annette Flynn and Mr. Charles M. Fisher. Ms. Annette Flynn was appointed to the Audit Committee on 15 March 2011. Ms. Gillian Bowler retired from the Board and the Audit Committee at the conclusion of the Annual General Meeting on 4 May 2011. Mr. Richard W. Jewson retired from the Audit Committee on 13 October 2011 and on the same date, Mr. Charles Fisher was appointed to the Committee. All members of the Committee are determined by the Board to be independent non-executive Directors. The Audit Committee met six times during the year.

The Board believes that Mr. Roderick Ryan brings to the Committee recent and relevant financial experience. It can be seen from the Directors' biographical details appearing on page 15 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 at least every five years and senior audit staff are periodically rotated. Non-audit tax services were provided by KPMG during 2011. The level of fees payable for these services was materially lower compared to the prior year. The Committee is satisfied that the provision of these services by KPMG did not conflict with its independence as auditor. To further ensure that auditor objectivity is not compromised, KPMG assessed its independence from Grafton Group plc in 2011 and concluded that no conflicts existed with regard to its appointment as auditor, the level of fees charged as a whole to the Group, or its existing relationships with senior management. KPMG confirmed that in its professional judgement, it is independent with respect to Grafton Group plc.

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 UK Corporate Governance Code 2010 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 2011, 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 2012. 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 2011 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 evidence of risk assessment activity and oversight of the approach to identifying and managing risk including the effectiveness of systems of internal control covering all material controls including financial and operating controls;
- 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.

Directors' Statement on Corporate Governance

Remuneration Committee

The Committee comprises Mr. Charles Fisher, who chairs the Committee, Mr. Roderick Ryan and Ms. Annette Flynn, all of whom are non-executive directors that are determined by the Board to be independent. Ms. Gillian Bowler retired from the Board and the Remuneration Committee at the conclusion of the Annual General Meeting on 4 May 2011. Mr. Richard W. Jewson resigned from the Remuneration Committee on 13 October 2011 and on the same date, Ms. Annette Flynn was appointed to the Committee. The Committee met five times during the year. The Committee's responsibilities include making recommendations on the terms of engagement and remuneration of the executive Directors. All members of the Remuneration Committee have relevant experience in large organisations of salaries, long term share incentive schemes and short term performance-related pay arrangements.

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 Officer, 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; and
- 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 of the Remuneration Committee on Directors' Remuneration incorporates details of the programme of work undertaken by the Committee during 2011.

Nomination Committee

The Nomination Committee comprises Mr. Roderick Ryan, Chairman of the Committee, Mr. Michael Chadwick, Mr. Charles M. Fisher and Mr. Richard W. Jewson. Ms. Gillian Bowler retired from the Board and the Nomination Committee at the conclusion of the Annual General Meeting on 4 May 2011. 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 on three occasions during the year to consider the appointment of a Chief Executive Officer on the retirement of Mr. Chadwick and the appointment of a new non-executive Director. The Committee identified, and recommended to the Board, the appointment of Mr. Gavin Slark as Group Chief Executive Officer. 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 potential 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. Gavin Slark, Chairman, Mr. Colm Ó Nualláin, Finance Director and Mr. Charles Rinn, Secretary and Group Financial Controller. Mr. Gavin Slark was appointed to the Board and the Finance Committee on 1 April 2011. Mr. Leo Martin retired from the Board and the Finance Committee on 31 December 2011. Mr. Michael Chadwick resigned from the Finance Committee on 31 December 2011. 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 and Risk Management

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 in the 2010 Code and Turnbull guidance, has been in place throughout the accounting period and up to the date the financial statements were approved. These risks are regularly reviewed by the Board.

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 reports to the Board on key risks and internal control issues including the way in which these issues are managed.

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 and risk management 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. Capital expenditure proposals up to Board level are approved by the Finance Committee.

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 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.

Directors' Statement on Corporate Governance

In the Board's view, the ongoing information it receives is 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 has complied throughout the accounting period with all relevant provisions set out in the UK Corporate Governance Code 2010 and the Irish Corporate Governance Annex except that the roles of Chairman and Chief Executive Officer were not split until 1 July 2011 and the period of service of one non-executive director, who is not a member of the Audit or Remuneration Committees, exceeded nine years.

Report of the Remuneration Committee 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 Officer, 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.

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 is Committee Chairman and the other members of the Committee are Mr. Roderick Ryan and Ms. Annette Flynn. Ms. Gillian Bowler ceased to be a member of the Committee on her retirement from the Board at the AGM on 4 May 2011. Mr. Richard W. Jewson resigned as a member of the Committee on 13 October 2011 and was replaced by Ms. Annette Flynn on the same date. The Committee is accountable to shareholders through its annual Report of the Remuneration Committee on Directors' Remuneration. The Committee met five times during the year.

The Committee, with the assistance of New Bridge Street, Remuneration Consultants, carried out a comprehensive review of the remuneration packages of executive Directors and the Company Secretary during 2010. 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.

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 reviewed its terms of reference during 2010 and its own effectiveness during 2011.

Remuneration Policy

In making its recommendations, the Remuneration Committee has given consideration to the provisions of the 2010 UK Corporate Governance Code and the disclosure requirements set out in the Annex to the Listing Rules of the Irish Stock Exchange, which supplements the 2010 Code with additional corporate governance provisions. The remuneration policy adopted by the Board is to reward its executive directors competitively having regard to comparable companies. The policy recognises the need to attract, retain and motivate executives of high calibre and ensuring that executive management is provided with appropriate incentives to encourage enhanced long-term performance with the objective of aligning the interests of executive directors and shareholders. In determining such policy, the Remuneration Committee takes into account all factors which it considers necessary, including market practice, the changing nature of the business and markets in which it operates, the performance of the Group, the experience, responsibility and performance of the individuals concerned and remuneration practices elsewhere in the Group. The non-executive Chairman is consulted about remuneration proposals concerning Executive Directors and the Company Secretary.

The Remuneration Committee seeks advice when necessary from New Bridge Street, Remuneration Consultants. New Bridge Street has no other connection with the Company. The elements of the remuneration package for executive directors are basic salary, other benefits, performance-related pay, a pension allowance and the ability to participate in the Grafton Group plc 2011 Long Term Incentive Plan, the 1999 Grafton Group Share Scheme and the Grafton Group Employee Share Participation Scheme.

Report of the Remuneration Committee on Directors' Remuneration

Salary

The salaries of executive directors are reviewed annually in January. When conducting this review, the Committee considers a range of factors including the performance of the Group, market conditions, the prevailing market rates for similar positions in comparable companies, the responsibilities, performance and experience of each executive director and the level of salary increases implemented across the Group.

The Committee decided not to award any salary increases to executive directors for 2011 having taken account of both external market and internal Group considerations. No basic salary increases have been awarded to executive directors since 1 July 2007. This reflected the difficult conditions in the Group's markets over this period and the focus on cost control and increasing profitability.

The Committee agreed not to award any salary increases to executive directors for 2012.

Performance-Related Pay

The performance-related pay awards for executive directors are shown in this report in the table of Directors' Remuneration on page 39. The 2011 maximum performance-related pay potential was set at 100 per cent of base salary pro-rated for the Chief Executive Officer and 80 per cent for other executive directors. The performance targets for 2011 were based on return on capital employed, cash flow, adjusted earnings per share and personal objectives with equal weighting given to each measure.

The performance targets set by the Committee for 2011 were based on the Group's internal budget for the year. No performance-related pay awards were payable unless 95 per cent of the 2011 budgeted return on capital employed, cash flow and adjusted earnings per share was achieved and awards were calculated on a straight line basis between 95 per cent of budget and 125 per cent of budget for each of the three components. These stretching targets were designed to incentivise the achievement of a strong improvement in key performance measures.

The Committee determined that the minimum target of 95 per cent of budget was not achieved for return on capital employed and earnings per share and no awards were made for these two components of performance-related pay. The Committee also determined that 46 per cent of the maximum award was payable in respect of the cash flow target. The Committee also determined the extent to which each executive director achieved the set of personal objectives that were relevant to their specific areas of responsibility.

The overall approach of the Committee reflected its objective of rebalancing the components of remuneration, over the medium-term, between fixed and variable pay. The 2011 performance-related pay for the Chief Executive Officer is for the six months from 1 July 2011, the date of his appointment as Chief Executive Officer.

The performance-related pay targets for 2012 are based on budgeted return on capital employed, cash flow and adjusted earnings per share for the year. The fourth component is a set of personal objectives for each director. An equal weighting was given to each component and the maximum potential performance-related pay award is 100 per cent for the Chief Executive Officer and 80 per cent for the Finance Director.

Pension

An allowance is payable to executive directors in lieu of pension benefit. A contribution was made to a defined contribution pension scheme within Revenue approved limits in respect of Mr. G. Slark.

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. Shareholder approval was granted at the last Annual General Meeting (AGM) held on 4 May 2011 for the introduction of a new Long-Term Incentive Plan (LTIP) and the first awards under the plan were made on 25 May 2011. Details of awards made to executive directors and the secretary are shown on page 41.

Report of the Remuneration Committee on Directors' Remuneration

The 2011 LTIP is a long-term incentive plan that permits the grant of awards that will entitle participants to receive free shares subject to the achievement of long-term performance conditions that are chosen so as to be aligned to the interests of shareholders. The 2011 LTIP is available for executive directors, the secretary 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 current intention of the Remuneration Committee that awards granted to any individual under the 2011 LTIP in the 2012 financial year will not exceed 100 per cent of the annual rate of an individual's base salary.

The 2011 LTIP provides 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 consist of such performance conditions ("Performance Conditions") as are selected by the Remuneration Committee.

In the case of awards that were issued on 25 May 2011 following the adoption of the 2011 LTIP to the Company's executive directors and the secretary, the Performance Conditions are 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 secretary 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 on 25 May 2011 following 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 granted on 25 May 2011 to the Company's executive directors and secretary, 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 and secretary 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.

Report of the Remuneration Committee on Directors' Remuneration

The Remuneration Committee has the 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 New Bridge Street, Remuneration Consultants and by Arthur Cox, Solicitors.

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. Basic shares granted after 8 May 2008 cannot be converted before the expiration of three years.

(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 had 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.

Share Participation Scheme

The Grafton Group Employee Share Participation Scheme is open to all Ireland-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 2011 under the scheme.

Recovery of Variable Compensation

Under the terms of the 2011 Grafton Group plc Long-Term Incentive Plan, the Remuneration Committee has the discretion to require the reduction of the vesting of awards or require the repayment of vested awards (within two years of the vesting of awards) in circumstances where the vesting arose as a result of information which has subsequently proved to be inaccurate or misleading in a material respect.

Service Contracts

No executive director has a service contract with a period of notice of more than six months.

The Committee developed and approved all remuneration elements of the service contract with Mr. Gavin Slark, which was executed on 1 February 2011. The contract provides for a notice period of not less than six months by either Mr. Slark or the Company. Basic salary is payable in lieu of notice where the employment is terminated by the Company during the notice period. Remuneration payable to Mr. Slark is described elsewhere in this report. The contract provided for a once-off payment of €259,000 to compensate Mr. Slark for the loss of remuneration receivable from his previous employers.

Report of the Remuneration Committee on Directors' Remuneration

Non-Executive Directors

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. The rate of annual remuneration payable to non-executive directors has not increased since 1 January 2005. Non-executive directors are appointed under letters of engagement and appointment is normally for an initial period of three years unless otherwise terminated earlier by and at the discretion of either party upon one month's written notice or otherwise in accordance with the Company's Articles of Association. Invitations to act for subsequent three-year terms are subject to annual review of performance and balancing the need to refresh the Board but without compromising its effectiveness and continuity. Non-executive directors are required to disclose potential conflicts of interest on appointment and are required to comply with the Group's Share Dealing Rules.

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 performance related pay after statutory deductions for the purchase of shares in the Group until this share ownership requirement is fulfilled. The shareholdings of directors are shown on page 40 of this report.

Annual General Meeting

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

Report of the Remuneration Committee 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 2011 €'000	Performance related pay 2011 €'000	Pension allowance 2011 €'000	Pension contribution 2011 €'000	Other benefits 2011 €'000	Total 2011 €'000	Total 2010 €'000
Remuneration for 2011							
Executive Directors							
G. Slark (i)	478	101	68	43	288	**978**	-
C.Ó Nualláin	500	146	337	-	25	**1,008**	1,159
L. J. Martin (ii)	490	143	-	-	35	**668**	929
M. Chadwick (iii)	318	-	-	-	30	**348**	665
J. F. Malone	-	-	-	-	-	**-**	200
	1,786	390	405	43	378	**3,002**	2,953

	Fees 2011 €'000	Total 2011 €'000	Total 2010 €'000
Non-Executive Directors			
M. Chadwick (iii)	75	**75**	-
G. Bowler (iv)	24	**24**	70
A. Flynn (v)	56	**56**	-
R.W. Jewson	70	**70**	70
R. Ryan	70	**70**	70
C.M. Fisher	70	**70**	70
A.E. Collins	-	**-**	25
	365	**365**	305

Sub-total	**3,367**	3,258
Share-based payments (credit)/charge	**(91)**	54
Total Directors' Remuneration	**3,276**	3,312

(i) Mr. G. Slark was appointed to the Board on 1 April 2011 and as Chief Executive Officer on 1 July 2011. Other benefits include a once-off payment of €259,000 payable on 1 April 2011, the commencement date of Mr. Slark's contract, to compensate him for the loss of remuneration from his previous employers. Performance-related pay is pro-rated from 1 July 2011, the date on which Mr. Slark was appointed Chief Executive Officer.

(ii) Mr. L. Martin retired from the Board on 31 December 2011.

(iii) Mr. M. Chadwick retired as Executive Chairman on 1 July 2011 and continued to serve on the Board from that date as non-executive Chairman. Mr. M. Chadwick's total remuneration for the year was €423,000 (2010: €665,000).

(iv) Ms. G. Bowler retired from the Board on 4 May 2011.

(v) Ms. A. Flynn was appointed to the Board on 15 March 2011.

Report of the Remuneration Committee 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 2011 Grafton Units ***	31 December 2010 Grafton Units *
M. Chadwick	**22,079,441**	19,656,921
G. Slark	**30,000**	-
C. Ó Nualláin	**1,141,759**	1,141,759
R.W. Jewson	**42,204**	42,204
A. Flynn	**10,000**	-
R. Ryan	**25,000**	25,000
C. M. Fisher	**20,000**	10,000
L.J. Martin**	**204,605**	204,605

On 31 December 2011, Mr. Chadwick held a non-beneficial interest in 2,490,330 (31 December 2010: 2,490,330) Grafton Units in his capacity as an executor of an estate. On 5 December 2011, Mr. Chadwick ceased to hold a non-beneficial interest in 2,986,560 Grafton Units in his capacity as a Trustee of a family trust and he also ceased to hold a non-beneficial interest as nominee in 178,640 Grafton Units on the same date. At 31 December 2011, Mr. M. Chadwick and Mr. C. Ó Nualláin had a non-beneficial interest in 670,366 (2010: 1,367,255) Grafton Units as Trustees of the Grafton Group plc Employee Share Participation Scheme.

Mr. C. Rinn, Secretary, had a beneficial interest in 263,396 Grafton Units at 31 December 2011 (31 December 2010: 263,396).

There have been no changes in the interests of the Directors between 31 December 2011 and the date of this report.

* At 31 December 2011, 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.

** Mr. L. Martin retired from the Board on 31 December 2011.

Report of the Remuneration Committee on Directors' Remuneration

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 2011	31 December 2011	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 2010: 540,177) Grafton Units at 31 December 2011 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 2011 was €2.38 (31 December 2010: €3.45) and the price range during the year was between €2.28 and €3.88 (2010: €2.33 and €3.65).

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.

Directors' and Secretary's Interests under the 2011 Long Term Incentive Plan (LTIP)

The grant of awards over Grafton Units to the Directors and Secretary under the LTIP are shown below:

		Number of Units					
	Grant Date	1 January 2011	Granted	31 Dec 2011	EPS Condition	TSR Condition	Vesting Date
G. Slark	25 May 2011	-	184,000	184,000	92,000	92,000	25 May 2014
C. Ó Nualláin	25 May 2011	-	80,000	80,000	40,000	40,000	25 May 2014
C. Rinn	25 May 2011	-	40,000	40,000	20,000	20,000	25 May 2014

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 18 to 41 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 6 March 2012, whose names and functions are listed on page 15 confirms 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 2011 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 2011; 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

G. Slark
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 2011 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 Statements of Changes in Equity and the related notes on pages 46 to 130. 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 42 and 43.

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, in the case of the Company, as applied in accordance with the provisions of the Companies Acts, 1963 to 2009, and have been properly prepared in accordance with the Companies Acts, 1963 to 2009 and Article 4 of the IAS Regulation. We also report to you our opinion as to; 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 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 Directors' Statement on Corporate Governance is consistent with the consolidated Group financial statements. In addition, we review whether the Directors' Statement on Corporate Governance, including the Report of the Remuneration Committee on Directors' Remuneration, reflects the Company's compliance with the nine provisions of the 2010 FRC UK Corporate Governance Code and the two provisions of the Irish Corporate Governance Annex 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, the Chief Executive Officer's Review, the Group Finance Review, the Corporate Social Responsibility statement, the Directors' Statement on Corporate Governance and the Report of the Remuneration Committee on Directors' Remuneration. 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 judgements 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 2011 and of its profit for the year then ended;
- the parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU 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 2011;
- 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 parent 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 considered 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 Directors' Statement on Corporate Governance 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 Group financial statements.

The net assets of the Company, as stated in the Company balance sheet on page 118 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 2011 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.

Cliona Mullen, for and on behalf of

KPMG

Chartered Accountants, Statutory Audit Firm
1 Stokes Place, St. Stephen's Green, Dublin 2, Ireland

6 March 2012

Group Income Statement

For the year ended 31 December 2011

	Notes	Pre-Exceptional Items 2011 €'000	Exceptional Items (note 3) 2011 €'000	Total 2011 €'000	Pre-Exceptional Items 2010 €'000	Exceptional Items (note 3) 2010 €'000	Total 2010 €'000
Revenue	1	**2,053,833**	**-**	**2,053,833**	2,004,418	-	2,004,418
Operating costs and income	2	**(1,999,114)**	**(32,055)**	**(2,031,169)**	(1,956,022)	(15,375)	(1,971,397)
Operating profit		**54,719**	**(32,055)**	**22,664**	48,396	(15,375)	33,021
Finance expense	6	**(32,377)**	**-**	**(32,377)**	(26,001)	-	(26,001)
Finance income	6	**19,977**	**-**	**19,977**	18,534	-	18,534
Profit before tax		**42,319**	**(32,055)**	**10,264**	40,929	(15,375)	25,554
Income tax	8	**(8,583)**	**864**	**(7,719)**	38,432	-	38,432
Profit after tax for the financial year		**33,736**	**(31,191)**	**2,545**	79,361	(15,375)	63,986
Earnings per ordinary share - basic	10			**1.10c**			27.68c
Earnings per ordinary share - diluted	10			**1.09c**			27.54c

On behalf of the Board

G Slark
C Ó Nualláin
Directors

6 March 2012

Group Balance Sheet

As at 31 December 2011

	Notes	2011 €'000	2010 €'000
ASSETS			
Non-current assets			
Goodwill	11	**566,336**	552,831
Intangible assets	11	**2,241**	4,453
Property, plant and equipment	12	**564,884**	568,767
Deferred tax assets	25	**36,331**	46,252
Retirement benefit assets	31	**-**	1,107
Derivative financial instruments	21	**5,331**	11,068
Investment in associate	14	**-**	3,690
Financial assets	13	**152**	176
Total non-current assets		**1,175,275**	1,188,344
Current assets			
Inventories	15	**271,217**	271,918
Trade and other receivables	16	**323,044**	305,560
Derivative financial instruments	21	**5,625**	5,798
Cash and cash equivalents	19	**134,600**	234,275
Properties held for sale	12	**16,231**	14,693
Total current assets		**750,717**	832,244
Total assets		**1,925,992**	2,020,588
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Equity share capital	17	**11,656**	11,632
Share premium account	17	**292,545**	291,216
Capital redemption reserve	18	**905**	905
Revaluation reserve	18	**30,566**	31,747
Shares to be issued reserve	18	**4,588**	5,258
Cash flow hedge reserve	18	**(831)**	(1,440)
Foreign currency translation reserve	18	**(110,767)**	(136,310)
Retained earnings		**759,908**	793,078
Treasury shares held	17	**(5,746)**	(5,746)
Total equity		**982,824**	990,340
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	19	**325,230**	353,019
Provisions	22	**32,805**	17,555
Retirement benefit obligations	31	**33,560**	18,666
Derivative financial instruments	21	**422**	812
Deferred tax liabilities	25	**39,872**	37,599
Total non-current liabilities		**431,889**	427,651
Current liabilities			
Interest-bearing loans and borrowings	19	**45,110**	151,432
Trade and other payables	23	**421,658**	399,890
Current income tax liabilities		**34,289**	43,959
Derivative financial instruments	21	**739**	988
Provisions	22	**9,483**	6,328
Total current liabilities		**511,279**	602,597
Total liabilities		**943,168**	1,030,248
Total equity and liabilities		**1,925,992**	2,020,588

On behalf of the Board

G Slark
C Ó Nualláin
Directors

6 March 2012

Group Cash Flow Statement

For the year ended 31 December 2011

	Notes	2011 €'000	2010 €'000
Profit before taxation		**10,264**	25,554
Finance income	6	**(19,977)**	(18,534)
Finance expense	6	**32,377**	26,001
Operating profit		**22,664**	33,021
Depreciation	12	**40,448**	44,524
Intangible amortisation	11	**2,212**	2,212
Share-based payments (credit)/charge		**(670)**	581
Non-cash movement in operating provisions	22	**20,337**	4,596
Claims paid on provisions	22	**(3,927)**	(3,725)
Non-cash movement on asset impairment	3	**4,588**	10,039
Profit on sale of property, plant and equipment		**(1,457)**	(563)
Contributions to pension schemes in excess of IAS 19 charge		**(5,594)**	(3,799)
Decrease in working capital	26	**18,333**	8,792
Cash generated from operations		**96,934**	95,678
Interest paid		**(16,610)**	(13,955)
Income taxes paid		**(3,131)**	(974)
Cash flows from operating activities		**77,193**	80,749
Investing activities			
Inflows			
Proceeds from sale of property, plant and equipment		**8,732**	4,262
Interest received		**3,979**	7,062
Sale of financial assets	13	**36**	44
		12,747	11,368
Outflows			
Acquisition of subsidiary undertakings and businesses	27	**(3,945)**	(1,638)
Share of acquisition of subsidiaries and businesses by joint venture	14	**(8,736)**	-
Share of cash acquired through acquisitions made by joint venture	14	**873**	-
Net overdraft assumed with joint venture		**(106)**	-
Net cash acquired with subsidiary undertakings	27	**-**	102
Deferred acquisition consideration paid		**-**	(853)
Purchase of property, plant and equipment	12	**(35,327)**	(9,608)
		(47,241)	(11,997)
Cash flows from investing activities		**(34,494)**	(629)
Financing activities			
Inflows			
Proceeds from the issue of share capital		**1,353**	1,450
Net proceeds from borrowings		**65,313**	280,984
		66,666	282,434
Outflows			
Repayments of borrowings		**(161,411)**	(390,460)
Dividends paid	9	**(16,797)**	(11,551)
Movement on finance lease liabilities		**22**	(520)
Redemption of loan notes payable net of derivatives		**(32,195)**	(34,776)
		(210,381)	(437,307)
Cash flows from financing activities		**(143,715)**	(154,873)
Net decrease in cash and cash equivalents		**(101,016)**	(74,753)
Cash and cash equivalents at 1 January		**234,275**	301,984
Effect of exchange rate fluctuations on cash held		**1,341**	7,044
Cash and cash equivalents at 31 December		**134,600**	234,275
Cash and cash equivalents are broken down as follows:			
Cash at bank and short-term deposits		**134,600**	234,275

Group Statement of Comprehensive Income

For the year ended 31 December 2011

	Notes	2011 €'000	2010 €'000
Profit after tax for the financial year		**2,545**	63,986
Other comprehensive income			
Currency translation effects			
- on foreign currency net investments		**28,871**	25,584
- on foreign currency borrowings and derivatives designated as net investment hedges		**(2,257)**	(3,283)
Recycling of exchange gain on net investment hedge		**(1,071)**	-
Actuarial (loss)/gain on Group defined benefit pension schemes	31	**(23,211)**	2,971
Deferred tax on Group defined benefit pension schemes	25	**4,088**	(889)
Deferred tax on capital gains tax rate increase	25	**(976)**	-
Fair value movement on cash flow hedges:			
- Effective portion of changes in fair value of cash flow hedges		**(457)**	(2,481)
- Net change in fair value of cash flow hedges transferred from equity		**1,146**	2,175
Deferred tax on cash flow hedges	25	**(80)**	48
Total other comprehensive income		**6,053**	24,125
Total comprehensive income for the financial year		**8,598**	88,111

On behalf of the Board

G Slark
C Ó Nualláin
Directors

6 March 2012

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 2011										
At 1 January 2011	11,632	291,216	905	31,747	5,258	(1,440)	(136,310)	793,078	(5,746)	990,340
Profit after tax for the financial year	-	-	-	-	-	-	-	2,545	-	2,545
Total other comprehensive income										
Actuarial loss on pensions (net of tax)	-	-	-	-	-	-	-	(19,123)	-	(19,123)
Deferred tax on capital gains tax rate increase	-	-	-	(976)	-	-	-	-	-	(976)
Movement in cash flow hedge reserve (net of tax)	-	-	-	-	-	609	-	-	-	609
Currency translation effect on foreign currency net investments	-	-	-	-	-	-	28,871	-	-	28,871
Currency translation effect on foreign currency borrowings and derivatives designated as net investment hedges	-	-	-	-	-	-	(2,257)	-	-	(2,257)
Recycling of exchange gain on net investment hedge	-	-	-	-	-	-	(1,071)	-	-	(1,071)
Total other comprehensive income	-	-	-	(976)	-	609	25,543	(19,123)	-	6,053
Transactions with owners of the Company recognised directly in equity										
Dividends paid	-	-	-	-	-	-	-	(16,797)	-	(16,797)
Issue of Grafton Units (net of issue expenses)	24	1,329	-	-	-	-	-	-	-	1,353
Share based payments credit	-	-	-	-	(670)	-	-	-	-	(670)
Transfer from revaluation reserve	-	-	-	(205)	-	-	-	205	-	-
	24	1,329	-	(205)	(670)	-	-	(16,592)	-	(16,114)
At 31 December 2011	11,656	292,545	905	30,566	4,588	(831)	(110,767)	759,908	(5,746)	982,824
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 designated as net investment hedges	-	-	-	-	-	-	(3,283)	-	-	(3,283)
Total other comprehensive income	-	-	-	-	-	(258)	22,301	2,082	-	24,125
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
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

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 (IFRSs) 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 as the Company publishes Company and Group Financial Statements together.

The IFRSs applied in these financial statements were those effective for accounting periods beginning on or after 1 January 2011.

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 2011 that are effective for the Group's financial year ending on 31 December 2011 and that had no significant impact on the results or financial position of the Group for the year ended 31 December 2011:

- Improvements to IFRSs
- IAS 24 Revised: Related Party Disclosures
- Amendment to IAS 32 – Financial Instruments: Presentation – Classification of Rights Issues
- Amendment to IFRIC 14 – The limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction
- IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments

The IASB and International Financial Reporting Interpretations Committee (IFRIC) have issued the following Standards and Interpretations that are not yet effective for the Group:

- Amendment to IAS 1 – Presentation of Items of Other Comprehensive Income
- Amendments to IAS 19 – Employee Benefits
- IFRS 9 – Financial Instruments: Recognition and Measurement
- IFRS 10 – Consolidated Financial Statements
- IFRS 11 – Joint Arrangements
- IFRS 12 – Disclosure of Interest in Other Entities
- IFRS 13 – Fair Value Measurement

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.

Accounting Policies

The preparation of consolidated financial statements in accordance with IFRS as adopted by the EU requires management to make certain estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expense. Management believes that the estimates and assumptions made are reasonable based on the information available to it at the time that those estimates and assumptions are made. 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 provisions for liabilities including onerous lease provisions, accounting for defined benefit pension schemes, financial instruments, share-based payments, asset impairment provisions, goodwill impairment and taxation.

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 joint ventures and associates.

The financial year-ends of the Group's subsidiaries, joint ventures and associates are coterminous.

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 the Group loses control. 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

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 partners, 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 consolidated 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. The equity method is used to account for associates. This is a method of accounting whereby the investment is initially recognised at cost and 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 carrying amount is reduced to nil and the Group does not recognise further losses, except to the extent that the Group has incurred obligations in respect of its associates.

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, but only to the extent that there is no evidence of impairment.

Revenue Recognition

Revenue comprises the fair value of consideration receivable for 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.

Accounting Policies

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, who is responsible for allocating resources and assessing performance.

Foreign Currency Translation

Functional and presentation currency

The consolidated financial statements are presented in euro which is the parent 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 designated as a hedge of a net investment in a foreign operation which is recognised in other comprehensive income.

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.

Movements 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.

Accounting Policies

Exceptional Items

The Group has adopted a policy in relation to its income statement which seeks to highlight any significant items within the Group's results. Such items may include significant restructuring and onerous lease provisions, profit or 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.

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, this will be identified in the financial statements.

Finance Expense

Finance expense comprises interest payable on borrowings calculated using the effective interest rate method, net foreign exchange 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. 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 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 Revised, "Business Combinations", has been applied to business combinations made after 1 January 2010. Acquisition-related costs which would have been previously included in the cost of a business combination are now expensed within operating costs as incurred.

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 in jointly controlled entities is accounted for on the basis of proportionate consolidation and is included in the goodwill caption in the consolidated balance sheet, net of any impairments.

Goodwill acquired is allocated, from the acquisition date, to the cash generating units 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. 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 freehold 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. Freehold property acquired is subject to a fair value adjustment at the date of acquisition.

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 sale

Non-current assets that are expected to be recovered principally through sale rather than continuing use and meet the IFRS 5 criteria are classified as held for sale. 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 sale and subsequent gains or losses on re-measurement are recognised in the income statement.

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. Leased assets are 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 finance leases. 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 debts are written-off in the income statement on identification.

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. Bank 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 arm's 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.

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 legal or constructive obligation to pay further contributions in the event that these plans do not hold sufficient assets to provide retirement benefits.

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 2011 Long-Term Incentive Plan (LTIP), the 1999 Grafton Group Share Scheme for Senior Executives and the SAYE Scheme for UK employees should enable employees to acquire shares in the Company subject to the conditions of these schemes. New units are issued to satisfy obligations under the 1999 Grafton Group Share Scheme and the SAYE scheme. Entitlements under the LTIP may be satisfied by the issue of units or by a market purchase of units. 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 or issued.

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 and represents the expected tax payable for the year. 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 certain items that are not tax deductible including property depreciation. The Group's liability for current tax is calculated using rates that have been enacted or substantially enacted at the balance sheet date. The Group's income tax charge reflects various allowances and reliefs and planning opportunities available in the tax jurisdictions in which the Group operates. The determination of the Group's charge for income tax in the income statement requires estimates to be made, on the basis of professional advice, in relation to certain matters where the ultimate outcome may not be certain and where an extended period may be required before such matters are determined. The estimates for income tax included in the financial statements are considered appropriate but no assurance can be given that the final determination of these matters will not be materially different to the estimates included in the financial statements.

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 that is 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 treasury 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 treasury 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 539 branches in Britain, Ireland and Belgium.

The Retailing segment operates Ireland's largest DIY and home improvement business from a network of 40 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 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.

Notes to the Group Financial Statements

1. Segment Information (continued)

Group Income Statement

	Continuing operations – year ended 31 December							
	Merchanting		Retailing		Manufacturing		Group	
	2011 €'000	2010 €'000	**2011 €'000**	2010 €'000	**2011 €'000**	2010 €'000	**2011 €000**	2010 €'000
Segment revenue	**1,786,601**	1,730,610	**219,709**	230,528	**53,488**	49,144	**2,059,798**	2,010,282
Less: Inter-segment revenue-manufacturing	**-**	-	**-**	-	**(5,965)**	(5,864)	**(5,965)**	(5,864)
	1,786,601	1,730,610	**219,709**	230,528	**47,523**	43,280	**2,053,833**	2,004,418
Segment operating profit/(loss)	**64,924**	61,524	**2,120**	2,351	**(535)**	(3,457)	**66,509**	60,418
Exceptional items	**(11,217)**	(5,151)	**(19,636)**	-	**(1,202)**	(185)	**(32,055)**	(5,336)
Segment operating profit/(loss) after exceptional items	**53,707**	56,373	**(17,516)**	2,351	**(1,737)**	(3,642)	**34,454**	55,082

	Group	
	2011 €000	2010 €'000
Reconciliation to consolidated operating profit		
Segment operating profit after exceptional items	**34,454**	55,082
Central activities	**(9,578)**	(9,810)
Intangible amortisation	**(2,212)**	(2,212)
Exceptional item – asset impairment (manufacturing segment)	**-**	(10,039)
Operating profit	**22,664**	33,021
Finance expense	**(32,377)**	(26,001)
Finance income	**19,977**	18,534
Profit before tax	**10,264**	25,554
Income tax	**(7,719)**	38,432
Profit after tax for the financial year	**2,545**	63,986

Notes to the Group Financial Statements

1. Segment Information (continued)

Group Balance Sheet

	Continuing operations – as at 31 December							
	Merchanting		Retailing		Manufacturing		Group	
	2011 €'000	2010 €'000	**2011 €'000**	2010 €'000	**2011 €'000**	2010 €'000	**2011 €'000**	2010 €'000
Segment assets	**1,586,681**	1,550,860	**101,857**	111,520	**55,415**	55,842	**1,743,953**	1,718,222
Reconciliation of total assets								
Deferred tax assets							**36,331**	46,252
Retirement benefit assets							**-**	1,107
Investment in associate							**-**	3,690
Financial assets							**152**	176
Derivative financial instruments							**10,956**	16,866
Cash and cash equivalents							**134,600**	234,275
Total assets in the Group balance sheet							**1,925,992**	2,020,588
Segment liabilities	**390,029**	364,679	**60,956**	49,046	**12,961**	10,048	**463,946**	423,773
Reconciliation of total liabilities								
Interest bearing loans and borrowings (current and non-current)							**370,340**	504,451
Retirement benefit obligations							**33,560**	18,666
Deferred tax liabilities							**39,872**	37,599
Current tax liabilities							**34,289**	43,959
Derivative financial instruments (current and non-current)							**1,161**	1,800
Total liabilities in the Group balance sheet							**943,168**	1,030,248

Notes to the Group Financial Statements

1. Segment Information (continued)

Other segment information

	Continuing operations – year ended 31 December							
	Merchanting		Retailing		Manufacturing		Total Group	
	2011 €'000	2010 €'000	**2011 €'000**	2010 €'000	**2011 €'000**	2010 €'000	**2011 €'000**	2010 €'000
Capital expenditure	**33,870**	8,841	**1,105**	646	**352**	121	**35,327**	9,608
Depreciation	**30,878**	33,289	**5,612**	6,136	**3,958**	5,099	**40,448**	44,524

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.

	Belgium		Ireland		UK		Group	
	2011 €'000	2010 €'000	**2011 €'000**	2010 €'000	**2011 €'000**	2010 €'000	**2011 €'000**	2010 €'000
Segment revenue (continuing operations)	**20,926**	-	**539,695**	571,893	**1,493,212**	1,432,525	**2,053,833**	2,004,418
Capital expenditure	**590**	-	**4,463**	1,593	**30,274**	8,015	**35,327**	9,608
Segment assets	**15,250**	-	**370,657**	405,407	**791,710**	759,984	**1,177,617**	1,165,391
Goodwill							**566,336**	552,831
							1,743,953	1,718,222

2. Operating Costs and Income

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

	2011 €'000	2010 €'000
Exceptional items (note 3):		
Restructuring costs	**10,659**	5,336
Restructuring costs - asset impairment (other)	**2,003**	-
	12,662	5,336
Onerous lease provision	**16,808**	-
Asset impairment relating to onerous leases	**2,585**	-
Asset impairment-manufacturing segment	**-**	10,039
Total exceptional items (note 3)	**32,055**	15,375
Decrease/(increase) in inventories	**12,008**	(5,556)
Purchases and consumables	**1,395,513**	1,372,036
Staff costs before exceptional items (note 5)	**308,527**	303,556
Auditor's remuneration - Group and subsidiaries	**838**	759
Depreciation	**40,448**	44,524
Lease rentals and other hire charges	**60,350**	59,295
Intangible amortisation	**2,212**	2,212
Profit on disposal of property, plant and equipment	**(1,457)**	(563)
Selling, distribution and administrative expenses	**180,675**	179,759
	2,031,169	1,971,397

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:

	2011 €'000	2010 €'000
Audit services (i)		
- Group Auditor - KPMG Ireland	**526**	526
- Other network firm - KPMG	**101**	30
	627	556
Other assurance services (ii)		
- Group Auditor - KPMG Ireland	**187**	203
- Other network firm - KPMG	**24**	-
	211	203
Auditor's remuneration - Group and subsidiaries (i) & (ii)	**838**	759
Tax advisory services		
- Group Auditor - KPMG Ireland	**111**	1,049
- Other network firm - KPMG	**411**	507
	522	1,556
Total		
- Group Auditor - KPMG Ireland	**824**	1,778
- Other network firm - KPMG	**536**	537
	1,360	2,315

Other assurance services relate to the statutory audits of subsidiary companies in the UK, Ireland and Europe except for €28,000 in 2011 (2010: €44,000 for audit of pension funds and grant claims) that relates to the audit of pension funds.

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. Exceptional Items

	2011 €'000	2010 €'000
Restructuring costs:		
Redundancy and other costs	**10,659**	5,336
Impairment of property, plant and equipment (note 12)	**2,003**	-
	12,662	5,336
Onerous lease provision (note 22)	**16,808**	-
Impairment of property, plant and equipment relating to onerous leases (note 12)	**2,585**	-
Asset impairment-manufacturing segment:		
Property, plant and equipment	-	7,446
Inventory	-	1,145
Trade and other receivables	-	1,448
	19,393	10,039
Total	**32,055**	15,375

The 2011 exceptional items relate to redundancy and other costs of €10.7 million and impairment of fixed assets of €2.0 million. A charge of €19.4 million was recognised in respect of a small number of onerous leases and related asset impairment primarily in the Irish retailing business.

In 2010, the carrying amounts of certain assets within the Irish manufacturing business were written down to the estimated recoverable amount due to on-going losses and following an assessment of future trading prospects. The recoverable amount of the underlying assets represents an estimate of fair value less selling costs.

4. Directors' Remuneration, Pension Entitlements and Interests

Directors' remuneration, pension entitlements and interests in shares and share entitlements are presented in the Report of the Remuneration Committee on Directors' Remuneration on pages 34 to 41.

5. Employment

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

	2011	2010
Merchanting	**7,791**	7,745
Retailing	**1,130**	1,153
Manufacturing	**208**	212
Holding company	**18**	17
	9,147	9,127

The aggregate remuneration costs of employees were:	€'000	€'000
Wages and salaries	**275,125**	270,461
Social welfare	**26,753**	26,328
Share based payments (credit)/charge	**(670)**	581
Defined benefit pension (note 31)	**1,524**	1,939
Pension settlement cost (note 31)	**378**	-
Defined contribution pension and related costs	**5,417**	4,247
Staff costs before exceptional items	**308,527**	303,556
Termination payments	**10,230**	4,549
Charged to operating profit	**318,757**	308,105
Finance cost on pension scheme liabilities	**11,187**	11,134
Expected return on pension scheme assets	**(13,038)**	(12,243)
Charged to income statement	**316,906**	306,996
Actuarial loss/(gain) on pension schemes	**23,211**	(2,971)
Total employee benefit cost	**340,117**	304,025

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 service and non-market performance vesting conditions, the historic performance of the Group over the period since the share entitlements were granted and the forecast performance over the remaining life of share awards.

Key Management

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

	2011	2010
Number of Individuals	**10**	10

	2011	2010
	€'000	€'000
Short-term employee benefits	**3,355**	3,098
Share-based payment (credit)/charge	**(129)**	77
Retirement benefits expense	**518**	709
Charged to operating profit	**3,744**	3,884

6. Finance Expense and Finance Income

	2011 €'000	2010 €'000
Finance expense:		
Bank loans and overdrafts	**14,126***	9,094*
Net change in fair value of cash flow hedges transferred from equity	**1,146**	2,175
Interest on finance leases	**378**	449
Finance cost on pension scheme liabilities	**11,187#**	11,134#
Interest on loan notes	**3,149***	5,434*
Fair value movement on hedged financial liabilities	**(5,749)**	10,168
Fair value movement on fair value hedges	**4,217**	(12,691)
Ineffective portion of changes in fair value of cash flow hedges	**60**	75
Foreign exchange loss	**3,863**	163
	32,377	26,001
Finance income:		
Recycling of exchange gain on net investment hedge	**(1,071)**	-
Fair value movement on derivatives (cross-currency interest rate swaps not in hedging relationship)	**(2,032)**	-
Ineffectiveness on net investment hedge	**(896)**	(1,284)
Interest income on bank deposits	**(1,964)***	(5,007)*
Settlement gain on loan repayment	**(976)**	-
Expected return on pension plan assets	**(13,038)#**	(12,243)#
	(19,977)	(18,534)
Net finance expense recognised in income statement	**12,400**	7,467

**Net bank/loan note interest of €15.3 million (2010: €9.5 million)*
 # Net expected pension return of €1.9 million (2010: €1.1 million)

	2011 €'000	2010 €'000
Amounts relating to items not at fair value through income statement		
- Total interest expense on financial liabilities	**32,703**	26,274
- Total interest income on financial assets	**(15,002)**	(17,250)

Recognised directly in other comprehensive income	2011 €'000	2010 €'000
Currency translation effects on foreign currency net investments	**28,871**	25,584
Currency translation effects on foreign currency borrowings and derivatives designated as net investment hedges	**(2,257)**	(3,283)
Recycling of exchange gain on net investment hedge	**(1,071)**	-
Effective portion of changes in fair value of cash flow hedges	**(457)**	(2,481)
Net change in fair value of cash flow hedges transferred to income statement	**1,146**	2,175
	26,232	21,995

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 2011 and 31 December 2010 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 2011 was Stg86.79p (2010: Stg85.78p). The euro/sterling exchange rate at 31 December 2011 was Stg83.53p (2010: Stg86.08p).

8. Income Tax

(a) Income tax recognised in income statement

	2011 €'000	2010 €'000
Current tax (credit)/expense		
Irish corporation tax	**(8,605)**	(7,666)
UK and other corporation tax	**1,013**	620
	(7,592)	(7,046)
Deferred tax expense/(credit)		
Irish deferred tax expense relating to the origination and reversal of temporary differences	**365**	245
Deferred tax resulting from change in tax rates	**2,633**	972
UK deferred tax expense/(credit) relating to the origination and reversal of temporary differences	**12,313**	(32,603)
	15,311	(31,386)
Total income tax expense/(credit) in income statement	**7,719**	(38,432)

The taxation charge of €7.7 million is primarily a non-cash charge due to the unwinding of deferred tax assets and provisions recognised in prior years. The charge also reflects a reduction in UK deferred tax assets due to a fall in the UK rate of corporation tax and an increase in Irish deferred tax liabilities due to an increase in the rate of capital gains tax. No taxation benefit arose in the year from the charge for restructuring costs and the onerous lease provisions related to the Irish business. Taxation paid of €3.1 million reflected the availability of tax allowances and reliefs carried forward from prior years. The taxation credit of €38.4 million in 2010 was principally the creation of a deferred tax asset in the UK business related to future deductions that were agreed in the year.

8. Income Tax (continued)

(b) Reconciliation of effective tax rate

	2011 €'000	2010 €'000
Profit before tax	**10,264**	25,554
Profit before tax multiplied by the standard rate of tax of 12.5% (2010: 12.5%)	**1,283**	3,194
Effects of:		
Expenses not deductible for tax purposes	**3,795**	2,651
Differences in effective tax rates on overseas earnings	**(1,052)**	(1,511)
Recognition of UK deferred tax asset	**-**	(34,157)
Losses for which no deferred tax asset was recognised	**5,491**	2,563
Effect of change in tax rates	**2,633**	972
Other differences	**(4,431)**	(12,144)
Total income tax expense/(credit) in income statement	**7,719**	(38,432)

(c) Deferred tax recognised in other comprehensive income

	2011 €'000	2010 €'000
Property, plant and equipment	**976**	-
Actuarial movement on pension schemes	**(4,088)**	889
Financing – cash flow hedge	**80**	(48)
	(3,032)	841

No provision of tax has been recognised on the undistributed profits of overseas subsidiaries as no remittance of profit is expected to result in an incremental tax charge.

9. Dividends

	2011 €'000	2010 €'000
Group		
Interim dividend of 4.50 cent per Grafton Unit – paid 1 April 2011	**10,421**	-
Interim dividend of 2.75 cent per Grafton Unit – paid 7 October 2011	**6,376**	-
Interim dividend of 2.50 cent per Grafton Unit – paid 31 March 2010	**-**	5,768
Interim dividend of 2.50 cent per Grafton Unit – paid 8 October 2010	**-**	5,783
	16,797	11,551

The Board has agreed to pay a second interim dividend of 4.75 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 16 March 2012 (the 'Record Date') and the cash consideration will be paid on 13 April 2012. An interim dividend of 2.75 cent was paid on 7 October 2011 on the 'C' Ordinary shares in Grafton Group (UK) plc from UK-sourced income. The dividend payable on 13 April 2012 will be recognised in 2012.

10. Earnings per Share - Group

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

	2011 €'000	2010 €'000
Numerator for basic, adjusted and diluted earnings per share:		
Profit after tax for the financial year	**2,545**	63,986
Numerator for basic and diluted earnings per share	**2,545**	63,986
Intangible amortisation after tax	**1,936**	1,936
Taxation credit	**-**	(38,432)
Exceptional costs after tax	**31,191**	15,375
Numerator for adjusted earnings per share	**35,672**	42,865

Denominator for basic and adjusted earnings per share:	**Number of Grafton Units**	Number of Grafton Units
Weighted average number of Grafton Units in issue	**231,751,122**	231,176,982
Effect of potential dilutive Grafton Units	**1,291,453**	1,202,602
Denominator for diluted earnings per share	**233,042,575**	232,379,584
Earnings per share (cent)		
- Basic	**1.10**	27.68
- Diluted	**1.09**	27.54
Adjusted earnings per share (cent)		
- Basic	**15.39**	18.54
- Diluted	**15.31**	18.45

The weighted average potential employee share entitlements over 8,818,794 Grafton Units (2010: 11,527,842) which are currently anti-dilutive are not included in the above calculation for diluted earnings per share and adjusted diluted earnings per share.

11. Goodwill and Intangible Assets

(a) Goodwill

	2011 €'000	2010 €'000
Cost		
At 1 January	**552,831**	544,286
Arising on acquisitions (note 27)	**936**	678
Goodwill assumed with joint venture	**1,281**	-
Share of goodwill acquired by joint venture (note 14)	**2,399**	-
Deferred consideration on acquisitions written back (note 22)	**-**	(1,084)
Translation adjustment	**8,889**	8,951
At 31 December	**566,336**	552,831

Goodwill acquired during the year

Goodwill acquired during the year in the amount of €936,000 (2010: €678,000), 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 operating segment level determined in accordance with IFRS 8 Operating Segments.

	2011 €'000	2010 €'000
Merchanting	**558,356**	548,531
Merchanting – joint venture	**3,680**	-
Retailing	**4,300**	4,300
	566,336	552,831

Impairment testing

Goodwill is subject to impairment testing on an annual basis at 31 December and additionally during the year if an indicator of impairment is considered to exist. No impairment charge was recognised by the Group in 2011 (2010: Nil).

Impairment testing methodology

The recoverable amount of each cash generating unit (group of units) is determined based on value in use calculations. The carrying value of each cash generating unit 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.

11. Goodwill and Intangible Assets (continued)

Estimated future cashflows were determined by reference to the budget for 2012 and management reviewed forecasts for each of the following years from 2013 to 2016 inclusive. A long-term perpetuity growth rate was applied in respect of the years after 2016. 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 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 (2010: 8.75 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 (2010: 3 per cent). The rate assumed was based on an assessment of the likely long term growth prospects for the merchanting and retailing segments.

Significant goodwill amounts

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

	2011 €'000	2010 €'000
Carrying amount of goodwill	**558,356**	548,531
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%**	8.75%

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 lower estimates of projected future cash flows were made, a higher discount rate was used, or a lower nominal growth rate in perpetuity was used, these changes would materially alter the present value of future cash flows.

Management identified the discount rate as a key assumption that could cause the carrying amount to exceed the recoverable amount. If the discount rate was changed to 12 per cent, the estimated recoverable amount would be equal to the carrying amount.

11. Goodwill and Intangible Assets (continued)

(b) Intangible Assets

	Brands €'000	Customer relationships €'000	Total €'000
Cost			
At 1 January 2011	5,658	12,037	17,695
At 31 December 2011	**5,658**	**12,037**	**17,695**
Amortisation			
At 1 January 2010	3,526	7,504	11,030
Amortised during the year	707	1,505	2,212
At 1 January 2011	4,233	9,009	13,242
Amortised during the year	707	1,505	2,212
At 31 December 2011	**4,940**	**10,514**	**15,454**
Net book amount at 31 December 2011	**718**	**1,523**	**2,241**
Net book amount at 31 December 2010	1,425	3,028	4,453

The amortisation charge for the year has been charged to operating costs in the income statement. Brands and customer relationships are amortised over their estimated useful lives of eight years.

The value attributable to customer relationships was determined in 2005 based on management's estimate of the profitability of recurring customers and by discounting the related forecasted cash-flow arising over the asset life.

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

12. (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 2010	**422,297**	**90,654**	**307,050**	**820,001**
Additions	2,211	70	7,327	9,608
Acquisitions (note 27)	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 1 January 2011	**429,050**	**92,394**	**302,511**	**823,955**
Additions	2,851	7,284	25,192	35,327
Reclassifications	7,384	(7,384)	-	-
Acquisitions (note 14 & note 27)	2,248	46	2,194	4,488
Assumed by Joint Venture at 1 January 2011	637	9	228	874
Disposals	(2,632)	(1,691)	(27,757)	(32,080)
Reclassification to properties held for sale	(3,941)	-	-	(3,941)
Exchange adjustment	8,238	1,726	7,633	17,597
At 31 December 2011	**443,835**	**92,384**	**310,001**	**846,220**
Depreciation				
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 1 January 2011	**37,741**	**27,507**	**189,940**	**255,188**
Charge for year	6,241	4,612	29,595	40,448
Reclassifications	923	(923)	-	-
Impairment charge (note 3)	458	2,576	1,554	4,588
Disposals	(282)	(974)	(25,147)	(26,403)
Reclassification to properties held for sale	(505)	-	-	(505)
Exchange adjustment	1,131	758	6,131	8,020
At 31 December 2011	**45,707**	**33,556**	**202,073**	**281,336**
Net book amount				
At 31 December 2011	**398,128**	**58,828**	**107,928**	**564,884**
At 31 December 2010	**391,309**	**64,887**	**112,571**	**568,767**

12. Property, Plant and Equipment and Properties held for Sale (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 fair value or 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 fair value or cost less depreciation.

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

	Plant, machinery & motor vehicles		Leasehold properties	
	2011	2010	**2011**	2010
	€'000	€'000	**€'000**	€'000
Cost	**3,745**	3,514	**7,652**	9,256
Accumulated depreciation	**(3,522)**	(3,043)	**(2,533)**	(2,505)
Net book amount	**223**	471	**5,119**	6,751
Depreciation charge for year	**479**	372	**324**	376

The Group repaid finance leases amounting to €0.5 million (2010: €0.5 million) and entered new leases during the year of €0.5 million (2010: €nil).

12. (b) Properties held for sale

	Cost	Accumulated Depreciation	Net Book Value
	€'000	**€'000**	**€'000**
At 1 January 2010	**13,020**	**657**	**12,363**
Transfers	3,862	816	3,046
Disposals	(1,103)	(43)	(1,060)
Translation adjustment	363	19	344
At 31 December 2010	**16,142**	**1,449**	**14,693**
Transfers	3,941	505	3,436
Disposals	(2,987)	(683)	(2,304)
Translation adjustment	445	39	406
At 31 December 2011	**17,541**	**1,310**	**16,231**

The Group identified 17 (2010: 19) properties held for sale of which 14 (2010: 17) are located in the United Kingdom and 3 (2010: 2) in Ireland. 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 2010	**211**
Acquisitions	-
Disposals	(44)
Translation adjustment	9
At 31 December 2010	**176**
Assumed with joint venture	7
Acquired by joint venture	1
Disposals	(36)
Translation adjustment	4
At 31 December 2011	**152**

Other investments represent sundry equity investments at fair value.

14. Joint Ventures

Navan Retail Developments Limited

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 is accounted for using proportionate consolidation accounting. Net assets and liabilities of €1.6 million are included for Navan Retail Developments Limited in the consolidated financial statements. These are represented by net current assets of €1.6 million (2010: €3.2 million) and reserves of €1.6 million (2010: €3.2 million) which reflects the net profit that the Group has recognised in the income statement in respect of this property development.

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

BMC Groep NV

The Group's interest in BMC Groep NV, a Belgian builders merchanting business, was accounted for as a Joint Venture (JV) with effect from 1 January 2011 having previously been treated as an associate. The change of accounting treatment, to consolidate the Group's share of the income and expenses and assets and liabilities of the JV, reflects new arrangements between the Group and its JV partner. The fair value of the net assets of the joint venture were assessed at 1 January 2011 and it was determined that there was no material difference between the carrying value of the Group's investment of €3.69 million in the associate at 1 January 2011 and the fair value of the Group's interest in the net assets. The Group's shareholding increased to 53 per cent in July 2011 and its interest continued to be accounted for as a JV in line with the provisions of the shareholders' agreement.

In the twelve months to 31 December 2011, the JV made three acquisitions in the Belgian Merchanting sector. The businesses acquired were Stichelbout (acquired on 1 April 2011); Duyck (acquired on 31 July 2011) and Sivo (acquired on 4 November 2011). The JV also acquired trading assets from the Group's JV partner in consideration for the issue of shares in the JV. The Group's share of the total acquisition consideration was €9.4 million and its share of the fair value of the net assets acquired was €7.0 million.

14. Joint Ventures (continued)

The Group's share of goodwill acquired during the year in the amount of €2.4 million was allocated to a separate cash generating unit.

The Group's share of the income and expense and assets and liabilities of its Belgian joint venture for the year ended 31 December 2011 was as follows:

Share of BMC Groep NV included in 2011 Group Income Statement	**2011 €'000**
Group share of:	
Revenue	**20,926**
Operating costs	**(20,012)**
Operating profit	**914**
Finance costs (net)	**(181)**
Profit before tax	**733**
Income tax expense	**(249)**
Profit after tax for the financial period	**484**

Share of BMC Groep NV included in Group Balance Sheet	**2011 €'000**
Group share of:	
Non-current assets	**7,332**
Current assets	**12,175**
Total assets	**19,507**
Total equity	**6,236**
Non-current liabilities	**3,864**
Current liabilities	**9,407**
Total liabilities	**13,271**
Total equity and liabilities	**19,507**

Total assets and liabilities include net bank debt of €7.98 million.

14. Joint Ventures (continued)

The Group's share of the total consideration and its share of the fair value of the net assets acquired by the JV are set out in the table below:

	2011 €'000
Property, plant and equipment	3,234
Financial assets	1
Inventories	2,695
Trade and other receivables	4,612
Trade and other payables	(2,282)
Corporation tax	(362)
Bank loans acquired	(883)
Net assets acquired excluding cash and overdrafts	7,015
Goodwill	2,399
Consideration	9,414
Satisfied by:	
Cash paid	8,736
Cash acquired	(873)
Net cash outflow	7,863
Deferred acquisition consideration (note 22)	1,551
	9,414

Notes to the Group Financial Statements

14. Joint Ventures (continued)

The Group's share of the fair value of identifiable net assets acquired was €7,015,000.

	Fair Values €'000	Consideration €'000	Goodwill €'000
Total acquisitions	7,015	9,414	2,399

The fair values were calculated as follows:

	Book Values €'000	Fair Value Adjustment €'000	Fair Values €'000
Property, plant and equipment	2,356	878	3,234
Financial assets	1	-	1
Working capital	5,025	-	5,025
Corporation tax	(112)	(250)	(362)
Bank loans acquired	(883)	-	(883)
	6,387	**628**	**7,015**

15. Inventories

	2011 €'000	2010 €'000
Raw materials	**1,167**	1,468
Work in progress	**14**	-
Finished goods	**5,711**	5,560
Goods purchased for resale	**264,325**	264,890
	271,217	271,918

The inventory provision at 31 December 2011 was €18.7 million (31 December 2010: €18.4 million).

16. Trade and Other Receivables

	2011 €'000	2010 €'000
Amounts falling due within one year:		
Trade receivables	**225,083**	213,840
Other receivables	**97,961**	91,720
	323,044	305,560

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

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

	Carrying Amount	
	2011 €'000	2010 €'000
Ireland and Belgium	**73,971**	76,783
United Kingdom	**249,073**	228,777
	323,044	305,560

Credit risk is well diversified over a broad customer base with only a small number of accounts with balances in excess of €100,000 that collectively account for a small proportion of total trade receivables.

16. Trade and Other Receivables (continued)

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

	Gross Value 2011 €'000	Impairment 2011 €'000	Carrying Amount 2011 €'000	Gross Value 2010 €'000	Impairment 2010 €'000	Carrying Amount 2010 €'000
Not Past Due	**265,691**	**-**	**265,691**	261,449	-	261,449
Past Due						
0-30 days	**39,772**	**(2,200)**	**37,572**	30,761	(2,367)	28,394
30-60 days	**26,680**	**(7,886)**	**18,794**	26,781	(12,506)	14,275
+60 days	**6,175**	**(5,188)**	**987**	4,323	(2,881)	1,442
	72,627	**(15,274)**	**57,353**	61,865	(17,754)	44,111
	338,318	**(15,274)**	**323,044**	323,314	(17,754)	305,560

Movement in Impairment Provision

	2011 €'000	2010 €'000
At 1 January	**17,754**	22,320
Written-off during year	**(11,513)**	(17,478)
Additional provision	**8,848**	12,648
Translation adjustment	**185**	264
At 31 December	**15,274**	17,754

17. Share Capital and Share Premium

Group and Company	2011 €'000	2010 €'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

17. Share Capital and Share Premium (continued)

	Issue Price €	Number of Shares	2011 Nominal Value €'000	2010 Nominal Value €'000
Issued and fully paid:				
Ordinary shares				
At 1 January		231,855,601	11,593	11,559
Issued under UK SAYE scheme		19,286	1	1
Grafton Group Share Schemes				
Date options and entitlements to acquire shares granted				
May 2000	2.07	-	-	30
May 2001	2.83	464,297	23	3
		464,297	23	33
At 31 December		232,339,184	11,617	11,593
'A' ordinary shares				
At 1 January		3,941,545,217	39	39
'A' ordinary shares issued in year		8,220,911	-	-
At 31 December		3,949,766,128	39	39
Total nominal share capital issued			11,656	11,632

Share Premium

Group and Company	2011 €'000	2010 €'000
At 1 January	291,216	289,800
Premium on issue of shares under UK SAYE scheme	56	29
Premium on issue of shares under Grafton Group Share Scheme	1,289	1,409
Cost of share issues	(16)	(22)
At 31 December	292,545	291,216

17. Share Capital and Share Premium (continued)

Grafton Units issued during 2011

The number of Grafton Units issued during the year under the Group's Executive Share Schemes was 483,583 (2010: 678,838) and the total consideration received amounted to €1,369,000 (2010: €1,472,000). Costs relating to the issues were €16,000 (2010: €22,000).

Grafton Units

At 31 December 2011 and 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.

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 2011, 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.

'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 (2010: 500,000) Grafton Units at a cost of €5,746,000 (2010: €5,746,000) as treasury shares.

18. 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 the buy-back and cancellation of shares.

The revaluation reserve was created as a result of a revaluation of Irish properties 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.

19. Interest-Bearing Loans and Borrowings

	2011 €'000	2010 €'000
Non-current liabilities		
Sterling bank loans	**1,125**	1,318
Euro bank loans	**270,865**	259,466
2005 unsecured senior US dollar loan notes	**26,425**	58,466
2005 unsecured senior US dollar loan notes (Stg)	**21,115**	27,319
Finance leases	**5,700**	6,450
	325,230	353,019

	2011 €'000	2010 €'000
Current liabilities		
Sterling bank loans	**210**	72,225
Euro bank loans	**4,796**	40,000
2005 unsecured senior US dollar loan notes	**32,466**	31,843
2005 unsecured senior US dollar loan notes (Stg)	**7,038**	6,830
Vendor loan notes	**3**	17
Finance leases	**597**	517
	45,110	151,432

Notes to the Group Financial Statements

19. Interest-Bearing Loans and Borrowings (continued)

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 2012. The interest rates payable on these loan notes are set at fixed rates or on terms directly related to LIBOR.

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 2011 €'000	**Loan notes 2011 €'000**	**Finance leases 2011 €'000**	**Total 2011 €'000**	Bank loans and overdrafts 2010 €'000	Loan notes 2010 €'000	Finance leases 2010 €'000	Total 2010 €'000
Due within one year	**5,006**	**39,507**	**597**	**45,110**	112,225	38,690	517	151,432
Between one and two years	**1,022**	**15,847**	**538**	**17,407**	50,199	39,021	472	89,692
Between two and three years	**82,277**	**15,847**	**458**	**98,582**	209,664	15,588	472	225,724
Between three and four years	**992**	**15,846**	**458**	**17,296**	199	15,588	472	16,259
Between four and five years	**186,661**	**-**	**458**	**187,119**	199	15,588	472	16,259
After five years	**1,038**	**-**	**3,788**	**4,826**	523	-	4,562	5,085
	276,996	**87,047**	**6,297**	**370,340**	373,009	124,475	6,967	504,451
Derivatives				**(9,795)**				(15,066)
Gross Debt				**360,545**				489,385
Cash and short-term deposits				**(134,600)**				(234,275)
Net debt				**225,945**				255,110
Shareholders' funds				**982,824**				990,340
Gearing				**23%**				26%

19. Interest-Bearing Loans and Borrowings (continued)

The following table indicates the effective interest rates at 31 December 2011 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	0.58%	70,670	70,670	-	-	-	-
Euro deposits	1.31%	11,685	11,685	-	-	-	-
US dollar deposits	0.65%	2,539	2,539	-	-	-	-
Cash at bank	0%-0.25%	49,706	49,706	-	-	-	-
Cash and cash equivalents		134,600	134,600	-	-	-	-
Floating rate debt:							
Euro loans	4.07%	(215,661)	(215,661)	-	-	-	-
Total floating rate debt		(215,661)	(215,661)	-	-	-	-
Fixed rate debt:							
Euro loans	5.36%	(60,000)	(20,000)	-	(20,000)	(20,000)	-
Sterling loans	4.50%	(1,335)	(1,335)	-	-	-	-
Finance leases	6.00%	(6,297)	(597)	-	(538)	(1,374)	(3,788)
Total fixed rate debt		(67,632)	(21,932)	-	(20,538)	(21,374)	(3,788)
Floating rate loan notes:							
US dollar loan notes 2005	1.93%	(58,891)	(58,891)	-	-	-	-
US dollar loan notes 2005 (Stg)	1.61%	(28,153)	(28,153)	-	-	-	-
Vendor loan notes	1.50%	(3)	(3)	-	-	-	-
Total loan notes		(87,047)	(87,047)	-	-	-	-
Derivatives		9,795	10,920	-	(354)	(771)	
Total Net Debt		(225,945)	(179,120)	-	(20,892)	(22,145)	(3,788)

Borrowing Facilities

The Group had an undrawn committed borrowing facility at 31 December 2011 of €120.5 million (2010: €68.4 million) in respect of which all conditions precedent were met, with €38.8 million expiring in 2014 and €81.7 million expiring in 2016.

19. 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 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 2005		(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)

20. 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 2011	Cashflow and net investment hedges	Fair value hedges	Receivables	Liabilities at amortised cost	Total carrying value	Fair value
	€'000	€'000	€'000	€'000	€'000	€'000
Other investments	-	-	152	-	152	152
Trade receivables and other receivables	-	-	323,044	-	323,044	323,044
Cash and cash equivalents	-	-	134,600	-	134,600	134,600
Cross-currency interest rate swaps	13,385	(2,429)	-	-	10,956	10,956
	13,385	(2,429)	457,796	-	468,752	468,752
Interest rate swaps	(1,161)	-	-	-	(1,161)	(1,161)
Euro bank loans	-	-	-	(275,661)	(275,661)	(275,661)
Sterling bank loans	-	-	-	(1,335)	(1,335)	(1,335)
Finance leases	-	-	-	(6,297)	(6,297)	(6,297)
2005 unsecured senior US dollar loan notes	-	(23,566)	-	(63,478)	(87,044)	(84,381)
Vendor loan notes	-	-	-	(3)	(3)	(3)
	(1,161)	(23,566)	-	(346,774)	(371,501)	(368,838)

At 31 December 2010	Cashflow and net investment hedges	Fair value hedges	Receivables	Liabilities at amortised cost	Total carrying value	Fair value
	€'000	€'000	€'000	€'000	€'000	€'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)

20. 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, fair value is the amount that is payable contractually less an impairment provision where appropriate.

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 when 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 to the 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.

20. Financial Instruments and Financial Risk (continued)

At 31 December 2011 and 31 December 2010, the Group held the following financial instruments at fair value:

	2011 Total €'000	**2011 Level 1 €'000**	**2011 Level 2 €'000**	**2011 Level 3 €'000**
Assets measured at fair value				
Cross-currency interest rate swaps	**10,956**	**-**	**10,956**	**-**
Liabilities measured at fair value				
2005 unsecured Senior US dollar loan notes	**(23,566)**	**-**	**(23,566)**	**-**
Interest rate swaps	**(1,161)**	**-**	**(1,161)**	**-**

	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)	-

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

20. 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, evaluating and managing the significant risks affecting the business.

Credit Risk

Credit risk arises from credit to customers, joint ventures 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 that include trade and bank references. New customers are generally subject to restricted credit limits prior to developing a credit history. Due to the established nature of the businesses a high proportion of customers have long-standing trading relationships with Group companies.

The Group establishes a provision for impairment that represents its estimate of losses in respect of trade and other receivables. The main components of this provision 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 have been incurred but not yet identified.

Cash and short term bank deposits are invested with a range of Irish and UK banks, all with maturities of less than 3 months at 31 December 2011.

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 2011 was:

	2011 €'000	2010 €'000
Other financial assets	**152**	176
Investment in associate	**-**	3,690
Trade and other receivables	**323,044**	305,560
Cash and cash equivalents	**134,600**	234,275
Cross currency interest rate swaps	**10,956**	16,866
	468,752	560,567

Additional disclosures in relation to the Group's exposure to credit risk arising from trade and other receivables is set out in note 16.

20. Financial Instruments and Financial Risk (continued)

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

	Carrying Amount	
	2011	2010
	€'000	€'000
Domestic banks	**44,481**	47,672
United Kingdom banks	**89,382**	186,603
Belgian banks	**737**	-
	134,600	234,275

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

Foreign Currency Risk Management

Transactional foreign exchange risk arises from foreign currency transactions, assets and liabilities. Group operations 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. 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 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 profit after tax reserves retained in sterling in the UK business which is not hedged and which gives rise to translation differences on conversion to euro.

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

As referred to later in this note under hedging, part of the dollar borrowings under the Group's 2005 US notes are now exposed to spot foreign exchange movements at the balance sheet date with the impact of the movement in the spot rate being taken to the income statement.

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 overleaf. 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 overleaf on the basis that all variables remain constant.

20. Financial Instruments and Financial Risk (continued)

	Equity €'000	Profit after tax €'000
31 December 2011		
10% strengthening of euro currency against sterling	**(77,000)**	**(3,300)**
31 December 2010		
10% strengthening of euro currency against sterling	(74,000)	(7,500)

Hedging

The Group has exposure to changes in interest rates on certain debt instruments and has hedged an element of this risk by entering into interest rate swaps. The nominal value of contracts outstanding is €60,000,000 and the period hedged was from January 2009 to January 2014.

The Group classified interest rate swaps as cash flow hedges and stated them at their fair value. The fair value of these swaps at 31 December 2011 was a liability of €1.16 million (31 December 2010: €1.80 million). A credit of €689,000 (31 December 2010: charge of €306,000) was recorded in the cash flow hedge reserve in other comprehensive income and the balance of €60,000 (31 December 2010: €75,000), being the ineffective portion of the hedge was taken to the Group Income Statement (Note 6).

The Group has exposure to fair value risk and US dollar fluctuations through its fixed rate US dollar Private Placement loan notes. The Group's policy is to hedge this exposure to currency and fair value movements. This was initially achieved by entering into a number of cross currency interest rate swaps that swapped 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 2011 was an asset of €10,956,000 (31 December 2010: €16,866,000) and was included in current assets (€5,625,000) and non-current assets (€5,331,000).

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 are recorded in other comprehensive income.

Effectiveness testing performed on the Group's hedging relationships at 31 December 2011 revealed that two of the Group's cross currency interest rate swaps were ineffective. As a result, hedge accounting ceased with effect from 30 June 2011, the last reporting date on which the hedges were proven to be effective.

The effect of ceasing to hedge account in respect of these two cross currency interest rate swaps is that all fair value movements on the two swaps from 30 June 2011 were reflected in the income statement while the associated US dollar loans are now accounted for at spot rate on the balance sheet with the impact of the movement in the spot rate taken to the income statement. The cumulative fair value adjustment recognised on the loans at 30 June 2011 is amortised to the income statement over the remaining term of the borrowings. The net income statement impact in the current year, being the difference between the amounts recorded and the amounts that would have been recorded had the hedge remained effective, was a charge of €1.2 million to finance income and expense.

20. Financial Instruments and Financial Risk (continued)

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 €2.3 million (2010: €2.6 million) on the basis of the Group's net debt of €226 million. This scenario assumes that the interest rate payable on cash deposits would also decrease by 100 basis points and 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.

Capital Management

The capital structure of the Group comprises share capital and reserves and net debt.

The overall approach is to optimise shareholder value by leveraging the balance sheet to an appropriate level having regard to economic and trading conditions in the Group's markets, the level of internal cash generation, credit conditions generally and interest rates payable.

The Group's capital structure is kept under ongoing review and the debt component is actively managed with a view to maintaining diversified sources of funding, significant undrawn facilities and cash deposits.

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 13.

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.

20. Financial Instruments and Financial Risk (continued)

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

31 December 2011	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	276,996	330,406	17,015	12,971	299,419	1,001
US dollar loan notes	87,044	89,146	40,867	16,610	31,669	-
Vendor loan notes	3	3	3	-	-	-
Finance lease liabilities	6,297	17,639	1,092	1,033	2,707	12,807
Trade and other payables	421,658	421,658	421,658	-	-	-
Provisions	42,288	42,288	9,483	32,805	-	-
Derivative Financial Instruments						
Cross-currency swaps used for hedging						
- Outflow	-	49,314	27,510	7,390	14,414	-
- Inflow	(10,956)	(60,095)	(33,435)	(9,291)	(17,369)	-
Interest rate swaps used for hedging	1,161	1,260	688	482	90	-
	824,491	891,619	484,881	62,000	330,930	13,808

* Includes interest based on the rates in place at 31 December 2011

20. Financial Instruments and Financial Risk (continued)

31 December 2010	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	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 based on the rates in place at 31 December 2010.

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

31 December 2011	**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	**(1,161)**	**(1,260)**	**(316)**	**(372)**	**(482)**	**(90)**	**-**	**-**

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)	-

21. Derivatives

	2011 €'000	2010 €'000
Included in non-current liabilities:		
Fair value of interest rate swaps	**(422)**	(812)
Included in current liabilities:		
Fair value of interest rate swaps	**(739)**	(988)
	(1,161)	(1,800)
Included in non-current assets:		
Fair value of cross currency swaps	**5,331**	11,068
Included in current assets:		
Fair value of cross currency swaps	**5,625**	5,798
	10,956	16,866

Nature of derivative instruments as at 31 December 2011

	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 £	US$72,857,143	STG£40,119,570	10,956	-

	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	€60,000,000	€60,000,000	-	(1,161)

21. Derivatives (continued)

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)

22. Provisions

	2011 €'000	2010 €'000
Non-current liabilities		
Insurance provision	**10,753**	13,950
Onerous leases	**18,613**	1,343
Dilapidations provision	**3,439**	2,262
	32,805	17,555
Current liabilities		
Insurance provisions	**4,918**	3,397
Deferred acquisition consideration	**4,315**	2,681
WEEE provision	**250**	250
	9,483	6,328

22. Provisions (continued)

Insurance provision	Non-current 2011 €'000	Non-current 2010 €'000	Current 2011 €'000	Current 2010 €'000	Total 2011 €'000	Total 2010 €'000
At 1 January	**13,950**	13,747	**3,397**	3,255	**17,347**	17,002
Charged/(credited)	**(55)**	3,183	**2,306**	887	**2,251**	4,070
Paid during the year	**(3,142)**	(2,980)	**(785)**	(745)	**(3,927)**	(3,725)
At 31 December	**10,753**	13,950	**4,918**	3,397	**15,671**	17,347

Deferred acquisition consideration	Non-current 2011 €'000	Non-current 2010 €'000	Current 2011 €'000	Current 2010 €'000	Total 2011 €'000	Total 2010 €'000
At 1 January	-	-	**2,681**	4,475	**2,681**	4,475
Acquisitions - joint venture	-	-	**1,551**	-	**1,551**	-
Deferred consideration written back (note 11)	-	-	-	(1,084)	-	(1,084)
Paid during the year	-	-	-	(853)	-	(853)
Foreign exchange	-	-	**83**	143	**83**	143
At 31 December	-	-	**4,315**	2,681	**4,315**	2,681

The deferred acquisition consideration is payable over the period from January to December 2012 subject to certain conditions. The deferred acquisition consideration written back in 2010 was due to performance targets not being met.

Other provisions	Onerous leases non-current 2011 €'000	Onerous leases non-current 2010 €'000	WEEE provision current 2011 €'000	WEEE provision current 2010 €'000
At 1 January	**1,343**	1,309	**250**	250
Exceptional charge	**16,808**	-	-	-
Other charge	**462**	34	-	-
At 31 December	**18,613**	1,343	**250**	250

An exceptional charge of €16.8 million was recognised in respect of a small number of onerous leases primarily in the Irish retailing business as referred to in note 3.

	Dilapidations provision non- current 2011 €'000	Dilapidations provision non- current 2010 €'000
At 1 January	**2,262**	1,744
Acquisition (note 27)	**324**	-
Other charge	**816**	492
Foreign exchange	**37**	26
At 31 December	**3,439**	2,262

Notes to the Group Financial Statements

23. Trade and Other Payables

	2011 €'000	2010 €'000
Trade payables	**312,654**	300,936
Accruals	**82,637**	81,159
Social welfare	**3,205**	3,205
Income tax deducted under PAYE	**4,440**	3,647
Value added tax	**18,722**	10,943
	421,658	399,890

24. Obligations under Finance Leases

	2011			2010		
	Minimum lease payments €'000	**Interest €'000**	**Principal €'000**	Minimum lease payments €'000	Interest €'000	Principal €'000
Committed finance lease obligations:						
Within one year	**1,092**	**495**	**597**	947	430	517
Between one and five years	**3,740**	**1,828**	**1,912**	3,609	1,721	1,888
Later than five years	**12,807**	**9,019**	**3,788**	14,685	10,123	4,562
	17,639	**11,342**	**6,297**	19,241	12,274	6,967

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

25. Deferred Taxation

Recognised deferred tax assets and liabilities	**Assets 2011 €'000**	**Liabilities 2011 €'000**	**Net (assets)/ liabilities 2011 €'000**	Assets 2010 €'000	Liabilities 2010 €'000	Net (assets)/ liabilities 2010 €'000
Property, plant and equipment	**(21,195)**	**38,787**	**17,592**	(26,563)	36,626	10,063
Intangible assets	**-**	**281**	**281**	-	557	557
Financing	**(7,311)**	**-**	**(7,311)**	(15,443)	-	(15,443)
Other items	**(2,878)**	**804**	**(2,074)**	(2,212)	416	(1,796)
Pension	**(4,947)**	**-**	**(4,947)**	(2,034)	-	(2,034)
(Assets)/liabilities	**(36,331)**	**39,872**	**3,541**	(46,252)	37,599	(8,653)

25. Deferred Taxation (continued)

At 31 December 2011, there were unrecognised deferred tax assets in relation to capital losses of €3.7 million (2010: €3.6 million), trading losses of €9.4 million (2010: €5.1 million) and deductible temporary differences of €3.7 million (2010: €3.3 million). Deferred tax assets were not recognised in respect of capital losses as they can only be recovered against certain classes of taxable profits and the Directors cannot foresee such profits arising in the foreseeable future. The trading losses and deductible temporary differences arose in entities that have incurred losses in recent years and the Directors have no certainty as to when there will be sufficient taxable profits in the relevant entities against which they can be utilised.

The reduction in the deferred tax asset reflects the utilisation of tax allowances and reliefs for which deferred tax assets were previously recognised.

Analysis of net deferred tax (asset)/liability

	Balance 1 Jan 11 €'000	**Recognised in profit or loss €'000**	**Recognised in other comprehensive income €'000**	**Foreign exchange retranslation €'000**	**Arising on acquisitions €'000**	**Balance 31 Dec 11 €'000**
Property, plant and equipment	**10,063**	**6,606**	**976**	**(53)**	**-**	**17,592**
Intangible assets	**557**	**(276)**	**-**	**-**	**-**	**281**
Financing	**(15,443)**	**8,221**	**80**	**(169)**	**-**	**(7,311)**
Other items	**(1,796)**	**(475)**	**-**	**193**	**4**	**(2,074)**
Pension	**(2,034)**	**1,235**	**(4,088)**	**(60)**	**-**	**(4,947)**
	(8,653)	**15,311**	**(3,032)**	**(89)**	**4**	**3,541**

	Balance 1 Jan 10 €'000	Recognised in profit or loss €'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)

26. Movement in Working Capital

	Inventory €'000	Trade and other receivables €'000	Trade and other payables €'000	Total €'000
At 1 January 2010	265,748	306,863	(387,331)	185,280
Translation adjustment	4,997	6,594	(6,810)	4,781
Interest accrual and other movements	-	(1,719)	(60)	(1,779)
Asset impairment	(1,145)	(1,448)	-	(2,593)
Acquisitions (note 27)	614	277	(200)	691
Movement in 2010	1,704	(5,007)	(5,489)	(8,792)
At 1 January 2011	**271,918**	**305,560**	**(399,890)**	**177,588**
Translation adjustment	5,025	6,833	(7,221)	4,637
Interest accruals and other movements	-	48	(81)	(33)
Assumed with joint venture	1,716	1,462	(1,542)	1,636
Acquisitions (note 14 & note 27)	4,566	4,931	(2,389)	7,108
Movement in 2011	(12,008)	4,210	(10,535)	(18,333)
At 31 December 2011	**271,217**	**323,044**	**(421,658)**	**172,603**

27. Acquisition of Subsidiary Undertakings and Businesses

In the twelve months to 31 December 2011, the Group completed the acquisition of 16 plumbing and heating branches in Britain from Travis Perkins Group plc (on 25 February 2011, 27 May 2011, and 30 June 2011). The Group also acquired three single branch merchanting businesses in Britain; Big Ord (24 January 2011); Silverstone Builders Merchants (1 August 2011) and Ecotube (21 October 2011).

In 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).

Acquisitions would have contributed €15.8 million and €3.2 million to revenue in the years ended 31 December 2011 and 2010 respectively assuming that they had been acquired on 1 January of each year.

Acquisitions in each year would have contributed an operating loss of €0.4 million and €nil million in the years ended 31 December 2011 and 2010 respectively assuming that they had been acquired on 1 January of each year.

The 2011 acquisition contributed €12.4 million (2010 acquisitions: €1.2 million) to revenue and a loss of €0.3 million (2010 acquisitions: loss of €0.1 million) since acquisition.

27. Acquisition of Subsidiary Undertakings and Businesses (continued)

	2011 €'000	2010 €'000
The fair values of assets and liabilities acquired are set out below:		
Property, plant and equipment	**1,254**	232
Financial assets	**-**	-
Inventories	**1,871**	614
Trade and other receivables	**319**	277
Trade and other payables	**(107)**	(200)
Dilapidations provision	**(324)**	-
Corporation tax	**-**	(20)
Deferred tax liability	**(4)**	(45)
Net assets acquired excluding cash and overdrafts	**3,009**	858
Goodwill	**936**	678
Consideration	**3,945**	1,536
Satisfied by:		
Cash paid	**3,945**	1,638
Cash acquired	**-**	(102)
Net cash outflow	**3,945**	1,536

The fair value of identifiable net assets acquired was €3,009,000.

	Fair Values €'000	Consideration €'000	Goodwill €'000
Total acquisitions	**3,009**	**3,945**	**936**

The fair values were calculated as follows:

	Book Values €'000	Fair Value Adjustment €'000	Fair Values €'000
Property, plant and equipment	**1,254**	**-**	**1,254**
Working capital	**2,068**	**15**	**2,083**
Provisions	**(324)**	**-**	**(324)**
Corporation tax	**-**	**-**	**-**
Deferred tax	**-**	**(4)**	**(4)**
	2,998	**11**	**3,009**

27. Acquisition of Subsidiary Undertakings and Businesses (continued)

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 to cover selling costs.

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 2010 was €858,000.

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

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

	2011 €'000	2010 €'000
Net decrease in cash and cash equivalents	**(101,016)**	(74,753)
Net movement in derivative financial instruments	**639**	(381)
Movement in financial liabilities from cessation of hedge accounting	**515**	-
Cash flow from movement in debt and lease financing	**128,271**	144,772
Change in net debt resulting from cash flows	**28,409**	69,638
Non-cash movement on finance lease extinguished	**706**	-
Bank loans acquired with joint venture acquisitions	**(883)**	-
Translation adjustment	**933**	(2,280)
Movement in net debt in the year	**29,165**	67,358
Net debt at 1 January	**(255,110)**	(322,468)
Net debt at 31 December	**(225,945)**	(255,110)

29. Capital Expenditure Commitments

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

	2011 €'000	2010 €'000
Contracted for	7,031	9,994
Not contracted for	16,171	23,501
	23,202	33,495

Capital commitments in the UK and Ireland amounted to €20.7 million (2010: €30.9 million) and €2.5 million (2010: €2.6 million) respectively and relate mainly to replacement of the distribution fleet and store development projects.

30. Operating Leases

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

	Land and buildings 2011 €'000	**Other 2011 €'000**	Land and buildings 2010 €'000	Other 2010 €'000
Operating lease payments due:				
Within one year	**62,572**	**4,358**	60,680	1,004
Between two and five years	**236,395**	**10,950**	231,260	652
Over five years	**636,950**	**-**	634,636	5
	935,917	**15,308**	926,576	1,661

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 2011 €60.4 million (2010: €59.3 million) was recognised as an expense in the income statement in respect of operating leases.

31. 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 2011 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.

31. Pension Commitments (continued)

Financial Assumptions

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

	At 31 Dec 2011	**At 31 Dec 2011**	At 31 Dec 2010	At 31 Dec 2010
	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%***	**2.30%**	3.00%*	2.55%
Rate of increase of pensions in payment	**-**	**2.90%**	-	3.30%
Discount rate	**5.10%**	**5.00%**	5.30%	5.50%
Inflation rate increase	**2.00%**	**2.90%****	2.00%	3.30%

* 3% is assumed to apply from January 2014

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

The future life expectancy at age 65 for males and females (currently aged 55 and 65), inherent in the mortality tables used for the 2011 and 2010 year end IAS19 disclosures are as follows:

2011 Mortality		**Years**	2010 Mortality		Years
Future pensioner aged 65:	**Male**	**22.0**	Future pensioner aged 65:	Male	21.8
	Female	**24.3**		Female	24.1
Current pensioner aged 65:	**Male**	**21.2**	Current pensioner aged 65:	Male	21.1
	Female	**23.7**		Female	23.7

31. Pension Commitments (continued)

Scheme Assets

The assets in these schemes and the long-term rates of return expected at 31 December 2011 and 31 December 2010 are set out below:

	2011 Irish schemes*	**2011 UK schemes**	2010 Irish schemes	2010 UK schemes
Equities	**6.9%**	**7.5%**	7.5%	7.5%
Bonds	**3.4%**	**4.5%**	4.0%	5.0%
Property	**5.9%**	**7.0%**	6.5%	7.0%
Cash	**2.9%**	**2.0%**	3.5%	2.0%

	%	**2011 €'000**	%	2010 €'000
Equities	**71**	**136,528**	74	142,001
Bonds	**17**	**32,611**	15	28,852
Property	**7**	**12,576**	6	11,457
Cash	**5**	**9,339**	5	8,633
	100	**191,054**	100	190,943
Actuarial value of liabilities		**(224,614)**		(208,502)
Deficit in the schemes		**(33,560)**		(17,559)

*Net of the Government pension levy of 0.6%

The net pension deficit of €33,560,000 (2010: €17,559,000) is shown in the Group balance sheet as retirement benefit obligations (non-current liabilities) of which €6,012,000 relates to the two UK schemes and €27,548,000 to the five Irish schemes (2010: Non-current assets of €1,107,000 and non-current liabilities of €18,666,000).

31. Pension Commitments (continued)

History of scheme assets, liabilities and deficit in the schemes

Historical information	**2011 €'000**	2010 €'000	2009 €'000	2008 €'000	2007 €'000
Assets at bid value	**191,054**	190,943	165,764	133,855	223,700
Actuarial value of liabilities	**(224,614)**	(208,502)	(191,023)	(174,747)	(239,023)
Deficit in the schemes	**(33,560)**	(17,559)	(25,259)	(40,892)	(15,323)

Historical information	**2011 €'000**	2010 €'000	2009 €'000	2008 €'000	2007 €'000
Experience adjustment on scheme liabilities	**(506)**	(1,580)	4,156	3,905	(4,430)
As % of scheme liabilities	**0.2%**	0.8%	2.2%	2.2%	1.9%
Experience adjustment on scheme assets	**(16,653)**	9,580	15,331	(72,585)	(13,792)
As % of scheme assets	**8.7%**	5.0%	9.2%	54.2%	6.2%

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 2011 of the Group's schemes is 6.4% (31 December 2010: 6.8%).

The actual return on plan assets is set out below:

	2011 €'000	2010 €'000
Actual return on plan assets	**(3,615)**	21,823

Sensitivity of pension liability to judgemental assumptions

Assumption	**Change in Assumptions**	**Impact on Scheme Liabilities**
Discount rate	Increase by 0.25%	Reduce by 4.2%
Rate of salary growth	Increase by 0.25%	Increase by 0.9%
Rate of inflation*	Increase by 0.25%	Increase by 2.7%
Life expectancy	Increase by 1 year	Increase by 2.2%

*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%.

31. 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)	
	2011 €'000	2010 €'000	**2011 €'000**	2010 €'000	**2011 €'000**	2010 €'000
At 1 January	**190,943**	165,764	**(208,502)**	(191,023)	**(17,559)**	(25,259)
Expected return on plan assets	**13,038**	12,243	**-**	-	**13,038**	12,243
Contributions by employer	**7,496**	5,738	**-**	-	**7,496**	5,738
Contributions by members	**1,827**	2,127	**(1,827)**	(2,127)	**-**	-
Benefit payments	**(8,566)**	(7,091)	**8,566**	7,091	**-**	-
Current service cost	**-**	-	**(2,280)**	(2,064)	**(2,280)**	(2,064)
Past service credit	**-**	-	**462**	-	**462**	-
Settlement loss	**-**	-	**(378)**	-	**(378)**	-
Curtailment gain	**-**	-	**294**	125	**294**	125
Interest cost on scheme liabilities	**-**	-	**(11,187)**	(11,134)	**(11,187)**	(11,134)
Actuarial (losses)/gains	**(16,653)**	9,580	**(6,558)**	(6,609)	**(23,211)**	2,971
Translation adjustment	**2,969**	2,582	**(3,204)**	(2,761)	**(235)**	(179)
At 31 December	**191,054**	190,943	**(224,614)**	(208,502)	**(33,560)**	(17,559)
Related deferred tax asset (net)					**4,947**	2,034
Net pension liability					**(28,613)**	(15,525)

31. Pension Commitments (continued)

Expense recognised in operating costs

	2011 €'000	2010 €'000
Past service credit (i)	**(462)**	-
Settlement loss (ii)	**378**	-
Curtailment gain (iii)	**(294)**	(125)
Current service cost	**2,280**	2,064
Total operating charge	**1,902**	1,939

(i) The past service credit of €462,000 arose from the new 0.6% pension levy imposed by the Irish Government on the Group's Irish plan assets.

(ii) The settlement loss arose due to a member leaving the scheme which gave rise to a transfer payment by the scheme.

(iii) The curtailment gain arose in respect of redundancies in 2011.

Recognised directly in other comprehensive income

	2011 €'000	2010 €'000
Actuarial (loss)/gain on pensions	**(23,211)**	2,971
Deferred tax on pensions	**4,088**	(889)
	(19,123)	2,082

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

	2011 €'000	2010 €'000
Operating costs	**1,902**	1,939
Finance income (expected return on scheme assets)	**(13,038)**	(12,243)
Finance expense (interest on scheme liabilities)	**11,187**	11,134
Total operating charge	**51**	830

Cumulative net actuarial losses reported in the Group statement of comprehensive income since 1 January 2004, the transition date to IFRS, to 31 December 2011 is €56.1 million (2010: €32.8 million). The contributions expected to be paid to the Group's defined benefit schemes in 2012 is approximately €7.5 million (2011: €7.5 million).

32. Share Based Payments

Long Term Incentive Plan (LTIP)

A new Long Term Incentive Plan (LTIP) was approved at the Company's Annual General Meeting on 4 May 2011. Details of the plan are set out in the Report of the Remuneration Committee on Directors' Remuneration on pages 35 to 37. Awards over 1,159,000 Grafton Units were granted under the plan on 25 May 2011.

A summary of the award granted on 25 May 2011 is set out below:

	Grafton Group LTIP 2011
Grant Date	**25 May 2011**
Share price at date of award	**€3.44**
Exercise price	**N/A**
Number of employees	**158**
Number of share awards	**1,159,000**
Vesting period	**3 years**
Expected volatility	**33.5%**
Award life	**3 years**
Expected life	**3 years**
Risk free rate	**2.00%**
Expected dividends expressed as dividend yield	**2.19%**
Possibility of ceasing employment before vesting	**0%**
Valuation model	**Binomial model**
Fair value of share award – EPS component	**€3.22**
Fair value of share award – TSR component	**€1.80**

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 life of the award.

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 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. Basic shares granted after 8 May 2008 cannot be converted before the expiration of three years.

32. Share Based Payments (continued)

Share Schemes (continued)

(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 had a ten year life for the award of entitlements and this period expired in 2009. The percentage of share capital which may be issued under the scheme and individual grant limits comply with Institutional Guidelines.

The number of Grafton Units issued during the year under the Company's Executive Share Schemes was 464,297 (2010: 668,606) and the total consideration received amounted to €1,312,000 (2010: €1,442,000). Costs relating to the issues were €16,000 (2010: €22,000). Entitlements outstanding at 31 December 2011 amounted to 11,857,795 (2010: 12,870,047). 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.

A reconciliation of share entitlements under the Grafton Group Share Option Scheme and the 1999 Grafton Group Share Scheme is as follows:

	2011		2010	
	Number	**Weighted average exercise price €**	Number	Weighted average exercise price €
Outstanding at 1 January	**12,870,047**	**6.22**	14,345,263	6.07
Granted	**-**	**-**	-	-
Forfeited	**(547,955)**	**6.28**	(806,610)	6.96
Expired	**-**	**-**	-	-
Exercised	**(464,297)**	**2.83**	(668,606)	2.16
Outstanding at 31 December	**11,857,795**	**6.35**	12,870,047	6.22

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 4.6 years (2010: 5.4 years).

At 31 December 2011 6.82 million (31 December 2010: 5.76 million) share entitlements at a weighted average exercise price of €7.82 (2010: €6.11) were granted more than five years ago but could not be exercised because the exercise price was greater than the market price and/or the conditions for exercise were not fulfilled before the year-end.

32. Share Based Payments (continued)

UK SAYE Scheme

Options over 2,131,928 (2010: 2,258,093) Grafton Units were outstanding at 31 December 2011, 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 to good leavers was 19,286 (2010:10,232) and the total consideration received amounted to €57,000 (2010: €30,000). Options forfeited in the year were 106,879 (2010: 271,708).

33. Accounting Estimates and Judgements

The Group's main accounting policies affecting its results and financial condition are set out on pages 51 to 61. 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 €566.3 million at 31 December 2011 (2010: €552.8 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 and in selecting an appropriate discount rate and nominal growth rate in perpetuity. No goodwill impairment charge was recognised by the Group in 2011 (2010: Nil).

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 €224.6 million at 31 December 2011 (2010: €208.5 million). Plan assets at 31 December 2011 amounted to €191.0 million (2010: €190.9 million) giving a net scheme deficit of €33.6 million (2010: €17.6 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 €15.7 million (2010: €17.4 million) shown in note 22 were based on a review of self-insured claims undertaken by an independent firm of actuaries and consultants. Claims in excess of specified limits are covered by external insurers.

Taxation

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

34. Related Party Transactions

The principal related party transactions that require disclosure under IAS 24: Related Party Disclosures relate to subsidiaries, joint ventures, 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 €11.7 million (2010: €9.9 million) for the year ended 31 December 2011;
- No dividend income was received by the Company from subsidiaries during the year (2010: Nil);
- Loans were granted to and by the Company to its subsidiaries.

Joint Ventures

During the year there were no sales or purchases or other transactions conducted with the joint ventures. The joint venture company Navan Retail Developments Limited is owed €3.16 million by the Company (2010: €2.36 million). Details of the joint ventures and the Group's share of the income and expenses and assets and liabilities are set out in note 14 along with the Group's share of acquisitions made in 2011 by BMC Groep NV, the Group's Belgian joint venture.

Key Management Personnel

The term key management personnel for 2011 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 of the Remuneration Committee on Directors' Remuneration on pages 34 to 41 provides detailed disclosure for 2011 and 2010 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, and awards granted under the 2011 LTIP.

Post Employment Benefit Plans

Pension commitments to existing and former employees under defined benefit pension scheme arrangements are disclosed in note 31 to the Group Financial Statements.

35. Events after the Balance Sheet Date

There have been no material events subsequent to 31 December 2011 that would require adjustment to or disclosure in this report.

36. Approval of Financial Statements

The Board of Directors approved the Group Financial Statements on pages 46 to 117 on 6 March 2012.

Company Balance Sheet

As at 31 December 2011

	Notes	2011 €'000	2010 €'000
ASSETS			
Non-current assets			
Property, plant and equipment	3	**250**	215
Deferred tax asset	9	**2**	2
Investments in subsidiary undertakings	4	**361,791**	360,935
Financial assets	4	**13**	13
Receivables from Group companies	5	**41,717**	60,812
Total non-current assets		**403,773**	421,977
Current assets			
Receivables from Group companies	5	**741,552**	682,009
Other receivables	5	**5,476**	6,287
Cash and cash equivalents		**7,054**	7,061
Total current assets		**754,082**	695,357
Total assets		**1,157,855**	1,117,334
EQUITY			
Capital and reserves			
Equity share capital	6	**11,656**	11,632
Share premium account		**292,545**	291,216
Capital redemption reserve		**905**	905
Shares to be issued reserve		**4,588**	5,258
Retained earnings		**320,285**	316,599
Treasury shares held	6	**(5,746)**	(5,746)
Total equity		**624,233**	619,864
LIABILITIES			
Non-current liabilities			
Retirement benefit obligations	13	**-**	-
Total non-current liabilities		**-**	-
Current liabilities			
Payables to Group companies	8	**525,556**	487,268
Other payables	8	**8,054**	10,191
Current income tax liabilities		**12**	11
Total current liabilities		**533,622**	497,470
Total liabilities		**533,622**	497,470
Total equity and liabilities		**1,157,855**	1,117,334

On behalf of the Board

G. Slark
C Ó Nualláin
Directors

6 March 2012

Company Cash Flow Statement

For the year ended 31 December 2011

	Notes	2011 €'000	2010 €'000
Profit before tax		**5,714**	3,242
Finance income		**(240)**	(746)
Finance expense		**232**	107
Operating profit		**5,706**	2,603
Depreciation	3	**110**	204
Share-based payments (credit)/charge		**(214)**	105
Contributions to pension schemes in excess of IAS 19 charge		**(7)**	-
Increase in working capital	10	**(1,324)**	(244)
Cash generated from operations		**4,271**	2,668
Interest paid		**(177)**	(48)
Income taxes paid		**(2,005)**	(8)
Cash flows from operating activities		**2,089**	2,612
Investing activities			
Inflows			
Interest received		**168**	1,030
Outflows			
Investment in subsidiary undertakings		**(1,312)**	(1,442)
Purchase of property, plant and equipment		**(145)**	(27)
		(1,457)	(1,469)
Cash flows from investing activities		**(1,289)**	(439)
Financing activities			
Inflows			
Proceeds from the issue of share capital		**1,353**	1,450
Movement on Group payables		**38,288**	24,278
		39,641	25,728
Outflows			
Dividends paid	15	**-**	(5,768)
Movement on Group receivables		**(40,448)**	(46,669)
		(40,448)	(52,437)
Cash flows from financing activities		**(807)**	(26,709)
Net decrease in cash and cash equivalents		**(7)**	(24,536)
Cash and cash equivalents at 1 January		**7,061**	31,597
Cash and cash equivalents at 31 December		**7,054**	7,061
Cash and cash equivalents are broken down as follows:			
Cash at bank and short-term deposits		**7,054**	7,061

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 2011							
At 1 January 2011	**11,632**	**291,216**	**905**	**5,258**	**316,599**	**(5,746)**	**619,864**
Profit after tax for the financial year	-	-	-	-	3,708	-	**3,708**
Total other comprehensive income							
Actuarial loss on pensions (net of tax)	-	-	-	-	(22)	-	**(22)**
Total comprehensive income	-	-	-	-	**3,686**	-	**3,686**
Transactions with owners of the Company recognised directly in equity							
Dividends	-	-	-	-	-	-	-
Issue of Grafton Units (net of issue expenses)	24	1,329	-	-	-	-	**1,353**
Share based payments credit	-	-	-	(670)	-	-	**(670)**
	24	**1,329**	-	**(670)**	-	-	**683**
At 31 December 2011	**11,656**	**292,545**	**905**	**4,588**	**320,285**	**(5,746)**	**624,233**
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**
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**

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 €3.7 million (2010: €3.2 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:

	2011 €'000	2010 €'000
Statutory audit (refer to Note 2 of Group Financial Statements)	**60**	60
Depreciation	**110**	204
Operating lease costs	**515**	515
Directors' remuneration	**3,276**	3,312

The Directors' remuneration is set out in detail in the Report of the Remuneration Committee on Directors' Remuneration on pages 34 to 41.

The average number of persons employed by the Company during the year was 18 (2010:17).

	2011 €'000	2010 €'000
The aggregate remuneration costs of employees were:		
Wages and salaries	**4,903**	4,250
Social welfare	**426**	380
Share-based payments (credit)/charge	**(214)**	105
Defined contribution and pension related costs	**309**	804
Charged to operating profit	**5,424**	5,539
Finance cost on pension scheme liabilities	**57**	59
Expected return on pension scheme assets	**(72)**	(74)
Charged to Income Statement	**5,409**	5,524
Actuarial loss on pension scheme	**22**	15
Total employee benefit cost	**5,431**	5,539

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

	2011	2010
Number of Individuals	**10**	10

	2011 €'000	2010 €'000
Short-term employee benefits	**3,355**	3,098
Share-based payment (credit)/charge	**(129)**	77
Retirement benefits expense	**518**	709
Charged to operating profit	**3,744**	3,884

3. Property, plant and equipment

Plant and equipment in the Company is stated as follows:

	Plant and equipment	
	2011 €'000	2010 €'000
Company		
Cost		
At 1 January	**1,788**	1,761
Additions	**145**	27
At 31 December	**1,933**	1,788
Depreciation		
At 1 January	**1,573**	1,369
Charge for year	**110**	204
At 31 December	**1,683**	1,573
Net book amount		
At 31 December	**250**	215
At 1 January	**215**	392

Notes to the Company Financial Statements

4. Financial Assets

	Other investments €'000	Investments in subsidiary undertakings €'000	Total €'000
At 1 January 2010	**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**
Acquisitions	-	1,312	1,312
Capital contribution – share-based payments	-	(456)	(456)
At 31 December 2011	**13**	**361,791**	**361,804**

Other investments represent sundry equity investments at fair value.

5. Trade and Other Receivables

	2011 €'000	2010 €'000
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	**741,552**	682,009
Other receivables	**5,476**	6,287
	747,028	688,296
Amounts falling due after one year:		
Amounts owed by subsidiary undertakings	**41,717**	60,812

None of the amounts owed from subsidiary undertakings of €783.3 million (2010: €742.8 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 17 to the Group Financial Statements.

7. 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 Bank of Ireland.

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 2011	**Carrying amount**	**Contractual cash flow**	**Within 1 Year**
	€'000	**€'000**	**€'000**
Non-Derivative Financial Instruments			
Payable to Group companies	**525,556**	**525,556**	**525,556**
Bank overdraft	**-**	**-**	**-**
	525,556	**525,556**	**525,556**

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

8. Trade and Other Payables

	2011 €'000	2010 €'000
Trade and other payables		
Accruals	**8,054**	10,191
Amounts owed to subsidiary undertakings	**525,556**	487,268
	533,610	497,459

9. Deferred Taxation

Recognised deferred tax (assets) and liabilities	Assets 2011 €'000	Liabilities 2011 €'000	Net (assets)/ liabilities 2011 €'000	Assets 2010 €'000	Liabilities 2010 €'000	Net (assets)/ liabilities 2010 €'000
Other items	**(2)**	**-**	**(2)**	(2)	-	(2)

2011	Balance 1 Jan 11 €'000	Recognised in income €'000	Recognised in other comprehensive income €'000	Foreign exchange retranslation €'000	Arising on acquisitions €'000	Balance 31 Dec 11 €'000
Other items	**(2)**	**-**	**-**	**-**	**-**	**(2)**

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)

10. Movement in Working Capital

	Trade and other receivables €'000	Trade and other payables €'000	Total €'000
At 1 January 2010	**6,705**	**(10,495)**	**(3,790)**
Interest accrual and other movements	(358)	-	(358)
Movement in 2010	(60)	304	244
At 1 January 2011	**6,287**	**(10,191)**	**(3,904)**
Interest accrual and other movements	2	-	2
Movement in 2011	(813)	2,137	1,324
At 31 December 2011	**5,476**	**(8,054)**	**(2,578)**

Notes to the Company Financial Statements

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

	2011 €'000	2010 €'000
Net decrease in cash and cash equivalents	**(7)**	(24,536)
Cash flow from movement in debt and lease financing	**-**	-
Change in net debt resulting from cash flows	**(7)**	(24,536)
Net debt at 1 January	**7,061**	31,597
Net cash at 31 December	**7,054**	7,061

12. Operating Leases

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

	Land and Buildings 2011 €'000	Land and Buildings 2010 €'000
Operating lease payments due:		
Within one year	**515**	515
Between two and five years	**2,060**	2,060
Over five years	**3,605**	4,120
	6,180	6,695

13. Pension Commitments

A defined benefit scheme and defined contribution pension schemes 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 2011 by a qualified independent actuary.

13. Pension Commitments (continued)

Financial Assumptions

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

	At 31 Dec 2011	At 31 Dec 2010
	Company scheme	Company scheme
Valuation Method	**Projected Unit**	Projected Unit
Rate of increase of pensions in payment	**-**	-
Discount rate	**5.10%**	5.30%
Inflation rate increase	**2.00%**	2.00%

The Company's obligations to the scheme at the end of 2011 were limited to providing a pension to an executive who retired in 2009 on a fixed pension.

	Year ended 31 December					
	Assets		**Liabilities**		**Net asset/(deficit)**	
	2011 €'000	2010 €'000	**2011 €'000**	2010 €'000	**2011 €'000**	2010 €'000
At 1 January	**1,107**	1,091	**(1,107)**	(1,091)	**-**	-
Expected return on plan assets	**72**	74	**-**	-	**72**	74
Contributions by employer	**-**	-	**-**	-	**-**	-
Contributions by members	**-**	-	**-**	-	**-**	-
Benefit payments	**(78)**	(78)	**78**	78	**-**	-
Current service cost	**-**	-	**-**	-	**-**	-
Past service credit	**-**	-	**7**	-	**7**	-
Settlement loss	**-**	-	**-**	-	**-**	-
Interest cost on scheme liabilities	**-**	-	**(57)**	(59)	**(57)**	(59)
Actuarial gains/(losses)	**-**	20	**(22)**	(35)	**(22)**	(15)
At 31 December	**1,101**	1,107	**(1,101)**	(1,107)	**-**	-
Related deferred tax asset (net)					**-**	-
Net pension liability					**-**	-

Notes to the Company Financial Statements

13. Pension Commitments (continued)

Expense recognised in operating costs

	2011 €'000	2010 €'000
Past service credit	7	-
Total operating credit	7	-

Recognised directly in other comprehensive income

	2011 €'000	2010 €'000
Actuarial loss on pensions	(22)	(15)
Deferred tax on pensions	-	-
	(22)	(15)

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

	2011 €'000	2010 €'000
Operating credit	(7)	-
Finance income (expected return on scheme assets)	(72)	(74)
Finance expense (interest on scheme liabilities)	57	59
Total operating credit	(22)	(15)

The contributions expected to be paid to the Company's defined benefit scheme in 2012 are €nil (2011: €nil).

14. Share-Based Payments

Please refer to the Group Share-Based Payments note (note 32) set out on pages 114 to 116.

15. Dividends

	2011 €'000	2010 €'000
Company		
Interim dividend of 2.5 cent per Grafton Unit – paid 31 March 2010	-	5,768
	-	5,768

16. Related Party Transactions

The principal related party transactions that require disclosure under IAS 24: Related Party Disclosures relate to subsidiaries, joint ventures, 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 €11.7 million (2010: €9.9 million) for the year ended 31 December 2011;
- No dividend income was received by the Company from subsidiaries during the year (2010: Nil);
- Loans were granted to and by the Company to its subsidiaries.

Joint Ventures

During the year there were no sales or purchases or other transactions conducted with the joint ventures. The joint venture company Navan Retail Developments Limited is owed €3.16 million by the Company (2010: €2.36 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 of the Remuneration Committee on Directors' Remuneration on pages 34 to 41 provides detailed disclosure for 2011 and 2010 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, and awards granted under the 2011 LTIP.

Post Employment Benefit Plans

Pension commitments to existing and former employees under defined benefit pension scheme arrangements are disclosed in note 13 to the Company Financial Statements.

17. Guarantees and Principal Operating Subsidiaries

The Company has given guarantees in respect of the bank borrowings of subsidiary undertakings which amounted to €358.8 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 certain 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
Panelling Centre Limited	Kitchen/Bedroom Panel Products

17. 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 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 Group Finance plc (formerly 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.

18. Approval of Financial Statements

The Board of Directors approved the Company Financial Statements in respect of the year ended 31 December 2011 on 6 March 2012.

Corporate Information

Auditor	KPMG
Bankers	Bank of Ireland HSBC Bank plc Ulster Bank Lloyds TSB Banking Group plc
Solicitors	Arthur Cox, Dublin A&L Goodbody, Dublin Norton Rose, London 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

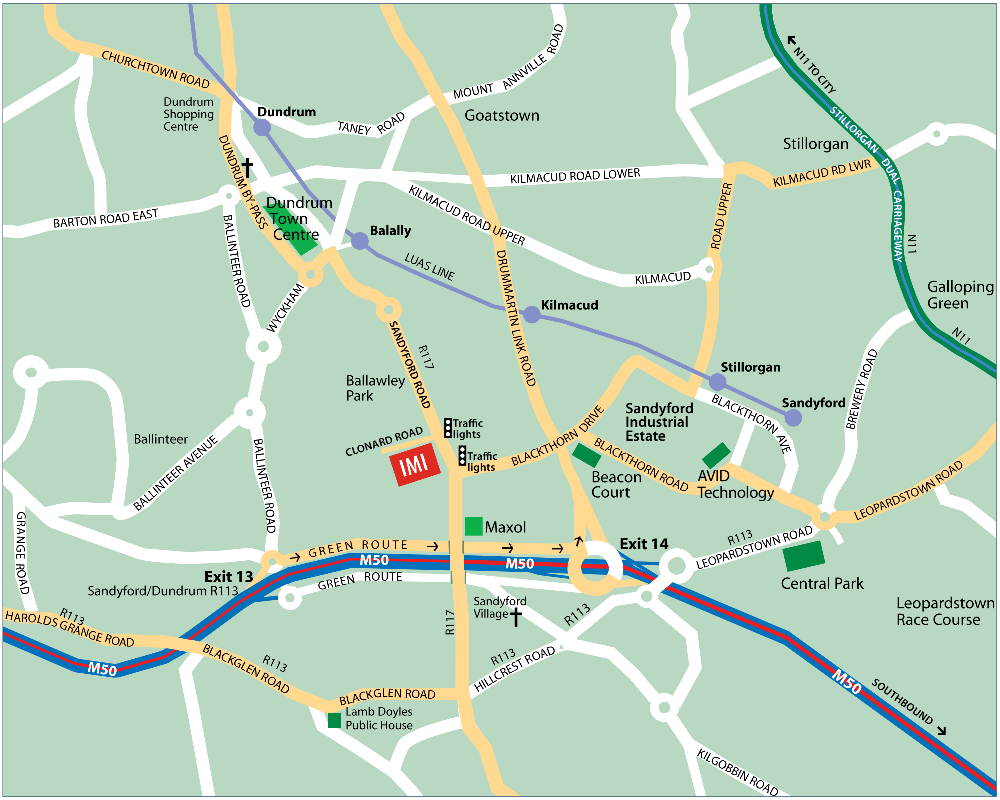
Financial Calendar

Results	
Half-yearly results	31 August 2011
Full year results	7 March 2012
Annual general meeting	10 May 2012
Interim Dividend	
Record date	9 September 2011
Record date	16 March 2012

Location of Annual General Meeting

The Annual General Meeting of the Company will be held on 10 May 2012 at 10.30am in the

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



Enniskerry ▼ Wexford ▼

LUAS Recommended routes to IMI

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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