Grafton Group plc
Annual Report 2012

2012

Contents

Group Strategy and Profile

Grafton Group plc is an independent company operating in the Merchanting, 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 544 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 38 stores under the Woodie's DIY brand, and a 7 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, Retailing and Mortar Manufacturing markets in Britain and Ireland. In 2012, 76 per cent of Group revenue was generated in the UK.

Financial Highlights

- Revenue up 6% to €2.2 billion and by 0.6% in constant currency
- Underlying operating profit up 33% to €72.9 million from €54.7 million *(€75.2 million before amortisation from €56.9 million)*
- Group operating profit margin increased by 70 basis points to 3.5% from 2.8%
- Underlying profit before taxation up 41% to €59.7 million from €42.3 million *(€61.9 million before amortisation from €44.5 million)*
- Underlying adjusted basic earnings per share up 27% to 19.5 cent
- Dividend up by 13% for the year to 8.5 cent including second interim dividend of 5.5 cent
- Strong cash generation from operations of €106 million
- Shareholders' equity of €1 billion and year end gearing of 20%

	2012	2011
	€'m	€'m
Revenue	**2,171**	2,054
Underlying (before exceptional items):		
Operating profit*	**72.9**	54.7
EBITDA	**114.7**	97.4
Profit before tax*	**59.7**	42.3
Profit after tax*	**43.3**	33.7
Adjusted basic earnings per share	**19.5c**	15.4c
Statutory:		
Operating profit	**46.8**	22.7
Profit before tax	**33.5**	10.3
Profit after tax	**41.1**	2.5
Earnings per share – basic	**17.7c**	1.1c
Dividend for year	**8.5c**	7.5c

** Includes an intangible amortisation charge of €2.24 million (2011: €2.2 million)*

Operating Highlights

- Profit increase driven by UK merchanting outperformance in weak market
- UK merchanting operating profit margin increased by 75 basis points to 4.85%
- Cost reductions offset impact of Irish merchanting revenue decline
- Second half profit recovery in retailing business in Ireland
- Manufacturing business returned to profit following restructuring
- All three divisions of Group profitable

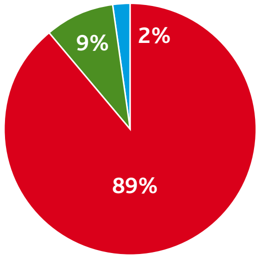
Segment Trading Locations

	Trading Locations			
	UK	Ireland	Belgium	Total
Builders Merchanting	260	42	11	**313**
Plumbers Merchanting	227	4	-	**231**
Merchanting Segment	487	46	11	**544**
Retailing Segment	-	45	-	**45**
Manufacturing Segment	9	1	-	**10**
Total	496	92	11	**599**

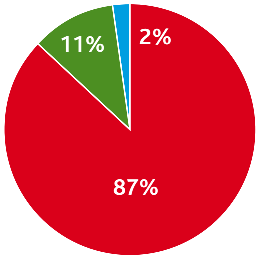
Segment Revenue

- Merchanting
- Retailing
- Manufacturing

2012
€2.17bn

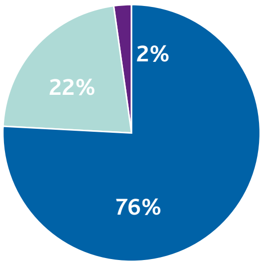


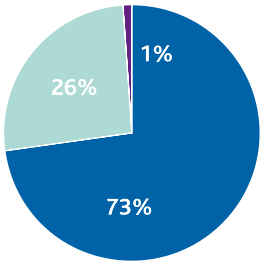
2011
€2.05bn



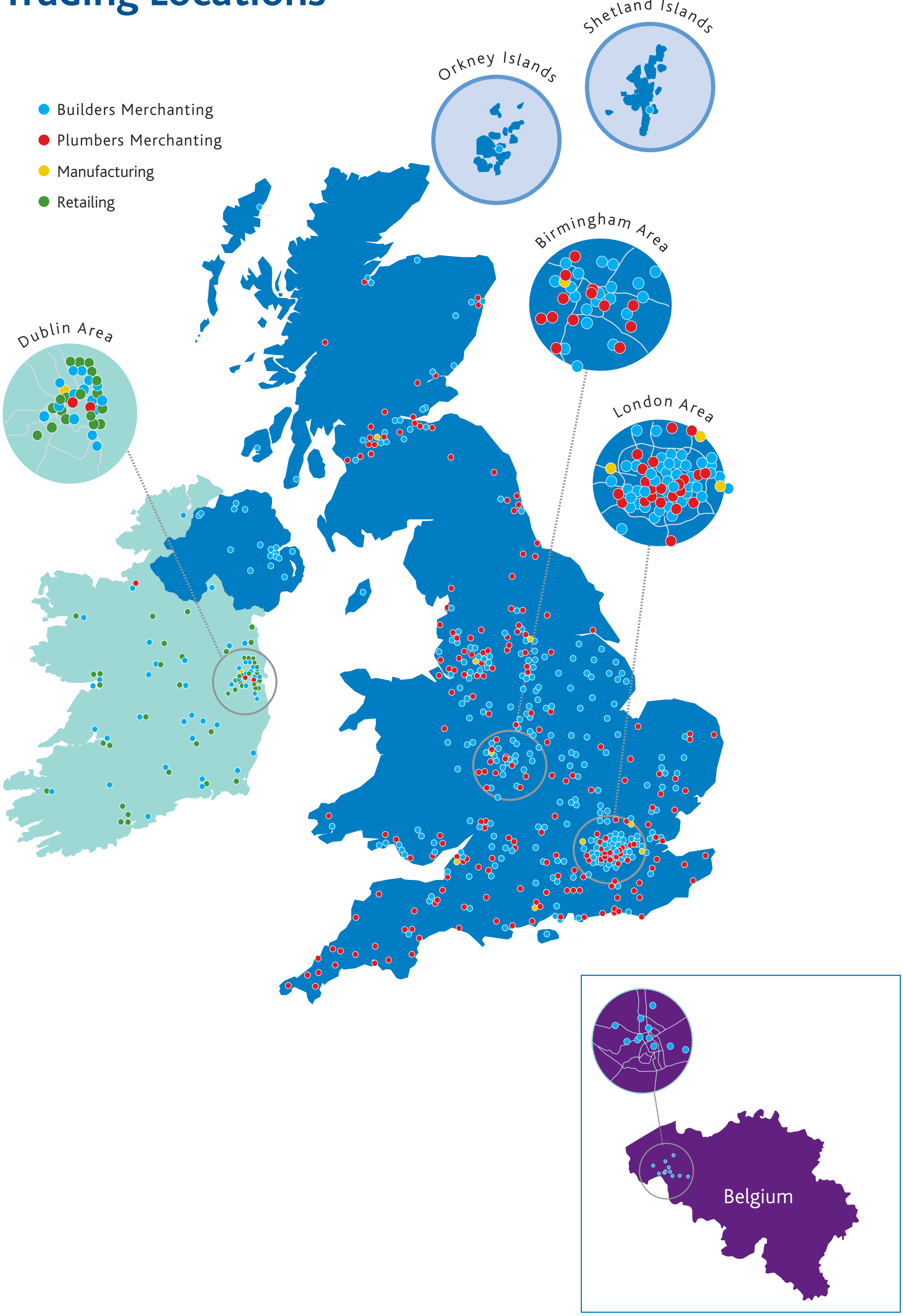
Geographic Revenue

- UK
- Ireland
- Belgium





Trading Locations



Principal Brands

Merchanting

The builders merchanting division trades from 313 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 231 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 38 stores nationally and also operates a kitchens business from 7 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

Trading and Profitability

2012 saw a continuation of difficult economic conditions in the Group's markets. Group revenues were broadly flat in constant currency. The Group performed relatively well despite the weak conditions in its markets and achieved a significant increase in underlying operating profit through a sustained focus on performance.

Volumes were marginally lower in the UK merchanting market but the business achieved a significant improvement in operating profit due to cost reductions, integration benefits and improved margin management. The merchanting branches in Ireland experienced a decline in turnover for the fifth consecutive year and focused on trading profitably. Profitability in the retailing business in Ireland was affected by weak retail spending and adverse weather conditions in the first half but recovered in the second half due to improved consumer sentiment and lower costs.

Group profit before tax and exceptionals was up 41 per cent to €59.7 million (2011: €42.3 million). The Group generated cashflow from operations of €105.7 million (2011: €96.9 million) and ended the year with a strong balance sheet.

The Group is well-positioned to benefit from a recovery in its markets but is cautious about the near term outlook. There will be a continued focus on growing profits against the backdrop of challenging market conditions.

Dividend

The second interim dividend has been increased by 16 per cent to 5.5 cent (2011: 4.75 cent). This gives a total dividend for the year of 8.5 cent, an increase of 13 per cent from 7.5 cent for 2011. The decision to increase the dividend is based on the Board's progressive dividend policy driven by growth in underlying profit, cash flow generated from operations and balance sheet strength.

Strategy

The Group's primary strategy is focused on the distribution of building materials to trade customers and households in the markets in which it operates. The primary end use markets are residential Repair, Maintenance and Improvement (RMI) and new build. The Group also distributes building materials to the commercial and infrastructure markets and operates the leading DIY Retailing business in Ireland.

The major restructuring programmes completed in recent years in response to the downturn have provided a strong platform to deliver further improvement in profits as market conditions improve. Geographic expansion of the builders merchanting business outside Britain and Ireland has been concentrated in the Belgian merchanting market where further development opportunities are being evaluated. A strategic review of possible development opportunities in other geographic markets is ongoing.

Board and Management

An externally facilitated Board evaluation was conducted during 2012 in line with the requirements of The UK Corporate Governance Code 2010. The review concluded that the Board and its Committees are operating effectively and to a high standard of governance and in compliance with best practice. It also found that there was no concentration of power on the Board and that the Board operated in an open and transparent manner with a high level of engagement from Directors.

In line with the policy adopted in 2011, the Board has decided that all Directors seeking re-election should retire at the 2013 Annual General Meeting and offer themselves for re-election. 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 UK Corporate Governance Code 2010. The external evaluation confirmed that each of the Directors continue to perform effectively and to demonstrate a strong commitment to the role. I recommend that all of the Directors going forward be re-elected at the Annual General Meeting.

Chairman's Statement

Mr. Colm Ó Nualláin, Finance Director, will retire from the Board in January 2014 having reached the age of 60. Colm joined Grafton in 1989 and was appointed to the Board as Finance Director in 1990. Colm has made a unique contribution to the development of Grafton since 1989. During this period the business has developed from a small Irish base to its current status as an international building materials Group with a substantial market capitalisation. The Board recognises the breadth and quality of Colm's contribution to the growth and financial strength of the Group over a long and distinguished career. On behalf of the Board and personally, I offer Colm our very best wishes for the future.

Mr. Richard W. Jewson has advised the Board of his intention to retire from the Board at the conclusion of the Annual General Meeting on 14 May 2013, after 18 years service as a non-executive Director. His significant experience of the merchanting industry in the UK, prior to joining the Board, and as a non-executive Director of publicly quoted and private companies enabled him to make a very substantial contribution to the Board. His wisdom and advice have been of great benefit to the Board. On behalf of the Board and personally, I thank Richard for his distinguished service and offer him our best wishes for the future.

Management and Staff

On behalf of the Board, I thank Gavin Slark and all Grafton management and staff for their contribution to the improved performance of the Group despite difficult market conditions.

Michael Chadwick
Chairman

Chief Executive Officer's Review

Group Results

The Group delivered good profit growth despite challenging trading conditions in its markets. The positive outcome for the year demonstrates the benefits of the restructuring and self-help measures implemented over the past eighteen months.

Group revenues increased by 5.7 per cent to €2.17 billion in 2012 from €2.05 billion in 2011 and by 0.6 per cent in constant currency. The increase in revenue includes €105 million of a currency gain on translation of UK revenue at a more favourable average sterling/euro exchange rate. The Belgian joint venture contributed increased revenue of €17.1 million to €38.0 million (2011: €20.9 million).

Underlying operating profit (before exceptional items and amortisation) increased by 32 per cent to €75.2 million (2011: €56.9 million). This comprised growth of 19 per cent to €31.3 million in the first half and growth of 43 per cent to €43.9 million in the second half. Underlying profit before taxation (before exceptional items and amortisation) increased by 39 per cent to €61.9 million (2011: €44.5 million).

Statutory profit before tax increased to €33.5 million from €10.3 million and statutory profit after tax increased to €41.1 million from €2.5 million.

The UK merchanting business increased sterling turnover by 3.1 per cent and improved its competitive position in a weak RMI market that experienced a small decline in volumes. Operating profit increased by 21.9 per cent in constant currency as a result of better cost control, improved margin management and integration benefits. UK merchanting accounted for 74 per cent of Group revenue. Despite a significant decline in turnover in the Irish merchanting branches, due to weak residential new build and RMI markets, operating profit was only moderately lower due to cost savings.

Profitability in the retailing business in Ireland was impacted by weak retail spending and adverse weather in the first half but recovered in the second half with the benefit of an easing in the pace of decline in revenue and lower overheads. The manufacturing business was restructured and returned to profitability.

The Group operating profit margin increased by 70 basis points to 3.5 per cent from 2.8 per cent.

The Group continued to implement essential restructuring and cost saving measures principally in response to the decline in volumes and excess capacity in the merchanting branches in the UK and Ireland and in the retailing business in Ireland. The costs of restructuring measures implemented amounted to €26.2 million. Management believes that the major cost of restructuring is now complete.

The Group generated cashflow of €105.7 million (2011: €96.9 million) from operations and ended the year with shareholders' equity of €1.0 billion and a gearing ratio of 20 per cent.

Operations Review

Merchanting Segment

Revenue in the merchanting segment increased by 8.0 per cent to €1.93 billion (2011: €1.79 billion). Operating profit (before restructuring costs) was €82.3 million (2011: €64.9 million), an increase of 26.7 per cent.

Merchanting revenue in the UK merchanting business increased by 10.4 per cent to €1.61 billion (2011: €1.46 billion). Sterling turnover increased by 3.1 per cent. UK merchanting operating profit (before restructuring costs) was up by 30.5 per cent to €78.1 million (2011: €59.9 million) and by 21.9 per cent in constant currency. The operating margin increased by 75 basis points to 4.85 per cent (2011: 4.10 per cent). The gross margin increased by 76 basis points.

UK merchanting revenue growth of 3.1 per cent incorporated growth in average daily like-for-like turnover of 1.7 per cent and growth of 1.4 per cent from new branches, acquisitions and branch consolidations. Average daily like for like turnover growth reflected a recovery of price increases estimated at circa 1.5 per cent and the business increased its share of a market that declined.

Chief Executive Officer's Review

The UK economy has been broadly flat over the past two years and consumer spending was weak as real take home pay declined due to inflation and tax increases. Pressure on incomes together with households paying down mortgage debt and subdued consumer confidence led consumers to defer discretionary spending on housing renovation and refurbishment projects. Spending on public housing RMI was lower due to cuts in central government and local authority budgets. These developments reduced merchanting volumes for the fifth consecutive year. Housing transactions, a forward indicator of demand in the merchanting market, increased by 5 per cent but remained 44 per cent below the pre-recession level.

Buildbase revenues were unchanged in a general merchanting market that operated at historically low levels of activity. The benefit of the restructuring programme implemented at the end of 2011, improved margin management, better utilisation of the distribution fleet and a strong focus on more efficient operating of branches contributed a significant increase in operating profit. The operating margin improved in response to the range of self-help measures implemented as part of a multi-year plan to improve performance. In August 2012, Buildbase acquired Electricbase, a supplier of a wide range of products to electrical contractors. Electricbase implants have been added in a number of Buildbase branches.

Selco Builders Warehouse reported strong turnover and profit growth. Selco is a trade-only business that operates a retail style self-select format supported by competitive pricing, product availability and service. The business has developed a unique brand identity that differentiates it from competitors. Selco has gained a strong position in the Greater London market and in other regional markets supplying a wide range of building materials from modern facilities to customers engaged in residential RMI projects. Increased turnover was driven by a strong performance in the established branches and growth, in line with plan, in the Catford, South London and Slough, Berkshire stores that opened in 2011. Selco improved its market coverage in London with the successful opening of branches in Hanworth, South London and Tottenham, North London. The scheduled opening later this year of branches in South London at Old Kent Road and Wimbledon will increase the network of Selco branches to 34 including 18 in London.

The domestic plumbing and heating market was affected by weak demand. Boiler volumes, an indicator of market activity in Britain, declined by 2 per cent following a decline of 10 per cent in 2011. Despite the difficult market, **Plumbase** increased turnover and improved its competitive position. Increased turnover and an improved gross margin contributed a higher level of operating profit and an improvement in the operating margin from a low base. The 37 boiler and heating spares branches were integrated into a division of Plumbase and rebranded as Sparesbase.

Weakness in the East Midlands market led to a small decline in revenue in the **Jacksons** branches. A number of initiatives taken in the second half of the year including closure of the regional distribution centre together with more effective margin and overhead management increased operating profit for the year. The operational efficiency of the business improved and the operating profit margin was higher. A new branch was opened in Worksop, six branches were upgraded and Hirebase centres were added in five branches. Electricbase implants are planned for 2013.

In Northern Ireland, the economy contracted modestly, construction activity fell and housing output was lower at 40 per cent of the pre-recession level. **Macnaughton Blair** grew turnover and operating profit in a weak market. Turnover growth was achieved by an increased exposure to public sector civils projects in the areas of health, education and infrastructure and also due to a number of provincial branches outperforming local markets. These gains were partly offset by lower turnover in the architectural ironmongery division following the completion of a number of significant contracts in the prior year. Market coverage increased with the acquisition of a branch in Downpatrick.

Chief Executive Officer's Review

Buildbase Civils & Lintels, a nationwide distributor of civils and drainage products trading from 20 branches, increased revenue and operating profit strongly. The business, which supplies customers engaged in house building, civil engineering, groundworks and infrastructure new build projects, benefited from a reduction in capacity in the sector and improved its market position with the acquisition of two branches.

Three businesses engaged in the supply of drywall, insulation and ceiling materials trading from 7 branches were combined to form **NDI** "Nationwide Drywall & Insulation". Turnover was unchanged for the year as growth in the first half was offset by a decline in the second half due to the fall in housing starts. Operating profit increased due to integration synergies.

Frontline, a distributor of bathroom products, increased revenue and operating profit and achieved a strong operating margin.

www.plumbworld.co.uk, one of the UK's largest specialist online retailers of bathroom products, improved the functionality of its web site and increased revenues as more consumers chose to shop online.

The overall gross margin in the UK merchanting branches increased by 0.76 per cent due to lower delivery costs, increased revenues in businesses with above average gross margins, procurement gains, a reduction in stock losses and reviews of customer profitability. Overheads in the like for like UK merchanting business were marginally down despite inflation related pricing pressure.

Revenue in the merchanting branches in Ireland declined by 8.5 per cent to €280.8 million (2011: €306.8 million). Operating profit (before restructuring costs) was €3.3 million (2011: €4.1 million). Volumes in the Irish merchanting market declined for the fifth consecutive year.

The gradual stabilisation of the Irish economy continued through 2012 with a modest increase in output for the second successive year. The domestic economy remained weak as high unemployment, tax increases and deleveraging contributed to a further decline in consumer spending. 2012 was the fifth successive year to show a marked fall in investment in the housing sector with the decline for the year estimated at 16 per cent. The volume of new houses constructed fell to what is expected to be a trough in the current cycle of circa 4,500 units and investment in housing repairs, maintenance and improvement projects was also lower. Some evidence of the Irish housing market stabilising started to emerge during the year. There was a marked slowdown in the pace of decline in residential property prices, housing transactions returned to growth from a very low base and mortgage lending increased.

The merchanting branches in Ireland encountered challenging trading conditions in the seasonally quieter months of January/February 2012 with average daily turnover down by 13 per cent. The rate of decline eased as the year progressed to 5 per cent in the September to December period. The business focused on trading profitability and continued to respond to the unprecedented downturn by reducing costs. Branch consolidations in Dublin, Cork and Limerick in 2011 and 2012 generated significant cost savings and efficiencies offsetting much of the impact of the decline in revenue. The **Heiton Buckley** and **Chadwicks** branch networks and the **Cork Builders Providers**, **Telfords** and **Davies** branches, that have strong regional market positions, responded well to challenging market conditions and increased market share.

The closure of branches by competitors enabled a number of city based and provincial branches to increase turnover in a declining market. The two year programme to upgrade the showroom and self-select areas in all branches was completed. Product ranges located at the point of purchase were expanded to meet the needs of customers engaged in residential refurbishment and RMI projects that now account for a high proportion of revenue. An initiative to expand turnover of plumbing and heating products was successfully implemented. A full range of plumbing and heating products was extended to all branches using an efficient "branch implant" route to market model supported by an enhanced service to customers. A Plumb Centre branch was opened in Glasnevin, North Dublin City and the Gorey, County Wexford general merchanting branch was successfully relocated and captured significant growth in market share in the region.

Gross margins were in line with the prior year in a competitive market place. Optimising the cost base of the business in response to market declines created savings of €7.8 million taking cumulative savings since 2009 to €57.8 million.

Revenue in the Belgian merchanting business increased to €38.0 million from €20.9 million and operating profit of €0.9 million was in line with 2011. The joint venture, which is now 65 per cent controlled by the Group, was consolidated as a subsidiary with effect from the end of October 2012 in accordance with International Financial Reporting Standards (IFRS). Turnover of the joint venture was €59 million for the year and following the acquisition of Holvoet, a two branch merchanting business, annualised turnover increased to circa €75 million. The business now trades from 11 branches located in North West Belgium. Net debt in the joint venture at the year-end of €21.4 million was fully consolidated in the Group balance sheet. The total investment including net debt in the joint venture was €30.0 million to date.

Retailing Segment

Revenue declined by 9.2 per cent to €199.5 million from €219.7 million and operating profit (before restructuring costs) declined to €0.3 million from €2.1 million.

The downward trend in consumer spending continued in 2012 due to a decline in real disposable incomes, a weak labour market and a high savings rate. Retail sales were weak in the first half of the year but showed a modest recovery in the second half helped by an improvement in consumer sentiment.

Turnover declined by 12.4 per cent in the first half and by 5.9 per cent in the second half. First half turnover in the **Woodie's DIY** business fell sharply due to the combined effects of weaker retail spending and adverse weather conditions in the second quarter which led to a significant fall in demand for outdoor gardening and maintenance products which normally account for a high proportion of second quarter turnover.

In June 2012 an Examiner was appointed to Atlantic Home Care Limited. The Examiner was successful in formulating a scheme of arrangement that was approved by the High Court in September 2012. The scheme of arrangement involved the closure of two stores and consensual agreements with landlords to reduce rents to current open market levels. No trade or other creditors were impacted by the examinership. The restructuring enabled the business to trade profitably in the second half of the year.

The particularly difficult trading conditions in the first half resulted in an operating loss of €3.5 million. The pace of decline in the market moderated as the year progressed. Higher second half turnover, relative to the first half, and benefits from the Atlantic Home Care Limited examinership more than offset the first half loss and the business reported an operating profit of €0.3 million for the year (2011: €2.1 million).

Demand for outdoor maintenance and gardening products was impacted by the unseasonably wet weather in the second quarter. These declines were partially offset by stronger demand for interior decorating and home remodelling products. New ranges of power tools, timber flooring, tiles and lighting performed well.

Store footfall was affected by the weak economic backdrop. Transactions declined by 6.2 per cent in the like-for-like stores and average transaction values softened by 2.1 per cent due to a fall in sales of higher value products including barbeques, lawnmowers and furniture.

Chief Executive Officer's Review

The Glasnevin and Blanchardstown stores in West Dublin were extended and upgraded to offer additional product ranges and to broaden their appeal and improve the shopping experience for customers. The Tallaght store in Dublin was also upgraded.

Despite difficult market conditions, the DIY business made competitive gains and, through a continuous focus on self-help, put the cost base of the Atlantic Home Care Limited stores on a more sustainable footing.

Revenue was marginally lower in the seven store In-House kitchens business. The three Dublin stores that account for two thirds of revenue made good profit contributions and consolidation of one of the provincial branches prior to the year-end will generate cost savings in a competitive environment for kitchen retailers.

Manufacturing Segment

Turnover declined by 10.4 per cent to €42.6 million (2011: €47.5 million) and following the completion of a restructuring programme the business was returned to profitability. Operating profit (before restructuring costs) for the year was €2.0 million following a loss of €0.5 million in 2011.

CPI EuroMix, which is the market leader in the supply of Silo based mortar trading from nine plants in Britain, experienced a marginal decline in turnover. Residential construction activity, the primary end-use market, was lower and continued to trend at less than half the level of household formations. Mortgage availability remained a key constraint on housing starts in the private sector and social housing volumes declined sharply due to the fall in public sector capital spending. Volumes supplied to educational projects were also hit by capital spending cuts. The business responded to weaker demand in its core markets through the supply of sprayed concrete to infrastructure projects. Despite weaker market conditions, the business improved its competitive position and increased operating profits by tight cost control.

Turnover in the Irish manufacturing business declined to €6.7 million from €13.1 million. CPI, the loss making concrete products business, was closed and the Wrights Windows Systems business was sold to its senior management team. MFP, the PVC drainage and roofline products business, increased its presence in the UK market through the supply of its roofline facia and soffit system through the Selco branch network. Increased volumes and a substantial reduction in operating costs related to changes in processes and logistics arrangements enabled MFP to operate at breakeven for the year.

Outlook

The UK economy has been broadly flat for the past two years and a slow sustained recovery is forecast with near term growth expected to remain weak. The prospects for the residential RMI market are closely aligned with the performance of the wider economy. Household spending is likely to remain under pressure as the rate of inflation exceeds subdued growth in incomes. The increase in housing transactions and some evidence of an easing in credit conditions are, if sustained, supportive of increased RMI spending.

In Ireland, the overall economy grew at a modest rate over the past two years and while significant challenges and risks remain there are indications, for the first time in five years, that the domestic economy is starting to stabilise. A small decline in consumer spending is forecast for 2013 and the pace of decline in spending in the merchanting and DIY markets is expected to continue to moderate. The property market in Ireland is expected to show further signs of improvement during 2013 as price stabilisation becomes more broadly based geographically and housing transactions and mortgage lending increase from the current low base.

Chief Executive Officer's Review

Average daily like for like revenue was marginally higher in the UK merchanting business in January and February 2013 and was flat in the Irish merchanting business against a weak performance in the comparative period. Revenue in the Irish retailing business declined by 5.0 per cent during the same period.

The Group is cautious about the near term prospects for its markets but expects to make further progress in the year ahead by focusing on a new phase of measures to increase profitability following the successful completion of the major restructuring programmes in recent years. Grafton's strategically important market positions, strongly cash generative businesses and efficient cost base leave it well placed to benefit from a recovery in markets from current cyclical lows.

Gavin Slark
Chief Executive Officer

Group Finance Review

Financial Review

The Group ended the year with a strong balance sheet that incorporated shareholders' equity of €1 billion, a significant estate of freehold property, a low level of gearing, net debt refinanced out to 2016 and good liquidity.

Operating Profit

Underlying operating profit (before exceptional items and amortisation) increased by 32 per cent to €75.2 million (2011: €56.9 million).

Cashflow

The strength of the Group's cash generating business model was again demonstrated with cashflow from operations of €105.7 million (2011: €96.9 million). Capital expenditure net of asset disposals at €25.9 million (2011: €26.6 million) reflected asset replacement to support Group transport, branch upgrades and the development of new branches to support the long-term growth of the UK merchanting business.

The cash outflow on acquisitions amounted to €19.7 million of which €16.7 million related to the Belgian business. The Group increased its shareholding in the Belgian joint venture to 65 per cent from 53 per cent and the joint venture, which is now accounted for as a subsidiary with a non-controlling interest, acquired a merchanting business that trades from two branches. Three small acquisitions were completed by the UK merchanting business at a cost of €3.0 million.

Taxation

The taxation credit in the income statement of €7.6 million comprises a taxation charge for the year of €16.4 million and a taxation credit of €24.0 million. The charge for the year of €16.4 million represents an effective tax rate of 27.5 per cent on underlying profit before tax. The charge of €16.4 million arose primarily from unwinding deferred tax assets recognised in prior years in accordance with IFRS. The taxation credit of €24.0 million includes €23.0 million for the release of a provision no longer required following confirmation by the UK Revenue of the Group's entitlement to previously claimed tax deductions. The provision was originally created as the ultimate tax outcome could not be determined with certainty. A taxation credit of €1.0 million arose on exceptional items.

Pensions

The market value of defined benefit pension scheme assets increased by €25.5 million to €216.6 million (31 December 2011: €191.1 million) due to an improved asset performance and company contributions. The present value of scheme liabilities increased by €54.9 million to €279.5 million (31 December 2011: €224.6 million) due primarily to the significant fall in the yield on high quality AA rated corporate bonds, the rate that is used to discount scheme liabilities. The increase in scheme liabilities also reflects changes in assumptions concerning increased life expectancy. The IAS19 deficit after tax on defined benefit pension schemes increased to €53.9 million (31 December 2011: €28.6 million). The company is currently in negotiations with the trustees, unions and employees in Ireland with a view to mitigating the deficit.

Shareholders' Equity

Shareholders' equity was €996.8 million at 31 December 2012 (31 December 2011: €982.8 million). Shareholders' equity increased by the profit after tax (before exceptionals) of €43.3 million. Exceptional items comprising a charge of €26.2 million for restructuring costs and a taxation credit of €24.0 million reduced shareholders' equity by €2.2 million. There was a currency gain of €20.7 million on translation of net sterling assets in the UK business at the year-end sterling/euro rate of exchange. Significant movements that reduced shareholders' equity were dividend payments of €18.0 million and an actuarial loss after tax of €31.1 million in the defined benefit pension schemes.

Group Finance Review

Net Finance Income and Expense

The net finance expense for the year was €13.2 million (2011: €12.4 million). Net bank and loan note interest fell to €13.4 million from €15.3 million. The lower charge was due to the Group's exposure to mainly floating rate debt during a period of declining inter-bank interest rates and lower average debt. The net finance expense for 2011 included a net credit of €2.9 million due to movements on hedges, foreign exchange and pension.

Net Debt

Strong liquidity from operations enabled net debt to be reduced for the fifth consecutive year. Net debt declined by €23.9 million to €202.0 million (31 December 2011: €225.9 million) at the year-end including debt of €21.4 million in the Belgian business and the benefit of seasonally lower investment in working capital in December. The gearing ratio declined to 20 per cent from 23 per cent.

Good flexibility in managing ongoing liquidity in the business was maintained through a combination of deposits and cash balances and undrawn committed term bank facilities. Deposits and cash balances were €156.9 million at 31 December 2012 (31 December 2011: €134.6 million) and there were undrawn bank loans of €97.7 million. The average maturity of gross debt at 31 December 2012 was almost three years.

Capital Structure

The sustained focus on cash generation enabled the Group to reduce net debt in each of the past five years. Net debt declined by €348.4 million (63%) from €550.4 million at the end of 2007 to €202.0 million at the end of 2012. The Group's financial flexibility improved over this period as the level of external funding declined and profitability recovered. The principal sources of funding are cashflow from operations and borrowings from banks. During 2011 the Group put new five year loans for €75 million in place and extended the maturity dates of existing facilities of €195 million to late 2016.

The Group will seek to manage its future financing by diversifying funding sources and continuing to pursue policies that are consistent with a recovery of its long term investment grade credit rating while also taking advantage of appropriate development opportunities. Underlying EBITDA (before exceptional items) interest cover as defined for bank covenant purposes for 2012 was 8.6 times (2011: 7.2 times) and year end net debt was 1.76 times (2011: 2.32 times) underlying EBITDA (before exceptional items).

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 at the end of June 2011 on the appointment of a new Chief Executive Officer and continues to serve on the Board 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.

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.

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.

Charles M. Fisher, (UK) MA
NON-EXECUTIVE DIRECTOR

Charles Fisher was appointed to the Board on 1 May 2009. He is currently Chairman of Garden Centre Property Development Trading plc. He was Chairman and Chief Executive of Sharpe & Fisher plc, the UK builders merchanting company, from 1989 to 1999. He was formerly Chairman of Mowlem plc and previously served as a non-executive 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.

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.

Annette Flynn, B.Comm, FCCA
NON-EXECUTIVE DIRECTOR

Annette Flynn was appointed to the Board on 15 March 2011. She recently joined the Board of Irish Life Group as a non-executive Director. She recently retired as a non-executive Director of United Drug plc after serving two years, having previously served as an executive Director for seven years and has 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.

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.

Charles Rinn, MBA FCCA
GROUP FINANCIAL CONTROLLER AND SECRETARY

Board Service

Director	Length of Service
M. Chadwick	33.3 years
G. Slark	2.0 years
C. Ó Nualláin	22.9 years
R. W. Jewson	17.8 years
R. Ryan	7.0 years
C. M. Fisher	3.9 years
A. Flynn	2.0 years

Executive Committee (formed in January 2012)

G. Slark (Chief Executive Officer)
C. Ó Nualláin (Financial Director)
C. Rinn (Group Financial Controller/Group Secretary)
R. Colman (Chief Executive, Woodie's DIY)
C. Cunliffe (Managing Director, Selco Builders Warehouse)
J. Jennings (Group Property Director)
P. Kearney (Managing Director, Grafton Merchanting NI)
E. Kelly (Managing Director, Grafton Merchanting ROI)
M. Kelly (Managing Director, Grafton Merchanting GB)
J. Sowton (Group Acquisitions Director)
J. Ingham (Group Information Technology Director)

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)	6.5 years	C. M. Fisher (Chairman)	2.8 years	R. Ryan (Chairman)	2.8 years	G. Slark (Chairman)	2.0 years
A. Flynn	2.0 years	A. Flynn	1.4 years	R. W. Jewson	17.7 years	C. Ó Nualláin	22.7 years
C. M. Fisher	1.4 years	R. Ryan	2.8 years	M. Chadwick	19.3 years	C. Rinn	9.0 years
				C. M. Fisher	2.8 years		

Financial History - 1992 to 2012

Group Income Statements	2012 €'m	2011 €'m	2010 €'m	2009 €'m	2008 €'m	2007 €'m	2006 €'m	2005 €'m	2004 €'m	2003 €'m
	IFRS									Irish GAAP
Revenue	**2,171.4**	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
Operating profit	**46.8**	22.7	33.0	4.9	99.2	263.5	242.7	213.8	161.1	115.8
Property profit	**-**	-	-	-	-	7.3	38.0	9.6	7.5	3.4
Finance (expense)/income (net)	**(13.3)**	(12.4)	(7.4)	8.7	(35.1)	(35.0)	(31.4)	(31.2)	(22.8)	(17.2)
Profit before taxation	**33.5**	10.3	25.6	13.6	64.1	235.8	249.3	192.2	145.8	102.0
Taxation	**7.6**	(7.7)	38.4	(0.2)	(6.4)	(30.6)	(32.4)	(26.1)	(19.9)	(15.3)
Profit after taxation	**41.1**	2.6	64.0	13.4	57.7	205.2	216.9	166.1	125.9	86.7

Balance Sheets	2012 €'m	2011 €'m	2010 €'m	2009 €'m	2008 €'m	2007 €'m	2006 €'m	2005 €'m	2004 €'m	2003 €'m
Capital employed										
Goodwill and intangibles	**583.5**	568.5	557.3	551.0	541.7	611.9	596.2	547.8	247.1	210.8
Property, plant and equipment	**561.6**	564.9	568.8	604.8	633.3	703.7	686.2	623.2	406.2	346.8
Financial assets	**0.2**	0.2	3.9	3.9	0.2	0.9	0.4	0.3	47.0	33.7
Net current assets*	**163.8**	145.1	142.0	138.1	202.6	350.3	335.6	303.2	195.2	198.5
Other net non-current liabilities	**(105.2)**	(69.9)	(26.5)	(63.6)	(73.3)	(48.7)	(53.2)	(76.5)	(50.8)	(28.3)
	1,203.9	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
Financed as follows:										
Shareholders' equity	**996.8**	982.8	990.4	911.7	868.9	1,067.7	1,014.3	813.8	495.5	449.8
Non-controlling interest	**5.1**	-	-	-	-	-	-	-	-	-
Net debt/(cash)	**202.0**	226.0	255.1	322.5	435.6	550.4	550.9	584.2	349.2	311.7
	1,203.9	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
Other Information										
Acquisitions & investments	**21.7**	12.8	2.4	6.9	28.1	89.2	87.1	477.7	88.7	220.1
Purchase of property, plant and equipment	**28.3**	35.3	9.6	12.4	78.6	104.7	124.4	100.6	88.9	69.3
	50.0	48.1	12.0	19.3	106.7	193.9	211.5	578.3	177.6	289.4
Depreciation and intangible amortisation	**41.8**	42.7	46.7	50.2	56.5	59.0	55.4	50.4	34.6	37.6

Financial Highlights	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Adjusted EPS** (cent) (note 10)	**19.5**	15.4	18.5	5.4	32.2	84.3	78.0	67.8	56.1	45.1
Dividend/share purchase per share (cent)	**8.5**	7.5	7.0	5.0	15.0	22.0	18.75	15.75	13.0	10.5
Cashflow per share (cent)#	**37.7**	28.7	52.2	29.9	49.7	108.3	100.4	88.3	72.4	58.7
Net assets per share (cent)	**429.6**	423.9	428.1	395.2	377.4	465.2	424.0	342.8	232.2	211.5
Net finance cost cover on EBITDA (times)	**8.7**	7.9	12.7	5.5	4.9	9.4	10.7	8.8	8.9	9.1
Dividend/share purchase cover	**2.3**	2.1	2.6	1.1	2.1	3.8	4.2	4.3	4.3	4.3
Net debt to shareholders' equity	**20%**	23%	26%	35%	50%	52%	54%	72%	70%	69%

The summary financial information is stated under IFRS for 2004 to 2012 and under Irish GAAP for all years from 1992 to 2003.

* Excluding net debt/(cash)

** Before intangible amortisation and exceptional items (restructuring costs (net), onerous lease provision and impairment, taxation credit in 2012 and 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 History - 1992 to 2012

	2002 €'m	2001 €'m	2000 €'m	1999 €'m	1998 €'m	1997 €'m	1996 €'m	1995 €'m	1994 €'m	1993 €'m	1992 €'m
	1,152.4	988.8	830.5	620.2	427.6	327.6	244.0	195.7	169.0	133.2	122.4
	89.7	77.3	64.6	46.3	33.1	25.6	19.1	14.2	11.3	6.1	6.5
	3.7	2.3	-	-	-	-	1.8	0.8	-	-	-
	(13.2)	(12.4)	(11.8)	(8.1)	(4.9)	(2.4)	(1.3)	(1.1)	(1.2)	(0.9)	(1.6)
	80.2	67.2	52.8	38.2	28.2	23.2	19.6	13.9	10.1	5.2	4.9
	(12.0)	(8.7)	(6.9)	(4.6)	(4.0)	(3.5)	(2.9)	(2.5)	(2.1)	(1.1)	(1.2)
	68.2	58.5	45.9	33.6	24.2	19.7	16.7	11.4	8.0	4.1	3.7

	2002 €'m	2001 €'m	2000 €'m	1999 €'m	1998 €'m	1997 €'m	1996 €'m	1995 €'m	1994 €'m	1993 €'m	1992 €'m
	100.4	62.5	51.7	31.7	9.8	-	-	-	-	-	-
	302.3	251.5	209.6	175.9	140.7	61.8	48.5	43.2	40.1	35.9	33.0
	33.6	33.6	18.9	19.0	0.2	12.5	0.1	-	1.2	3.4	1.0
	144.3	129.5	106.5	76.2	60.2	29.4	21.4	21.5	18.2	17.9	18.4
	(18.0)	(17.7)	(16.1)	(14.1)	(12.4)	(1.2)	(1.1)	(1.1)	(1.1)	(1.1)	(1.0)
	562.6	459.4	370.6	288.7	198.5	102.5	68.9	63.6	58.4	56.1	51.4

	322.0	264.5	216.5	181.3	139.8	78.6	70.6	57.7	49.9	45.7	42.2
	-	-	-	-	-	-	-	-	-	-	-
	240.6	194.9	154.1	107.4	58.7	23.9	(1.7)	5.9	8.5	10.4	9.2
	562.6	459.4	370.6	288.7	198.5	102.5	68.9	63.6	58.4	56.1	51.4
	88.8	61.8	56.6	63.6	53.4	29.7	8.0	1.4	5.8	2.7	-
	68.0	42.0	43.2	29.5	20.6	14.6	7.6	7.7	5.7	5.2	2.4
	156.8	103.8	99.8	93.1	74.0	44.3	15.6	9.1	11.5	7.9	2.4
	26.6	21.9	16.5	12.6	7.2	5.4	4.2	3.6	3.0	2.6	2.1

	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
	37.0	32.1	25.9	19.5	14.2	11.6	9.0	6.5	4.8	2.5	2.2
	8.5	7.5	6.1	4.5	3.3	2.7	2.1	1.5	1.0	0.9	0.8
	52.0	44.9	36.2	27.5	19.4	15.7	12.2	9.0	7.0	4.3	3.7
	181.6	150.2	124.3	104.9	84.9	48.8	44.2	36.6	31.7	29.3	27.0
	9.1	8.2	6.9	7.2	8.3	12.9	20.2	17.1	12.4	9.9	5.5
	4.4	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.7	2.9	2.9
	75%	74%	71%	59%	42%	30%	-	10%	17%	23%	22%

Report of the Directors

The Directors present their report to the shareholders together with the audited financial statements for the year ended 31 December 2012.

Group Results

Group revenue of €2.17 billion was 5.7 per cent higher than Group revenue of €2.05 billion in 2011. Operating profit (before exceptional items and intangible amortisation costs) increased 32 per cent to €75.2 million compared to €56.9 million in 2011. Exceptional items of €26.2 million (2011: €32.1 million) relate to redundancy costs in the merchanting and manufacturing segments, costs related to the Atlantic Home Care Limited examinership, fixed and other asset impairments in the merchanting and retailing segments and closure of the CPI mortar manufacturing business in Ireland. The net finance expense was €13.2 million (2011: €12.4 million). Group profit before taxation amounted to €33.5 million compared with €10.3 million in the previous year. An income tax credit of €7.6 million, includes an exceptional credit of €24.0 million which when excluded gives an underlying tax charge of €16.4 million, a tax rate of 27.5 per cent. Basic earnings per share were 17.7 cent compared with 1.1 cent in the previous year. Adjusted earnings per share (before intangible amortisation and exceptional items) increased by 27 per cent to 19.5 cent from 15.4 cent in 2011.

The Group and Company Financial Statements for the year ended 31 December 2012 are set out in detail on pages 48 to 138.

Dividends

A second interim dividend of 5.5 cent was approved on the 'C' Ordinary shares in Grafton Group (UK) plc from UK-sourced profit to all holders of Grafton Units on the Company's Register of Members at the close of business on 15 March 2013 (the 'Record Date'). The cash consideration will be paid on 12 April 2013. The first interim dividend in the amount of 3.0 cent was paid on 5 October 2012 on the 'C' Ordinary shares in Grafton Group (UK) plc from UK-sourced profit. This gives a total dividend for the year of 8.5 cent, an increase of 13 per cent from 7.5 cent for 2011.

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 2012, the outlook for 2013 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, Ireland and Belgium where earnings are generated.
- Contraction in economic growth in the UK, Ireland and Belgium 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, Irish and Belgian 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, Ireland and Belgium which could lead to a fall in demand in the Group's merchanting, DIY and mortar businesses.

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

Board of Directors

There have been no changes to the Board of Directors in 2012. In line with the provisions contained in the 2010 UK Corporate Governance Code, all Directors retired at the Annual General Meeting of the Company on 10 May 2012 and being eligible offered themselves for re-election and all were re-elected to the Board on the same day.

Mr. Richard W. Jewson has advised the Board of his intention to retire from the Board at the conclusion of the Annual General Meeting on 14 May 2013 and he will therefore not be going forward for re-election as a non-executive Director.

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 seeking re-election should retire at the 2013 Annual General Meeting and offer themselves for re-election.

Report of the Directors

Share Capital

At 31 December 2012, 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.

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 authority to disapply statutory pre-emption rights in relation to allotments of shares for cash up to an aggregate nominal value for all allotments and all treasury shares of €600,000, which is 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 2012 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 2014 or 14 August 2014.

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 5, 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 31 December 2012 and 6 March 2013:

	31 December 2012		6 March 2013	
Name	**Holding**	**%**	**Holding**	**%**
Investec Asset Management Limited*	37,056,236	15.97	36,885,707	15.90
The Capital Group Companies*	22,903,000	9.87	22,903,000	9.87
Franklin Templeton Institutional, LLC*	20,055,027	8.65	20,945,578	9.03
Sprucegrove Investment Limited*	14,578,774	6.28	14,489,004	6.25
Invesco Limited*#	9,056,348	3.90	-	-

*The Company has been advised that these units are not beneficially owned.
Interest in the Company's ordinary share capital was below 3% at 6 March 2013.

Apart from these holdings, the Company has not been notified at 6 March 2013 or at 31 December 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 28 to 35 and which, for the purposes of Statutory Instrument 450/2009 European Communities (Directive 2006/46) Regulations 2009, forms part of this Directors' Report.

Report of the Directors

Transparency Regulations 2007

The report on Corporate Social Responsibility set out on pages 25 to 27, is deemed to be incorporated in this part of the Report of the Directors together with details of earnings per share in note 10 to the Group Financial Statements, employment details in note 5 and details of financial instruments in note 20.

Subsidiaries

The Group's principal operating subsidiary undertakings are set out on pages 137 and 138.

Political Contributions

There were no political contributions which require disclosure under the Electoral Act, 1997.

Post Balance Sheet Events

There have been no material events subsequent to 31 December 2012 that would require adjustment to or disclosure in this report.

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 14 May 2013 at 10.30am. 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 2013

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 trades. 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 is working with Biffa, a recycling-led waste management company, to partner it in delivering a sustainable waste strategy and to optimise waste disposal methods and reduce its carbon footprint. Grafton Merchanting GB Limited has increased its waste recycling rates during 2012, with the company now recycling 73 per cent of waste, an improvement of 30 per cent over the 3 years since introducing a national waste management contract. The UK merchanting business aims to achieve a higher recycling rate across the business, by driving awareness and behaviour throughout the branch network.

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. The Group is striving to reduce the UK merchanting business's carbon footprint and to improve performance in other environmentally sensitive areas.

In 2012 the UK merchanting business focused on a move to more fuel efficient vehicles in the car fleet that provided a significant reduction in the average emissions per vehicle. In 2013 the UK merchanting business will have a renewed focus on reducing vehicle emissions in the commercial fleet by encouraging the adoption of more fuel efficient driving techniques, underpinned by improved driver education and training.

The UK merchanting business is also targeting reductions in branch energy usage, with energy survey and conservation strategies being trialled at a number of locations.

Buildbase has worked with its utility service providers to introduce 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.

Online Home Retail is continuing its carbon offset scheme. This scheme uses contributions from customers concerned about the environment 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. Since 2011 Online Home Retail has raised over €120,000, which has been used to plant trees in local communities in the UK. There will be more than 16,000 trees across 24 varieties planted in the "Online Home Retail Wood" by the end of 2013, absorbing thousands of tonnes of carbon dioxide and providing much needed habitats for wildlife species native to the UK.

Corporate Social Responsibility

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 fuels, energy-saving insulation materials and controlled ventilation systems.

Grafton Merchanting GB Limited is a Green Deal Provider. Sponsored by the Department of Energy and Climate Change (DECC), The Green Deal is an initiative to encourage home and business owners to improve the energy efficiency of their properties. It provides a platform to enable customers to engage in this initiative which provides finance to property owners for the installation of energy efficiency measures.

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 an internationally recognised environmental certificate for the PEFC (Programme for the Endorsement of Forest Certification) scheme. It is Buildbase policy that its natural timber products are FSC/PEFC accredited. The entire operation is independently audited 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.

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.

The UK merchanting business has recruited additional specialist resources to facilitate improved safety performance. This will increase the focus on developing safety management systems and implementing longer-term strategies that should reduce the number of accidents. The objective is to deliver:

- A safer workplace through continued investment to ensure that our properties, facilities and equipment are maintained in a safe condition;
- Safer systems through improved and clear procedures and safe work practices; and
- Safer people through the provision of effective instruction and training for staff exposed to potential risks.

Corporate Social Responsibility

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 Save As You Earn (SAYE) scheme operated for UK employees, enjoyed a good level of participation.

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.

In July 2012, Grafton Group plc sponsored the inaugural Dublin to Sunderland Cycle Challenge. A team of senior executives cycled 380 miles in five days and raised €20,000 for the Foundation of Light, the registered charity of Sunderland AFC. The Foundation uses the power of football to inspire, involve and educate children, families and adults across the North East of England and engages with more than 40,000 people every year.

Selco have committed to raising €120,000 over the two years to April 2014 for MacMillan Cancer Support and have so far, through a number of initiatives, raised €40,000. Prior to supporting MacMillan, Selco supported the NSPCC (National Society for the Prevention of Cruelty to Children) and raised over €68,000 for the charity in the last three years.

In 2012 Jackson Building Centres donated building materials valued at €12,000 to support the refurbishment of the Ritz Cinema in Lincoln, a project that was run by the Lincoln based non-profit organisation "Off the Bench", which aims to enhance the lives of young people and communities through a range of projects and events.

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 2012, 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 17. 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, risk management, 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.

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

The roles of Chairman and Chief Executive are split. There is a clear division of responsibility between the Chairman and the Chief Executive Officer. The 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 in all aspects of its role.

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.

Directors' Statement on Corporate Governance

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 periodically 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 also the Board's view that Mr. Jewson demonstrated independence and made a very valuable contribution to the role of the Board during the year. Mr. Jewson has indicated to the Board that he will retire from the Board at the conclusion of the Annual General Meeting on the 14 May 2013.

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 2013 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 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.

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.

Directors' Statement on Corporate Governance

Induction and Training

It is the policy of the Board that formal induction is offered to all Directors appointed to the Board. This includes on-site visits and meetings with Senior Management in the Group's businesses and briefings from executive Directors and the Company Secretary. Induction covers matters such as the operations of the Group, the role of the Board and matters reserved for its decision, powers delegated to Board Committees, corporate governance policies and 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 externally facilitated evaluation of the Board was conducted during 2012. The use of an external service provider to conduct Board evaluations at least once every three years will complement evaluations and reviews conducted by the Chairman and the Senior Independent Director. A number of prospective service providers in Ireland and the UK were considered and the Institute of Directors in Ireland, which has extensive experience in facilitating board evaluations in listed companies, was engaged to conduct the evaluation.

The review concluded that the Board and its Committees are operating effectively and to a high standard of governance and in compliance with best practice. It also found that there was no concentration of power on the Board and that the Board operated in an open and transparent manner with a high level of engagement from Directors.

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

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.

The Nomination Committee takes account of the skills, knowledge and experience required by the Board, international business experience and diversity, including nationality and gender, in considering suitable candidates to serve as non-executive Directors as part of the ongoing process of Board renewal.

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 also 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.

Directors' Statement on Corporate Governance

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	8	8	-	-	-	-	-	-	4	4
G. Slark	8	8	-	-	6	6	-	-	-	-
C. Ó Nualláin	8	8	-	-	6	6	-	-	-	-
R. W. Jewson	8	8	-	-	-	-	-	-	4	4
R. Ryan	8	8	4	4	-	-	3	3	4	4
C. M. Fisher	8	8	4	3	-	-	3	3	4	4
A. Flynn	8	8	4	4	-	-	3	3	-	-

Column A 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 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

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 which 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 17. 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. All members of the Committee are determined by the Board to be independent non-executive Directors. The Audit Committee met 4 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 17 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 2012. The level of fees payable for these services was higher 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 2012 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 on behalf of the Board 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 2012, 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 2013. The Committee met with the Head of Internal Audit on three occasions during the year, and also without executive management present;
- Reviewing the external auditor's plan for the 2012 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.

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. The Committee met 3 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.

Directors' Statement on Corporate Governance

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 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 that 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 2012.

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, who retires from the Board and the Committee at the conclusion of the Annual General Meeting on 14 May 2013. 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 4 occasions during the year. During 2012 the Board started a process to recruit a new non-executive Director to replace Richard W. Jewson. As part of that process, the Committee evaluated the Board to ensure that it has the right balance of experience, skills and diversity, including both nationality and gender, to support the future development of the Group. In the light of this evaluation, the Committee prepared a specification of the capabilities required of prospective candidates and an assessment of the anticipated time commitment. An external search consultancy, that has no connection with the Group, was appointed to facilitate the search for a suitable candidate for nomination to the Board, and the Committee will make its recommendation to the Board in due course following a rigorous interview process of shortlisted candidates.

Colm Ó Nualláin, Finance Director, will retire from the Board in January 2014 having reached the age of 60. The Committee has initiated a search for a successor and an international senior executive search consultancy firm has been appointed to identify suitable candidates for the role.

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. 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.

Directors' Statement on Corporate Governance

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 and interim 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 risk management and internal control system. The Chairman of the Audit Committee reports to the Board on all significant matters considered by the Committee.

In the Board's view, the ongoing information it 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 appropriate 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 period of service of Mr. R. W. Jewson, a non-executive Director, who is not a member of the Audit or Remuneration Committees, exceeded nine years. Mr. Jewson is due to retire from the Board at the conclusion of the Annual General Meeting on 14 May 2013.

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. The Committee is accountable to shareholders through its annual Report of the Remuneration Committee on Directors' Remuneration. The Committee met 3 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 and the next review is scheduled to take place in 2013. The 2010 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 2011 and its own effectiveness during 2012.

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 ensure 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.

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.

Report of the Remuneration Committee on Directors' Remuneration

The Committee decided not to award any salary increases to executive Directors for 2012 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 and the Committee has agreed not to award any salary increases for 2013. This was due to the difficult conditions in the Group's markets and the continuing focus on cost control and increasing profitability.

Performance-Related Pay

The performance-related pay awards for executive Directors are shown in this report in the table of Directors' Remuneration on page 41. The 2012 maximum performance-related pay potential was set at 100 per cent of base salary for the Chief Executive Officer and 80 per cent for other executive Directors. The performance targets for 2012 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 2012 were based on the Group's internal budget for the year. No performance-related pay awards were payable unless 90 per cent of the 2012 budgeted return on capital employed, cash flow and adjusted earnings per share was achieved and awards were calculated on a straight line basis between 90 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 48 per cent of the maximum award was payable in respect of the return on capital employed target; that 49 per cent of the maximum award was payable in respect of the cash flow target and 19 per cent of the maximum award was payable in respect of the earnings per share 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 performance related pay award to Mr. Colm Ó Nualláin recognises the significant benefits to the Group from exceptional corporate developments during the year. These developments, details of which are disclosed in the Chief Executive Officer's Review and the Group Finance Review, were the Atlantic Home Care Limited examinership and resolution of taxation matters that resulted in a significant credit. The Committee exercised its discretion concerning Mr. Ó Nualláin's performance related pay award and acknowledged that, due to their exceptional nature, these developments were not budgeted or reflected in the performance related pay targets outlined above. The remuneration committee therefore agreed to increase Mr. Ó Nualláin's award from 43 per cent of basic salary to 80 per cent of basic salary being the maximum potential award payable to executive Directors other than the CEO.

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 performance-related pay targets for 2013 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 also 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 2011 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 which are set out in the 2011 Annual Report. A second award under the LTIP was made on 18 April 2012. Details of awards made to executive Directors and the Secretary are shown on page 43.

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.

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 18 April 2012 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 18 April 2012, the Company's EPS for the financial year ending 31 December 2014 must be equal to 28 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 2014 is equal to or greater than 35 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 2014 is between the thresholds of 28 cents and 35 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 18 April 2012 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 2012. Where the Company's TSR performance equals the median TSR performance of the peer group, then 25 per cent of the shares which are subject to the TSR Performance Condition shall vest. 100 per cent of the shares which are subject to the TSR Performance Condition shall vest if the Company's TSR performance is equal to or greater than the 75th percentile in the peer group. For TSR performance between the 50th and the 75th percentiles, between 25 per cent and 100 per cent of the shares which are subject to the TSR Performance Condition shall vest on a straight-line basis based on the Company's notional ranking compared against the Comparator Group.

The Remuneration Committee has the authority to set appropriate criteria for each 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.

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 2012 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 service contract with Mr. G. Slark 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 his employment is terminated by the Company during the notice period. Remuneration payable to Mr. Slark is analysed on page 41 of this report.

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 42 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 2012 €'000	**Performance related pay 2012 €'000**	**Pension allowance 2012 €'000**	**Pension contribution 2012 €'000**	**Other benefits 2012 €'000**	**Share based payments 2012 €'000**	**Total 2012 €'000**	Total 2011 €'000
Remuneration for 2012								
Executive Directors:								
G. Slark (i)	**684**	**335**	**96**	**62**	**58**	**123**	**1,358**	978
C.Ó Nualláin	**500**	**400**	**337**	**-**	**25**	**55**	**1,317**	962
L. J. Martin (ii)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	623
M. Chadwick (iii)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	348
	1,184	**735**	**433**	**62**	**83**	**178**	**2,675**	2,911

	Fees 2012 €'000	**Total 2012 €'000**	Total 2011 €'000
Non-Executive Directors:			
M. Chadwick (iii)	**150**	**150**	75
G. Bowler (iv)	**-**	**-**	24
A. Flynn (v)	**70**	**70**	56
R.W. Jewson	**70**	**70**	70
R. Ryan	**70**	**70**	70
C.M. Fisher	**70**	**70**	70
	430	**430**	365

Total Directors' Remuneration	**3,105**	3,276

(i) Mr. G. Slark's basic salary remained unchanged at £554,840 since his appointment to the Board on 1 April 2011. The 2011 remuneration for Mr. Slark is for a period of nine months and included a once-off payment of €259,000 to compensate for the loss of remuneration from his previous employers. An increase in the euro/sterling exchange rate accounts for part of the increase in his 2012 remuneration. Performance-related pay in 2011 was 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. Mr. Martin received €120,000 for consultancy services provided during 2012.

(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. Chadwick's total remuneration for 2011 was €423,000.

(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 2012 Grafton Units ***	31 December 2011 Grafton Units *
M. Chadwick	**22,079,441**	22,079,441
G. Slark	**37,000**	30,000
C. Ó Nualláin	**1,141,759**	1,141,759
R.W. Jewson	**42,204**	42,204
A. Flynn	**11,700**	11,700
R. Ryan	**25,000**	25,000
C. M. Fisher	**20,000**	20,000
L.J. Martin**	**N/A**	204,605

On 31 December 2012 Mr. M. Chadwick held a non-beneficial interest in 2,490,330 (31 December 2011: 2,490,330) Grafton Units in his capacity as an executor of an estate. Mr. Chadwick and Mr. C. Ó Nualláin ceased to be trustees of the Grafton Group plc Employee Share Participation Scheme on 21 March 2012 and therefore ceased to have a non-beneficial interest in 670,366 (31 December 2011: 670,366) Grafton Units on that date.

Mr. C. Rinn, Secretary, had a beneficial interest in 263,396 Grafton Units at 31 December 2012 (31 December 2011: 263,396).

There have been no changes in the interests of the Directors between 31 December 2012 and the date of this report.

* At 31 December 2012 and 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 rules of the Grafton Group Share Schemes are shown below:

	Number of Units						
	1 January 2012	**31 December 2012**	**Basic**	**Second Tier**	**Price €**	**Period over which Grafton Units may be acquired**	
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 476,500 (31 December 2011: 540,177) Grafton Units at 31 December 2012 at prices ranging between €1.66 and €11.50 in accordance with the rules of the 1999 Grafton Group Share Scheme.

The closing price of a Grafton Unit on 31 December 2012 was €3.92 (31 December 2011: €2.38) and the price range during the year was between €2.37 and €3.92 (2011: €2.28 and €3.88).

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 2012**	**Granted**	**31 Dec 2012**	**EPS Condition**	**TSR Condition**	**Vesting Date**
G. Slark	25 May 2011	184,000	-	184,000	92,000	92,000	25 May 2014
	18 April 2012	-	211,000	211,000	105,500	105,500	18 April 2015
		184,000	211,000	395,000	197,500	197,500	
C. Ó Nualláin	25 May 2011	80,000	-	80,000	40,000	40,000	25 May 2014
	18 April 2012	-	80,000	80,000	40,000	40,000	18 April 2015
		80,000	80,000	160,000	80,000	80,000	
C. Rinn	25 May 2011	40,000	-	40,000	20,000	20,000	25 May 2014
	18 April 2012	-	50,000	50,000	25,000	25,000	18 April 2015
		40,000	50,000	90,000	45,000	45,000	

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 2012.

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 2012 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 2012; 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 2012 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 the Transparency (Directive 2004/109/EC) Regulations 2007 (SI 277/2007) and the European Communities (Directive 2006/46/EC) Regulations 2009 (SI 450/2009), pages 20 to 43 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 2013, whose names and functions are listed on page 17 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 2012 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 2012, give a true and fair view of the assets, liabilities and financial position of the Company at 31 December 2012; 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 parent Company financial statements (the 'financial statements') of Grafton Group plc for the year ended 31 December 2012 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 48 to 138. The financial reporting framework that has been applied in their preparation is Irish law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and, as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Acts 1963 to 2012.

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

As explained more fully in the Statement of Directors' Responsibilities set out on pages 44 and 45 the Directors are responsible for the preparation of the financial statements giving a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Ethical Standards for Auditors issued by the Auditing Practices Board.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

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 2012 and of its profit for the year then ended;
- the parent Company balance sheet gives 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 2012, of the state of the parent Company's affairs as at 31 December 2012; and
- the financial statements have been properly prepared in accordance with the Companies Acts 1963 to 2012 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Matters on which we are required to report by the Companies Acts 1963 to 2012

We have obtained all the information and explanations which we consider necessary for the purposes of our audit.

The parent Company's balance sheet is in agreement with the books of account and, in our opinion, proper books of account have been kept by the company.

Independent Auditor's Report
to the Members of Grafton Group plc

In our opinion the information given in the Report of the Directors is consistent with the financial statements.
The net assets of the parent Company, as stated in the Company balance sheet are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2012 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.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Acts 1963 to 2012 we are required to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by law are not made.

Under the Listing Rules of the Irish and London Stock Exchange we are required to review:

- the Directors' Statement, set out on page 35, in relation to going concern;
- the part of the Directors' Statement on Corporate Governance relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code and the two provisions of the Irish Corporate Governance Annex specified for our review; and
- the six specified elements of disclosures in the report to shareholders by the Board on directors' remuneration.

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 2013

Group Income Statement

For the year ended 31 December 2012

	Notes	Pre-Exceptional items 2012 €'000	Exceptional items (note 3) 2012 €'000	Total 2012 €'000	Pre-Exceptional items 2011 €'000	Exceptional items (note 3) 2011 €'000	Total 2011 €'000
Revenue	1	**2,171,388**	**-**	**2,171,388**	2,053,833	-	2,053,833
Operating costs and income	2	**(2,098,452)**	**(26,170)**	**(2,124,622)**	(1,999,114)	(32,055)	(2,031,169)
Operating profit		**72,936**	**(26,170)**	**46,766**	54,719	(32,055)	22,664
Finance expense	6	**(27,909)**	**-**	**(27,909)**	(32,377)	-	(32,377)
Finance income	6	**14,666**	**-**	**14,666**	19,977	-	19,977
Profit before tax		**59,693**	**(26,170)**	**33,523**	42,319	(32,055)	10,264
Income tax	8	**(16,396)**	**23,993**	**7,597**	(8,583)	864	(7,719)
Profit after tax for the financial year		**43,297**	**(2,177)**	**41,120**	33,736	(31,191)	2,545
Profit attributable to:							
Owners of the Company				**41,120**			2,545
Non-controlling interests				**-**			-
Profit after tax for the financial year				**41,120**			2,545
Earnings per ordinary share - basic	10			**17.73c**			1.10c
Earnings per ordinary share - diluted	10			**17.73c**			1.09c

On behalf of the Board

G Slark
C Ó Nualláin
Directors

6 March 2013

Group Statement of Comprehensive Income

For the year ended 31 December 2012

	Notes	**2012 €'000**	2011 €'000
Profit after tax for the financial year		**41,120**	2,545
Other comprehensive income			
Currency translation effects			
- on foreign currency net investments		**21,025**	28,871
- on foreign currency borrowings and derivatives designated as net investment hedges		**(317)**	(2,257)
Recycling of exchange gain on net investment hedge		**-**	(1,071)
Actuarial loss on Group defined benefit pension schemes	31	**(36,481)**	(23,211)
Deferred tax on Group defined benefit pension schemes	25	**5,407**	4,088
Deferred tax on capital gains tax rate increase	25	**(566)**	(976)
Fair value movement on cash flow hedges:			
- Effective portion of changes in fair value of cash flow hedges		**(229)**	(457)
- Net change in fair value of cash flow hedges transferred from equity		**783**	1,146
Deferred tax on cash flow hedges	25	**(66)**	(80)
Total other comprehensive income		**(10,444)**	6,053
Total comprehensive income for the financial year		**30,676**	8,598
Total comprehensive income attributable to:			
Owners of the Company		**30,676**	8,598
Non-controlling interests		**-**	-
Total comprehensive income for the financial year		**30,676**	8,598

On behalf of the Board

G Slark
C Ó Nualláin
Directors

6 March 2013

Group Balance Sheet

As at 31 December 2012

	Notes	2012 €'000	2011 €'000
ASSETS			
Non-current asset			
Goodwill	11(a)	**583,466**	566,336
Intangible assets	11(b)	**-**	2,241
Property, plant and equipment	12	**561,616**	564,884
Deferred tax assets	25	**32,933**	36,331
Derivative financial instruments	21	**2,691**	5,331
Other financial assets	13	**176**	152
Total non-current assets		**1,180,882**	1,175,275
Current assets			
Inventories	15	**305,516**	271,217
Trade and other receivables	16	**332,439**	323,044
Derivative financial instruments	21	**1,345**	5,625
Cash and cash equivalents	19	**156,876**	134,600
Properties held for sale	12	**17,709**	16,231
Total current assets		**813,885**	750,717
Total assets		**1,994,767**	1,925,992
EQUITY			
Equity share capital	17	**11,664**	11,656
Share premium account	17	**293,009**	292,545
Capital redemption reserve	18	**905**	905
Revaluation reserve	18	**29,795**	30,566
Shares to be issued reserve	18	**4,337**	4,588
Cash flow hedge reserve	18	**(343)**	(831)
Foreign currency translation reserve	18	**(90,059)**	(110,767)
Retained earnings		**753,197**	759,908
Treasury shares held	17	**(5,746)**	(5,746)
Equity attributable to owners of the Company		**996,759**	982,824
Non-controlling interests	18	**5,122**	-
Total equity		**1,001,881**	982,824
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	19	**334,507**	325,230
Provisions	22	**30,983**	32,805
Retirement benefit obligations	31	**62,971**	33,560
Derivative financial instruments	21	**39**	422
Deferred tax liabilities	25	**44,181**	39,872
Total non-current liabilities		**472,681**	431,889
Current liabilities			
Interest-bearing loans and borrowings	19	**27,815**	45,110
Trade and other payables	23	**469,501**	421,658
Current income tax liabilities		**13,548**	34,289
Derivative financial instruments	21	**590**	739
Provisions	22	**8,751**	9,483
Total current liabilities		**520,205**	511,279
Total liabilities		**992,886**	943,168
Total equity and liabilities		**1,994,767**	1,925,992

On behalf of the Board

G Slark
C Ó Nualláin
Directors

6 March 2013

Group Cash Flow Statement

For the year ended 31 December 2012

	Notes	2012 €'000	2011 €'000
Profit before taxation		**33,523**	10,264
Finance income	6	**(14,666)**	(19,977)
Finance expense	6	**27,909**	32,377
Operating profit		**46,766**	22,664
Depreciation	12	**39,521**	40,448
Intangible amortisation	11	**2,241**	2,212
Share-based payments charge/(credit)		**762**	(670)
Non-cash movement in operating provisions	22	**939**	20,337
Claims paid on insurance provisions	22	**(3,036)**	(3,927)
Non-cash movement on asset impairment	12	**2,442**	4,588
Profit on sale of property, plant and equipment		**(534)**	(1,457)
Contribution to pension schemes in excess of IAS 19 charge		**(6,232)**	(5,594)
Decrease in working capital	26	**22,864**	18,333
Cash generated from operations		**105,733**	96,934
Interest paid		**(16,484)**	(16,610)
Income taxes paid		**(4,044)**	(3,131)
Cash flows from operating activities		**85,205**	77,193
Investing activities			
Inflows			
Proceeds from sale of property, plant and equipment		**2,437**	8,732
Interest received		**2,052**	3,979
Sale of financial assets	13	**-**	36
		4,489	12,747
Outflows			
Acquisition of subsidiary undertakings and businesses	27	**(18,202)**	(3,945)
Net cash acquired with subsidiary undertakings		**5,184**	-
Share of subsidiaries and businesses acquired 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)
Deferred acquisition consideration paid	22	**(2,030)**	-
Purchase of financial assets	13	**(9)**	-
Purchase of property, plant and equipment	12	**(28,332)**	(35,327)
		(43,389)	(47,241)
Cash flows from investing activities		**(38,900)**	(34,494)
Financing activities			
Inflows			
Proceeds from the issue of share capital		**472**	1,353
Proceeds from borrowings		**25,758**	65,313
		26,230	66,666
Outflows			
Repayment of borrowings		**-**	(161,411)
Dividends paid	9	**(17,975)**	(16,797)
Movement on finance lease liabilities		**(642)**	22
Redemption of loan notes payable net of derivatives		**(34,853)**	(32,195)
		(53,470)	(210,381)
Cash flows from financing activities		**(27,240)**	(143,715)
Net increase/(decrease) in cash and cash equivalents		**19,065**	(101,016)
Cash and cash equivalents at 1 January		**134,600**	234,275
Effect of exchange rate fluctuations on cash held		**3,211**	1,341
Cash and cash equivalents at 31 December		**156,876**	134,600
Cash and cash equivalents are broken down as follows:			
Cash at bank and short-term deposits		**156,876**	134,600

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 €'000	Non-cotrolling interests €'000	Total equity €'000
Year to 31 December 2012												
At 1 January 2012	**11,656**	**292,545**	**905**	**30,566**	**4,588**	**(831)**	**(110,767)**	**759,908**	**(5,746)**	**982,824**	**-**	**982,824**
Profit after tax for the financial year	-	-	-	-	-	-	-	**41,120**	-	**41,120**	-	**41,120**
Total other comprehensive income												
Actuarial loss on pensions (net of tax)	-	-	-	-	-	-	-	**(31,074)**	-	**(31,074)**	-	**(31,074)**
Deferred tax due to capital gains tax rate increase	-	-	-	**(566)**	-	-	-	-	-	**(566)**	-	**(566)**
Movement in cash flow hedge reserve(net of tax)	-	-	-	-	-	**488**	-	-	-	**488**	-	**488**
Currency translation effect on foreign currency net investments	-	-	-	-	-	-	**21,025**	-	-	**21,025**	-	**21,025**
Currency translation effect on foreign currency borrowings and derivatives designated as net investment hedges	-	-	-	-	-	-	**(317)**	-	-	**(317)**	-	**(317)**
Total other comprehensive income	-	-	-	**(566)**	-	**488**	**20,708**	**(31,074)**	-	**(10,444)**	-	**(10,444)**
Total comprehensive income	-	-	-	**(566)**	-	**488**	**20,708**	**10,046**	-	**30,676**	-	**30,676**
Transactions with owners of the Company recognised directly in equity												
Dividends paid (note 9)	-	-	-	-	-	-	-	**(17,975)**	-	**(17,975)**	-	**(17,975)**
Issue of Grafton Units (net of issue expenses)	**8**	**464**	-	-	-	-	-	-	-	**472**	-	**472**
Share based payments charge	-	-	-	-	**762**	-	-	-	-	**762**	-	**762**
Transfer from shares to be issued reserve	-	-	-	-	**(1,013)**	-	-	**1,013**	-	-	-	-
Transfer from revaluation reserve	-	-	-	**(205)**	-	-	-	**205**	-	-	-	-
	8	**464**	-	**(205)**	**(251)**	-	-	**(16,757)**	-	**(16,741)**	-	**(16,741)**
Acquisition of subsidiary with non-controlling interest	-	-	-	-	-	-	-	-	-	-	**5,122**	**5,122**
At 31 December 2012	**11,664**	**293,009**	**905**	**29,795**	**4,337**	**(343)**	**(90,059)**	**753,197**	**(5,746)**	**996,759**	**5,122**	**1,001,881**
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	-	990,340
Profit after tax for the financial year	-	-	-	-	-	-	-	2,545	-	2,545	-	2,545
Total other comprehensive income												
Actuarial loss on pensions (net of tax)	-	-	-	-	-	-	-	(19,123)	-	(19,123)	-	(19,123)
Deferred tax due to capital gains tax rate increase	-	-	-	(976)	-	-	-	-	-	(976)	-	(976)
Movement in cash flow hedge reserve (net of tax)	-	-	-	-	-	609	-	-	-	609	-	609
Currency translation effect on foreign currency net investments	-	-	-	-	-	-	28,871	-	-	28,871	-	28,871
Currency translation effect on foreign currency borrowings and derivatives designated as net investment hedges	-	-	-	-	-	-	(2,257)	-	-	(2,257)	-	(2,257)
Recycling of exchange gain on net investment hedge	-	-	-	-	-	-	(1,071)	-	-	(1,071)	-	(1,071)
Total other comprehensive income	-	-	-	(976)	-	609	25,543	(19,123)	-	6,053	-	6,053
Total comprehensive income	-	-	-	(976)	-	609	25,543	(16,578)	-	8,598	-	8,598
Transactions with owners of the Company recognised directly in equity												
Dividends paid (note 9)	-	-	-	-	-	-	-	(16,797)	-	(16,797)	-	(16,797)
Issue of Grafton Units (net of issue expenses)	24	1,329	-	-	-	-	-	-	-	1,353	-	1,353
Share based payments credit	-	-	-	-	(670)	-	-	-	-	(670)	-	(670)
Transfer from revaluation reserve	-	-	-	(205)	-	-	-	205	-	-	-	-
	24	1,329	-	(205)	(670)	-	-	(16,592)	-	(16,114)	-	(16,114)
At 31 December 2011	11,656	292,545	905	30,566	4,588	(831)	(110,767)	759,908	(5,746)	982,824	-	982,824

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 2012. 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 ending on 31 December 2012.

The accounting policies adopted are consistent with those of the previous year except for the following new and amended IFRSs and International Financial Reporting Interpretations Committee (IFRIC) interpretations adopted by the Group as of 1 January 2012 that are effective for the Group's financial year ending on 31 December 2012 and that had no significant impact on the results or financial position of the Group for the year ended 31 December 2012:

- Amendment to IFRS 7 Disclosures – Transfer of financial assets
- Amendment to IAS 12 – Recovery of underlying assets.

The IASB and 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 (OCI). (Effective date: Grafton financial year beginning 1 January 2013). This amendment introduces a requirement for entities to group items of OCI on the basis of whether they are potentially re-classifiable to profit or loss subsequently. This amendment will result in some presentation changes but is not expected to have a significant impact on the Group's financial statements.
- Amendments to IAS 19 – Employee Benefits. (Effective date: Grafton financial year beginning 1 January 2013). The amendment makes significant changes to the recognition and measurement of defined benefit pensions requiring the deficit (or surplus) to be recognised in full on the balance sheet; the expected rate of return on assets is no longer based on an estimate of returns but will now be equal to the discount rate; and increased disclosure about risks posed by schemes. This amendment will have an impact on the Group's financial statements as the expected return on assets and interest on scheme liabilities will be replaced with a single net finance income/expense figure. The expected rate of return on assets for 2013 will equal the discount rate. This will result in a net finance expense for pensions in 2013 of circa €2.5 million compared to a net expected pension return of €0.9 million in 2012.
- IFRS 10 – Consolidated Financial Statements. (Effective date: Grafton financial year beginning 1 January 2014). IFRS 10 replaces all of the guidance on control and consolidation in IAS 27 and SIC 12. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. The core principle that a consolidated entity presents a parent and its subsidiaries as a single entity remains the same, as does the mechanics for consolidation. This standard is not expected to have any significant impact on the Group's financial statements.
- IFRS 11 – Joint Arrangements. (Effective date: Grafton financial year beginning 1 January 2014). IFRS 11 removes the existing accounting policy choice of proportionate consolidation for jointly controlled entities. IFRS 11 makes equity accounting mandatory for participants in joint ventures. This standard will impact the Group financial statements as the Group currently has adopted an accounting policy of proportionate consolidation for jointly controlled entities. On adoption of IFRS 11 the Group will be required to equity account for its interest in jointly controlled entities.

Accounting Policies

- IFRS 12 – Disclosure of Interest in Other Entities. (Effective date: Grafton financial year beginning 1 January 2014). IFRS 12 requires entities to disclose information about the nature, risks and financial effects associated with the entity's interest in subsidiaries, associates, joint arrangements and unconsolidated structured entities. This standard will not have a significant impact on the Group's financial statements.
- IFRS 13 – Fair Value Measurement. (Effective date: Grafton financial year beginning 1 January 2013). IFRS 13 explains how to measure fair value and enhances fair value disclosures. This standard will not have a significant impact on the Group's financial statements.
- Amendment to IFRS 7 Disclosures – Offsetting financial assets and financial liabilities. (Effective date: Grafton financial year beginning 1 January 2013). This amendment enhances current disclosures about offsetting financial assets and financial liabilities. This amendment will not have a significant impact on the Group's financial statements.
- Amendment to IAS 32 – Offsetting financial assets and financial liabilities. (Effective date: Grafton financial year beginning 1 January 2014). This amendment clarifies some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. This amendment will not have a significant impact on the Group's financial statements.
- IFRS 9 – Financial Instruments: Recognition and Measurement. (Effective date: Grafton financial year beginning 1 January 2015). IFRS 9 is the first step in the process to replace IAS 39 Financial Instruments: recognition and measurement. IFRS 9 introduces new requirements for classifying and measuring financial assets. The impact of the standard on the Group's financial statements has not yet been determined.

Basis of Preparation

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

The preparation of 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 and all subsidiaries drawn up to 31 December each year together with the Group's interest in joint ventures and associates.

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

Accounting Policies

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 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 contractually 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 obtained and until 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 revenue and value added tax.

In general, revenue is recognised to the extent that it is subject to reliable measurement, that it is probable that economic benefits will flow to the Group and that the significant risks and rewards of ownership have passed to the buyer. In the case of sales of goods, this generally arises when products have either been delivered to or collected by a customer and there is no unfulfilled obligation that could affect the acceptance of the products. Revenues 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.

Accounting Policies

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.

Exceptional Items

The Group has adopted a policy in relation to its income statement which seeks to highlight 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

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 made 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 the income statement.

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

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 the income statement.

Accounting Policies

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 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 costs to sell. 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 income statement 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.

Accounting Policies

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

Derivative financial instruments, principally interest rate and currency swaps, are used in certain circumstances to hedge the Group's 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 losses 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, hedge accounting ceases and 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 fair value of share entitlements at the grant date 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.

Accounting Policies

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.

Accounting Policies

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 544 branches in Britain, Ireland and Belgium.

The Retailing segment operates Ireland's largest DIY and home improvement business from a network of 38 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 7 stores.

The Manufacturing segment comprises the largest manufacturer of dry mortar in Britain operating from 9 plants and a plastics manufacturing business in Ireland.

Information regarding the results of each reportable segment is included in this note. 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	
	2012 €'000	2011 €'000	**2012 €'000**	2011 €'000	**2012 €'000**	2011 €'000	**2012 €'000**	2011 €'000
Segment revenue	**1,929,286**	1,786,601	**199,510**	219,709	**50,161**	53,488	**2,178,957**	2,059,798
Less: Inter-segment revenue-manufacturing	**-**	-	**-**	-	**(7,569)**	(5,965)	**(7,569)**	(5,965)
	1,929,286	1,786,601	**199,510**	219,709	**42,592**	47,523	**2,171,388**	2,053,833
Segment operating profit/(loss)	**82,283**	64,924	**256**	2,120	**2,045**	(535)	**84,584**	66,509
Exceptional items	**(13,342)**	(11,217)	**(10,501)**	(19,636)	**(2,327)**	(1,202)	**(26,170)**	(32,055)
Segment operating profit/(loss) after exceptional items	**68,941**	53,707	**(10,245)**	(17,516)	**(282)**	(1,737)	**58,414**	34,454

	Group	
	2012 €'000	2011 €'000
Reconciliation to consolidated operating profit		
Segment operating profit after exceptional items	**58,414**	34,454
Central activities	**(9,407)**	(9,578)
Intangible amortisation	**(2,241)**	(2,212)
Operating profit	**46,766**	22,664
Finance expense	**(27,909)**	(32,377)
Finance income	**14,666**	19,977
Profit before tax	**33,523**	10,264
Income tax	**7,597**	(7,719)
Profit after tax for the financial year	**41,120**	2,545

1. Segment Information (continued)

Group Balance Sheet

	Continuing operations – as at 31 December							
	Merchanting		Retailing		Manufacturing		Group	
	2012 €'000	2011 €'000	**2012 €'000**	2011 €'000	**2012 €'000**	2011 €'000	**2012 €'000**	2011 €'000
Segment assets	**1,659,016**	1,586,681	**89,773**	101,857	**51,957**	55,415	**1,800,746**	1,743,953
Reconciliation of total assets								
Deferred tax assets							**32,933**	36,331
Financial assets							**176**	152
Derivative financial instruments							**4,036**	10,956
Cash and cash equivalents							**156,876**	134,600
Total assets in the Group balance sheet							**1,994,767**	1,925,992
Segment liabilities	**444,149**	390,029	**55,052**	60,956	**10,034**	12,961	**509,235**	463,946
Reconciliation of total liabilities								
Interest bearing loans and borrowings (current and non-current)							**362,322**	370,340
Retirement benefit obligations							**62,971**	33,560
Deferred tax liabilities							**44,181**	39,872
Current tax liabilities							**13,548**	34,289
Derivative financial instruments (current and non-current)							**629**	1,161
Total liabilities in the Group balance sheet							**992,886**	943,168

1. Segment Information (continued)

Other segment information

	Continuing operations – year ended 31 December							
	Merchanting		Retailing		Manufacturing		Total Group	
	2012 €'000	2011 €'000	**2012 €'000**	2011 €'000	**2012 €'000**	2011 €'000	**2012 €'000**	2011 €'000
Capital expenditure	**25,466**	33,870	**2,670**	1,105	**196**	352	**28,332**	35,327
Depreciation	**30,339**	30,878	**5,369**	5,612	**3,813**	3,958	**39,521**	40,448
Impairment of property, plant and equipment	**400**	1,166	**2,042**	3,422	**-**	-	**2,442**	4,588
Onerous lease provisions (exceptional charge)	**1,100**	1,361	**1,075**	15,447	**-**	-	**2,175**	16,808
Intangible amortisation	**1,745**	1,724	**457**	450	**39**	38	**2,241**	2,212

Geographic analysis

The following is a geographic analysis of revenue, capital expenditure and segment assets. The analysis of revenue by geography below is the same whether based on location of assets or customers.

	Belgium		Ireland		UK		Group	
	2012 €'000	2011 €'000	**2012 €'000**	2011 €'000	**2012 €'000**	2011 €'000	**2012 €'000**	2011 €'000
Segment revenue (continuing operations)	**37,980**	20,926	**487,020**	539,695	**1,646,388**	1,493,212	**2,171,388**	2,053,833
Capital expenditure	**1,293**	590	**4,719**	4,463	**22,320**	30,274	**28,332**	35,327
Segment assets	**34,323**	15,250	**340,126**	370,657	**842,831**	791,710	**1,217,280**	1,177,617
Goodwill							**583,466**	566,336
							1,800,746	1,743,953

2. Operating Costs and Income

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

	2012 €'000	2011 €'000
Exceptional items (note 3):		
Redundancy costs	**10,981**	10,230
Other restructuring costs	**1,399**	429
Impairment of property, plant and equipment	**1,922**	2,003
	14,302	12,662
Onerous lease provision	**2,175**	16,808
Impairment of property, plant and equipment relating to onerous leases	**-**	2,585
Current asset impairment	**2,010**	-
Cost of Atlantic Home Care Limited examinership	**10,812**	-
Release of onerous lease provision relating to Atlantic Home Care Limited	**(3,129)**	-
Total exceptional items (note 3)	**26,170**	32,055
(Increase)/decrease in inventories	**(22,172)**	12,008
Purchases and consumables	**1,503,874**	1,395,513
Staff costs before exceptional items (note 5)	**317,550**	308,527
Auditor's remuneration - Group and subsidiaries	**853**	838
Depreciation	**39,521**	40,448
Lease rentals and other hire charges	**61,399**	60,350
Intangible amortisation	**2,241**	2,212
Profit on disposal of property, plant and equipment	**(534)**	(1,457)
Selling, distribution and administrative expenses	**195,720**	180,675
	2,124,622	2,031,169

2. Operating Costs and Income (continued)

The following services were provided by KPMG, the Group's Auditor:

	2012 €'000	2011 €'000
Audit services (i):		
- Group Auditor - KPMG Ireland	**501**	526
- Other network firm - KPMG	**131**	101
	632	627
Other assurance services (ii):		
- Group Auditor - KPMG Ireland	**187**	187
- Other network firm - KPMG	**34**	24
	221	211
Auditor's remuneration - Group and subsidiaries (i) & (ii)	**853**	838
Taxation advisory services:		
- Group Auditor - KPMG Ireland	**411**	111
- Other network firm - KPMG	**436**	411
	847	522
Total		
- Group Auditor - KPMG Ireland	**1,099**	824
- Other network firm - KPMG	**601**	536
	1,700	1,360

Other assurance services relate to the statutory audits of subsidiary companies in the UK, Ireland and Europe except for €28,000 in 2012 (2011: €28,000) 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, Ireland and Europe and advice on tax matters and transactions. The charge for 2012 was significantly higher than the prior year due to a restructuring of inter-group financing arrangements and rationalisation of corporate structures. The Group also incurred additional costs related to the resolution of taxation matters that resulted in a significant tax credit.

Notes to the Group Financial Statements

3. Exceptional Items

	2012 €'000	2011 €'000
Restructuring costs:		
Redundancy costs*	**10,981**	10,230
Other restructuring costs	**1,399**	429
Impairment of property, plant and equipment (note 12)#	**1,922**	2,003
	14,302	12,662
Onerous lease provision (note 22)	**2,175**	16,808
Impairment of property, plant and equipment relating to onerous leases (note 12)	**-**	2,585
Current asset impairment	**2,010**	-
Cost of Atlantic Home Care Limited examinership	**10,812**	-
Release of onerous lease provision relating to Atlantic Home Care Limited	**(3,129)**	-
	11,868	19,393
Total	**26,170**	32,055

The 2012 exceptional items of €26.2 million (2011: €32.1 million) relate primarily to (i) redundancy costs in the merchanting and manufacturing segments, (ii) costs related to the Atlantic Home Care Limited examinership and (iii) fixed asset and other asset impairments in the merchanting and DIY retailing businesses. The cost of the Atlantic Home Care Limited examinership comprises landlord compensation on termination of leases, examinership fees, redundancies and asset impairment relating to the two stores that closed.

*The cost of the Atlantic Home Care Limited examinership includes €563,000 for redundancy costs. Total redundancy costs for the Group were €11,544,000 for the year.

#Total impairment costs for property, plant and equipment were €2,442,000 (note 12) (2011: €4,588,000) including €520,000 arising from the Atlantic Home Care Limited examinership.

The 2011 exceptional items relate to redundancy and other costs of €10.7 million and impairment of property, plant and equipment 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.

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 36 to 43.

5. Employment

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

	2012	2011
Merchanting	**7,838**	7,791
Retailing	**1,107**	1,130
Manufacturing	**142**	208
Holding company	**20**	18
	9,107	9,147

The aggregate remuneration costs of employees were:	€'000	€'000
Wages and salaries	**281,311**	275,125
Social welfare	**27,863**	26,753
Share based payments charge/(credit)	**762**	(670)
Defined benefit pension (note 31)	**1,423**	1,524
Pension settlement cost (note 31)	**-**	378
Defined contribution pension and related costs	**6,191**	5,417
Staff costs before exceptional items	**317,550**	308,527
Termination payments	**11,544**	10,230
Charged to operating profit	**329,094**	318,757
Finance cost on pension scheme liabilities	**11,501**	11,187
Expected return on pension scheme assets	**(12,445)**	(13,038)
Charged to income statement	**328,150**	316,906
Actuarial loss on pension schemes (note 31)	**36,481**	23,211
Total employee benefit cost	**364,631**	340,117

The share-based payments charge 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:

	2012	2011
Number of Individuals	**8**	10

	2012 €'000	2011 €'000
Short-term employee benefits	**2,915**	3,355
Share-based payment charge/(credit)	**214**	(129)
Retirement benefits expense	**565**	518
Charged to operating profit	**3,694**	3,744

6. Finance Expense and Finance Income

	2012 €'000	2011 €'000
Finance expense:		
Bank loans and overdrafts	**13,359***	14,126*
Net change in fair value of cash flow hedges transferred from equity	**783**	1,146
Interest on finance leases	**354**	378
Finance cost on pension scheme liabilities	**11,501#**	11,187#
Interest on loan notes	**1,419***	3,149*
Fair value movement on hedged financial liabilities	**362**	(5,749)
Fair value movement on fair value hedges	**(158)**	4,217
Fair value movement on derivatives (cross-currency interest rate swaps not in hedging relationship)	**267**	-
Ineffective portion of changes in fair value of cash flow hedges	**22**	60
Foreign exchange loss	**-**	3,863
	27,909	32,377
Finance income:		
Foreign exchange gain	**(849)**	-
Interest income on bank deposits	**(1,372)***	(1,964)*
Expected return on pension plan assets	**(12,445) #**	(13,038)#
Fair value movement on derivatives (cross-currency interest rate swaps not in hedging relationship)	**-**	(2,032)
Ineffectiveness on net investment hedge	**-**	(896)
Recycling of exchange gain on net investment hedge	**-**	(1,071)
Settlement gain on loan repayment	**-**	(976)
	(14,666)	(19,977)
Net finance expense recognised in income statement	**13,243**	12,400

**Net bank/loan note interest of €13.4 million (2011: €15.3 million)*
 # Net expected pension return of €0.9 million (2011: €1.9 million)

Amounts relating to items not at fair value through income statement		
- Total interest expense on financial liabilities	**26,633**	32,703
- Total interest income on financial assets	**(14,666)**	(15,002)

Recognised directly in other comprehensive income	2012 €'000	2011 €'000
Currency translation effects on foreign currency net investments	**21,025**	28,871
Currency translation effects on foreign currency borrowings and derivatives designated as net investment hedges	**(317)**	(2,257)
Recycling of exchange gain on net investment hedge	**-**	(1,071)
Effective portion of changes in fair value of cash flow hedges	**(229)**	(457)
Net change in fair value of cash flow hedges transferred to income statement	**783**	1,146
	21,262	26,232

Notes to the Group Financial Statements

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 2012 and 31 December 2011 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 2012 was Stg81.09p (2011: Stg86.79p). The euro/sterling exchange rate at 31 December 2012 was Stg81.61p (2011: Stg83.53p).

8. Income Tax

(a) Income tax recognised in income statement

	2012 €'000	2011 €'000
Current tax (credit)/expense		
Irish corporation tax	**(1,745)**	(8,605)
UK and other corporation tax	**9,605**	1,877
Release of corporation tax provision	**(23,000)**	-
Taxation credit on exceptional items	**(993)**	(864)
	(16,133)	(7,592)
Deferred tax expense		
Irish deferred tax expense relating to the origination and reversal of temporary differences	**341**	365
Deferred tax resulting from changes in tax rates	**2,267**	2,633
UK deferred tax expense relating to the origination and reversal of temporary differences	**5,928**	12,313
	8,536	15,311
Total income tax (credit)/expense in income statement	**(7,597)**	7,719

The taxation credit of €7.6 million includes an exceptional credit of €24.0 million mainly arising from the UK Revenue agreeing the Group's entitlement to tax deductions against which a corporation tax provision of €23.0 million was prudently retained, due to the uncertainty concerning the outcome. This was released to the Income Statement during the year. A taxation credit of €1.0 million arose on exceptional items.

The underlying taxation charge of €16.4 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. Taxation paid in 2012 of €4.0 million reflected the availability of tax allowances and various reliefs carried forward from prior years.

Notes to the Group Financial Statements

8. Income Tax (continued)

(b) Reconciliation of effective tax rate

	2012 €'000	2011 €'000
Profit before tax	**33,523**	10,264
Profit before tax multiplied by the standard rate of tax of 12.5% (2011: 12.5%)	**4,190**	1,283
Effects of:		
Expenses not deductible for tax purposes	**4,822**	3,795
Differences in effective tax rates on overseas earnings	**3,321**	(1,052)
Losses for which no deferred tax asset was recognised	**3,867**	5,491
Effect of change in tax rates	**2,267**	2,633
Release of corporation tax provision	**(23,000)**	-
Other differences	**(3,064)**	(4,431)
Total income tax (credit)/expense in income statement	**(7,597)**	7,719

(c) Deferred tax recognised in other comprehensive income

	2012 €'000	2011 €'000
Property, plant and equipment	**566**	976
Actuarial movement on pension schemes	**(5,407)**	(4,088)
Financing – cash flow hedge	**66**	80
	(4,775)	(3,032)

Deferred income tax liabilities have not been recognised for any taxes that would be payable on the unremitted earnings of certain subsidiaries as it is probable that any temporary differences will not reverse in the foreseeable future.

9. Dividends

	2012 €'000	2011 €'000
Group		
Interim dividend of 4.75 cent per Grafton Unit – paid 13 April 2012	**11,015**	-
Interim dividend of 3.0 cent per Grafton Unit – paid 5 October 2012	**6,960**	-
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
	17,975	16,797

The Board has agreed to pay a second interim dividend of 5.5 cent on the 'C' Ordinary shares in Grafton Group (UK) plc from UK-sourced income to all holders of Grafton Units on the Company's Register of Members at the close of business on 15 March 2013 (the 'Record Date') and the cash consideration will be paid on 12 April 2013. An interim dividend of 3.0 cent was paid on 5 October 2012 on the 'C' Ordinary shares in Grafton Group (UK) plc from UK-sourced income. The dividend payable on 12 April 2013 will be recognised in 2013.

10. Earnings per Share - Group

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

	2012 €'000	2011 €'000
Numerator for basic, adjusted and diluted earnings per share:		
Profit after tax for the financial year	**41,120**	2,545
Numerator for basic and diluted earnings per share	**41,120**	2,545
Intangible amortisation after tax	**1,961**	1,936
Taxation credit	**(23,000)**	-
Exceptional costs after tax	**25,177**	31,191
Numerator for adjusted earnings per share	**45,258**	35,672
Denominator for basic and adjusted earnings per share:	**Number of Grafton Units**	Number of Grafton Units
Weighted average number of Grafton Units in issue	**231,951,127**	231,751,122
Effect of potential dilutive Grafton Units	**-**	1,291,453
Denominator for diluted earnings per share	**231,951,127**	233,042,575
Earnings per share (cent)		
- Basic	**17.73**	1.10
- Diluted	**17.73**	1.09
Adjusted earnings per share (cent)		
- Basic	**19.51**	15.39
- Diluted	**19.51**	15.31

The weighted average potential employee share entitlements over 7,202,110 Grafton Units (2011: 8,818,794) which are currently anti-dilutive are not included in the above calculation for diluted earnings per share and adjusted diluted earnings per share.

Notes to the Group Financial Statements

11. Goodwill and Intangible Assets

(a) Goodwill

	2012 €'000	2011 €'000
Cost		
At 1 January	**566,336**	552,831
Arising on acquisitions (note 27)	**14,453**	936
Deemed disposal arising from joint venture becoming a subsidiary undertaking	**(4,592)**	-
Goodwill arising on increased holding in joint venture	**-**	1,281
Share of goodwill acquired by joint venture (note 14)	**-**	2,399
Translation adjustment	**7,269**	8,889
At 31 December	**583,466**	566,336

Goodwill acquired during the year

Goodwill acquired during the year (net) in the amount of €9,861,000 (2011: €936,000) was allocated to the Merchanting segment.

Cash-generating units

The Board has determined, 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.

	2012 €'000	2011 €'000
Merchanting	**579,166**	562,036
Retailing	**4,300**	4,300
	583,466	566,336

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 2012 (2011: 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 2013 and management reviewed forecasts for each of the following years from 2014 to 2017 inclusive. A long-term perpetuity growth rate was applied in respect of the years after 2017. 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 revenue trends, gross profit margins, overheads and operating profit margins.

The key assumptions used in the value in use calculations are the revenue 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 (2011: 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 (2011: 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.

	2012 €'000	2011 €'000
Carrying amount of goodwill	**579,166**	562,036
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 revenue 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 revenue 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 13.75 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 2012	**5,658**	**12,037**	**17,695**
At 31 December 2012	**5,658**	**12,037**	**17,695**
Amortisation			
At 1 January 2011	4,233	9,009	13,242
Amortised during the year	707	1,505	2,212
At 1 January 2012	**4,940**	**10,514**	**15,454**
Amortised during the year	**718**	**1,523**	**2,241**
At 31 December 2012	**5,658**	**12,037**	**17,695**
Net book amount at 31 December 2012	**-**	**-**	**-**
Net book amount at 31 December 2011	718	1,523	2,241

The amortisation charge for the year is included in operating costs in the income statement. Brands and customer relationships were 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 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 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 1 January 2012	**443,835**	**92,384**	**310,001**	**846,220**
Additions	**2,333**	**4,397**	**21,602**	**28,332**
Reclassifications	**1,161**	**(1,161)**	**-**	**-**
Acquisitions (note 27)	**4,111**	**782**	**5,110**	**10,003**
Deemed disposal arising from joint venture becoming a subsidiary undertaking	**(2,157)**	**(507)**	**(2,740)**	**(5,404)**
Disposals	**(92)**	**(1,473)**	**(37,336)**	**(38,901)**
Reclassification to properties held for sale	**(4,938)**	**-**	**-**	**(4,938)**
Reclassification from properties held for resale	**4,029**	**-**	**-**	**4,029**
Exchange adjustment	**6,794**	**1,476**	**6,258**	**14,528**
At 31 December 2012	**455,076**	**95,898**	**302,895**	**853,869**
Depreciation				
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 1 January 2012	**45,707**	**33,556**	**202,073**	**281,336**
Charge for year	**6,078**	**4,737**	**28,706**	**39,521**
Reclassifications	**789**	**(789)**	**-**	**-**
Impairment charge (note 3)	**-**	**1,104**	**1,338**	**2,442**
Disposals	**(53)**	**(1,496)**	**(35,449)**	**(36,998)**
Reclassification to properties held for sale	**(340)**	**-**	**-**	**(340)**
Reclassification from properties held for resale	**645**	**-**	**-**	**645**
Exchange adjustment	**893**	**558**	**4,196**	**5,647**
At 31 December 2012	**53,719**	**37,670**	**200,864**	**292,253**
Net book amount				
At 31 December 2012	**401,357**	**58,228**	**102,031**	**561,616**
At 31 December 2011	398,128	58,828	107,928	564,884

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 and Belgium, 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**	
	2012 €'000	2011 €'000	**2012 €'000**	2011 €'000
Cost	**3,783**	3,745	**7,684**	7,652
Accumulated depreciation	**(3,592)**	(3,522)	**(2,872)**	(2,533)
Net book amount	**191**	223	**4,812**	5,119
Depreciation charge for year	**70**	479	**328**	324

The Group repaid finance leases amounting to €0.6 million (2011: €0.5 million) and entered new leases during the year of €Nil (2011: €0.5 million).

12. (b) Properties held for sale

	Cost €'000	**Accumulated Depreciation €'000**	**Net Book Value €'000**
At 1 January 2011	16,142	(1,449)	14,693
Transfers from property, plant and equipment	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**
Transfers from property, plant and equipment	**4,938**	**(340)**	**4,598**
Transfers to property, plant and equipment	**(4,029)**	**645**	**(3,384)**
Translation adjustment	**283**	**(19)**	**264**
At 31 December 2012	**18,733**	**(1,024)**	**17,709**

The Group identified 16 (2011: 17) properties held for sale of which 13 (2011: 14) are located in the United Kingdom and 3 (2011: 3) in Ireland. These properties are shown in the balance sheet at the lower of their carrying amount and fair value less any disposal costs.

Properties held for sale are not used in the course of business and are available for immediate sale in their present condition subject to terms that are usual and customary for properties of this nature. The individual properties were being actively marketed at the year end and the Group is committed to its plan to sell these properties.

13. Other Financial Assets

	Other investments €'000
At 1 January 2011	176
Assumed with joint venture	7
Acquired by joint venture	1
Disposals	(36)
Translation adjustment	4
At 31 December 2011	**152**
Additions	**9**
Acquired with subsidiary undertakings	**31**
Deemed disposal arising from joint venture becoming a subsidiary undertaking	**(19)**
Translation adjustment	**3**
At 31 December 2012	**176**

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 was the development of a retail park in Navan, Co. Meath. The joint venture is accounted for using proportionate consolidation accounting. The Group income statement includes no revenue (2011: €Nil) and operating costs of €1.3 million (2011: €1.6 million) relating to the joint venture. Net assets and liabilities of €0.3 million (2011: €1.6 million) are included for Navan Retail Developments Limited in the consolidated financial statements. These are represented by net current assets of €0.3 million (2011: €1.6 million) and reserves of €0.3 million (2011: €1.6 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 acquired a controlling interest in BMC Groep NV (BMC), the Belgian Joint Venture (JV), on 31 October 2012 and now accounts for BMC as a subsidiary undertaking with a non-controlling interest. It is included in the Acquisition of Subsidiary Undertakings in Note 27. Prior to 31 October 2012 the Group's interest in BMC was proportionally consolidated. The Group's shareholding increased from 53 per cent to 58 per cent in May 2012 and to 65 per cent on 31 October 2012 when a controlling interest was acquired and BMC was accounted for as a subsidiary with a non-controlling interest.

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. The Group's share of goodwill acquired in 2011 was €2.4 million.

Notes to the Group Financial Statements

14. Joint Ventures (continued)

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 included 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 in 2011 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 in 2011 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

	2012 €'000	2011 €'000
Raw materials	**1,485**	1,167
Work in progress	**-**	14
Finished goods	**6,865**	5,711
Goods purchased for resale	**297,166**	264,325
	305,516	271,217

The inventory provision at 31 December 2012 was €23.8 million (31 December 2011: €18.7 million).

16. Trade and Other Receivables

	2012 €'000	2011 €'000
Amounts falling due within one year:		
Trade receivables	**226,262**	225,083
Other receivables	**106,177**	97,961
	332,439	323,044

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

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

	Carrying Amount	
	2012 €'000	2011 €'000
Ireland	**59,343**	67,292
Belgium	**13,685**	6,679
United Kingdom	**259,411**	249,073
	332,439	323,044

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 2012 €'000	**Impairment 2012 €'000**	**Carrying Amount 2012 €'000**	Gross Value 2011 €'000	Impairment 2011 €'000	Carrying Amount 2011 €'000
Not Past Due	**266,558**	**-**	**266,558**	265,691	-	265,691
Past Due						
0-30 days	**49,277**	**(1,302)**	**47,975**	39,772	(2,200)	37,572
30-60 days	**28,315**	**(10,623)**	**17,692**	26,680	(7,886)	18,794
+60 days	**3,504**	**(3,290)**	**214**	6,175	(5,188)	987
	81,096	**(15,215)**	**65,881**	72,627	(15,274)	57,353
	347,654	**(15,215)**	**332,439**	338,318	(15,274)	323,044

Movement in Impairment Provision

	2012 €'000	2011 €'000
At 1 January	**15,274**	17,754
Written-off during year	**(5,631)**	(11,513)
Additional provision	**5,403**	8,848
Translation adjustment	**169**	185
At 31 December	**15,215**	15,274

17. Share Capital and Share Premium

Group and Company	**2012 €'000**	2011 €'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	2012 Nominal Value €'000	2011 Nominal Value €'000
Issued and fully paid:				
Ordinary shares				
At 1 January		**232,339,184**	**11,617**	11,593
Issued under UK SAYE scheme		**159,429**	**8**	1
Grafton Group Share Schemes				
Date options and entitlements to acquire shares granted				
May 2001	2.83	-	-	23
		-	-	23
At 31 December		**232,498,613**	**11,625**	11,617
'A' ordinary shares				
At 1 January		**3,949,766,128**	**39**	39
'A' ordinary shares issued in year		**2,710,293**	**-**	-
At 31 December		**3,952,476,421**	**39**	39
Total nominal share capital issued			**11,664**	11,656

Share Premium

Group and Company	2012 €'000	2011 €'000
At 1 January	**292,545**	291,216
Premium on issue of shares under UK SAYE scheme	**464**	56
Premium on issue of shares under Grafton Group Share Scheme	-	1,289
Cost of share issues	**-**	(16)
At 31 December	**293,009**	292,545

17. Share Capital and Share Premium (continued)

Grafton Units issued during 2012

The number of Grafton Units issued during the year under the Group's Executive Share Schemes was 159,429 (2011: 483,583) and the total consideration received amounted to €472,000 (2011: €1,369,000). Costs relating to the issues were €Nil (2011: €16,000).

Grafton Units

At 31 December 2012 and 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.

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 2012, 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 (2011: 500,000) Grafton Units at a cost of €5,746,000 (2011: €5,746,000) as treasury shares.

18. Group Statement of Changes in Equity and Non-Controlling Interests

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 on translation of the investment in the UK group as adjusted for foreign currency borrowings and derivatives designated as net investment hedges.

Non-Controlling Interests

	2012 €'000	2011 €'000
At 1 January	**-**	-
Acquisition of subsidiary with a non-controlling interest	**5,122**	-
At 31 December	**5,122**	-

The non-controlling interest relates to BMC Groep NV, the Belgian builders merchanting business referred to in note 27.

19. Interest-Bearing Loans and Borrowings

	2012 €'000	2011 €'000
Non-current liabilities		
Sterling bank loans	**49,819**	1,125
Euro bank loans	**248,227**	270,865
2005 unsecured senior US dollar loan notes	**16,992**	26,425
2005 unsecured senior US dollar loan notes (Stg)	**14,408**	21,115
Finance leases	**5,061**	5,700
	334,507	325,230
Current liabilities		
Sterling bank loans	**197**	210
Euro bank loans	**11,105**	4,796
2005 unsecured senior US dollar loan notes	**8,574**	32,466
2005 unsecured senior US dollar loan notes (Stg)	**7,204**	7,038
Vendor loan notes	**3**	3
Finance leases	**732**	597
	27,815	45,110

The increase in non-current interest bearing loans and borrowings and the decrease in current interest bearing loans and borrowings reflects changes in the maturity profile of the Group's debt at 31 December 2012 and debt repaid and drawn during the year including a significant repayment of 2005 unsecured senior US dollar loan notes.

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 rates based on 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 2013. 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 2012 €'000	**Loan notes 2012 €'000**	**Finance leases 2012 €'000**	**Total 2012 €'000**	Bank loans and overdrafts 2011 €'000	Loan notes 2011 €'000	Finance leases 2011 €'000	Total 2011 €'000
Due within one year	**11,302**	**15,781**	**732**	**27,815**	5,006	39,507	597	45,110
Between one and two years	**86,109**	**15,700**	**487**	**102,296**	1,022	15,847	538	17,407
Between two and three years	**1,343**	**15,700**	**487**	**17,530**	82,277	15,847	458	98,582
Between three and four years	**208,768**	**-**	**487**	**209,255**	992	15,846	458	17,296
Between four and five years	**1,027**	**-**	**487**	**1,514**	186,661	-	458	187,119
After five years	**799**	**-**	**3,113**	**3,912**	1,038	-	3,788	4,826
	309,348	**47,181**	**5,793**	**362,322**	276,996	87,047	6,297	370,340
Derivatives				**(3,407)**				(9,795)
Gross Debt				**358,915**				360,545
Cash and short-term deposits				**(156,876)**				(134,600)
Net debt				**202,039**				225,945
Shareholders' equity				**996,759**				982,824
Gearing				**20%**				23%

Notes to the Group Financial Statements

19. Interest-Bearing Loans and Borrowings (continued)

The following table indicates the effective interest rates at 31 December 2012 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	3-5 years €'000	More than 5 years €'000
Sterling deposits	0.54%	68,589	68,589	-	-	-	-
Euro deposits	1.09%	8,372	8,372	-	-	-	-
US dollar deposits	0.50%	1,197	1,197	-	-	-	-
Cash at bank	0%-0.7%	78,718	78,718	-	-	-	-
Cash and cash equivalents		156,876	156,876	-	-	-	-
Floating rate debt:							
Euro loans	2.86%	(219,332)	(219,332)	-	-	-	-
Sterling loans	3.31%	(50,016)	(50,016)	-	-	-	-
Total floating rate debt		(269,348)	(269,348)	-	-	-	-
Fixed rate debt:							
Euro loans	5.55%	(40,000)	(20,000)	-	(20,000)	-	-
Finance leases	6.0%	(5,793)	(732)	-	(487)	(1,461)	(3,113)
Total fixed rate debt		(45,793)	(20,732)	-	(20,487)	(1,461)	(3,113)
Floating rate loan notes:							
US dollar loan notes 2005	1.21%	(25,566)	(25,566)	-	-	-	-
US dollar loan notes 2005 (Stg)	1.05%	(21,612)	(21,612)	-	-	-	-
Vendor loan notes	1.0%	(3)	(3)	-	-	-	-
Total loan notes		(47,181)	(47,181)	-	-	-	-
Derivatives		3,407	3,446	-	(39)	-	-
Total Net Debt		(202,039)	(176,939)	-	(20,526)	(1,461)	(3,113)

Borrowing Facilities

The Group had an undrawn committed borrowing facility at 31 December 2012 of €97.7 million (2011: €120.5 million) in respect of which all conditions precedent were met, with €37.4 million expiring in 2014 and €60.3 million expiring in 2016.

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 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	3-5 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)

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 2012	**Cashflow and net investment hedges €'000**	**Fair value hedges €'000**	**Receivables €'000**	**Liabilities at amortised cost €'000**	**Total carrying value €'000**	**Fair value €'000**
Other investments	**-**	**-**	**176**	**-**	**176**	**176**
Trade receivables and other receivables	**-**	**-**	**332,439**	**-**	**332,439**	**332,439**
Cash and cash equivalents	**-**	**-**	**156,876**	**-**	**156,876**	**156,876**
Cross-currency interest rate swaps	**5,092**	**(1,056)**	**-**	**-**	**4,036**	**4,036**
	5,092	**(1,056)**	**489,491**	**-**	**493,527**	**493,527**
Interest rate swaps	**(629)**	**-**	**-**	**-**	**(629)**	**(629)**
Euro bank loans	**-**	**-**	**-**	**(259,332)**	**(259,332)**	**(259,332)**
Sterling bank loans	**-**	**-**	**-**	**(50,016)**	**(50,016)**	**(50,016)**
Finance leases	**-**	**-**	**-**	**(5,793)**	**(5,793)**	**(5,793)**
Trade payables	**-**	**-**	**-**	**(354,224)**	**(354,224)**	**(354,224)**
2005 unsecured senior US dollar loan notes	**-**	**-**	**-**	**(47,178)**	**(47,178)**	**(46,148)**
Vendor loan notes	**-**	**-**	**-**	**(3)**	**(3)**	**(3)**
At 31 December 2012	**(629)**	**-**	**-**	**(716,546)**	**(717,175)**	**(716,145)**

At 31 December 2011	Cashflow and net investment hedges €'000	Fair value hedges €'000	Receivables €'000	Liabilities at amortised cost €'000	Total carrying value €'000	Fair value €'000
Other investments	-	-	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)
Trade payables	-	-	-	(312,654)	(312,654)	(312,654)
2005 unsecured senior US dollar loan notes	-	(23,566)	-	(63,478)	(87,044)	(84,381)
Vendor loan notes	-	-	-	(3)	(3)	(3)
At 31 December 2011	(1,161)	(23,566)	-	(659,428)	(684,155)	(681,492)

Notes to the Group Financial Statements

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 where appropriate.

Interest bearing loans and borrowings

In the case of fixed rate borrowings which are designated in a fair value hedge relationship, the carrying value of the instruments is adjusted for measurement purposes for changes in the fair value attributable to the hedged risk. This is calculated by reference to the present value of the contracted future cash flows based on the terms and maturity of each loan instrument to which prevailing market interest rates applicable for a similar instrument at the measurement date are applied to adjust the carrying value to fair value following which it is translated 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 2012 and 31 December 2011, the Group held the following financial instruments at fair value:

	2012 Total €'000	**2012 Level 1 €'000**	**2012 Level 2 €'000**	**2012 Level 3 €'000**
Assets measured at fair value				
Cross-currency interest rate swaps	**4,036**	**-**	**4,036**	**-**
Liabilities measured at fair value				
2005 unsecured Senior US dollar loan notes	**-**	**-**	**-**	**-**
Interest rate swaps	**(629)**	**-**	**(629)**	**-**

	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)	-

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 granted to customers. 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 banks, all with original maturities of less than 3 months at 31 December 2012.

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 2012 and 31 December 2011 was:

	2012 €'000	2011 €'000
Other financial assets	**176**	152
Trade and other receivables	**332,439**	323,044
Cash and cash equivalents	**156,876**	134,600
Cross currency interest rate swaps	**4,036**	10,956
	493,527	468,752

Additional disclosures in relation to the Group's exposure to credit risk arising from trade and other receivables are 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 respective reporting dates was:

	Carrying Amount	
	2012 €'000	2011 €'000
Domestic banks	**55,916**	44,481
United Kingdom banks	**99,062**	89,382
Belgian banks	**1,898**	737
	156,876	134,600

The cash on deposit is primarily held with Bank of Ireland, HSBC Bank plc, 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 and Belgian 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 exposed to spot foreign exchange movements at the balance sheet date. The impact of the movement in the spot rate is taken to the income statement.

Sensitivity Analysis

A ten per cent strengthening of the euro exchange rate against the sterling exchange rate at the balance sheet date 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 2012		
10% strengthening of euro currency against sterling	**(79,000)**	**(4,400)**
31 December 2011		
10% strengthening of euro currency against sterling	(77,000)	(3,300)

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 €40,000,000 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 2012 was a liability of €0.63 million (31 December 2011: a liability of €1.16 million). A net credit of €554,000 (31 December 2011: a credit of €689,000) was recorded in the cash flow hedge reserve in other comprehensive income and the balance of €22,000 (31 December 2011: €60,000), 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 2012 was an asset of €4,036,000 (31 December 2011: €10,956,000) and was reflected in current assets (€1,345,000) and non-current assets (€2,691,000).

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 €0.7 million (2011: 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 and equity by €2.0 million (2011: €2.3 million) on the basis of the Group's net debt of €202.0 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, 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.

The principal bank covenants are a net debt to equity ratio limit of 85 per cent, EBITDA interest cover increasing from 3.5 in 2012 to 4 in 2013 and a minimum shareholders' equity of €804 million at 31 December 2012.

At 31 December 2012 the net debt to equity ratio was 19 per cent and shareholders' equity was €1.09 billion both as defined for covenant purposes. Adjusted EBITDA for the year was €114.7 million and EBITDA interest cover for 2012 was 8.6.

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 2012	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	309,348	344,476	21,316	95,231	227,108	821
US dollar loan notes	47,178	48,092	16,502	16,031	15,559	-
Vendor loan notes	3	3	3	-	-	-
Finance lease liabilities	5,793	16,986	1,051	1,000	2,407	12,528
Trade and other payables	469,501	469,501	469,501	-	-	-
Provisions	39,734	39,734	8,751	30,983	-	-
Derivative Financial Instruments						
Cross-currency swaps used for hedging						
- Outflow	-	22,100	7,450	7,369	7,281	-
- Inflow	(4,036)	(26,145)	(9,111)	(8,715)	(8,319)	-
Interest rate swaps used for hedging	629	820	685	135	-	-
	868,150	915,567	516,148	142,034	244,036	13,349

* Includes interest based on the rates in place at 31 December 2012

20. Financial Instruments and Financial Risk (continued)

31 December 2011	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	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.

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

31 December 2012	**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	**(629)**	**(820)**	**(404)**	**(281)**	**(135)**	**-**	**-**	**-**

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)	-	-

21. Derivatives

	2012 €'000	2011 €'000
Included in non-current liabilities:		
Fair value of interest rate swaps	**(39)**	(422)
Included in current liabilities:		
Fair value of interest rate swaps	**(590)**	(739)
	(629)	(1,161)
Included in non-current assets:		
Fair value of cross currency swaps	**2,691**	5,331
Included in current assets:		
Fair value of cross currency swaps	**1,345**	5,625
	4,036	10,956

The decrease in derivatives (current and non-current) at 31 December 2012 is mainly due to three cross currency interest rates swaps (CCIRS) and one interest rate swap ending during the year and movements in the fair values of the remaining cross-currency and interest rate swaps.

Nature of derivative instruments as at 31 December 2012

	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$32,142,859	STG£17,699,811	4,036	-

	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	€40,000,000	€40,000,000	-	(629)

21. Derivatives (continued)

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)

22. Provisions

	2012 €'000	2011 €'000
Non-current liabilities		
Insurance provision	**8,731**	10,753
Onerous lease provision	**14,926**	18,613
Dilapidations provision	**4,363**	3,439
Other provision	**2,963**	-
	30,983	32,805
Current liabilities		
Insurance provision	**4,731**	4,918
Deferred acquisition consideration	**3,770**	4,315
WEEE provision	**250**	250
	8,751	9,483

22. Provisions (continued)

Insurance provision	Non-current 2012 €'000	Non-current 2011 €'000	Current 2012 €'000	Current 2011 €'000	Total 2012 €'000	Total 2011 €'000
At 1 January	**10,753**	13,950	**4,918**	3,397	**15,671**	17,347
Charged/(credited)	**407**	(55)	**420**	2,306	**827**	2,251
Paid during the year	**(2,429)**	(3,142)	**(607)**	(785)	**(3,036)**	(3,927)
At 31 December	**8,731**	10,753	**4,731**	4,918	**13,462**	15,671

This provision relates to actual and potential obligations under the self insurance elements of the Group's overall insurance arrangements which are subject to specific limits in respect of individual claims. This provision was based on an independent actuarial valuation.

Onerous leases	Non-current 2012 €'000	Non-current 2011 €'000
At 1 January	**18,613**	1,343
Exceptional charge	**2,175**	16,808
Other charge	**928**	462
Exceptional release	**(3,129)**	-
Utilised	**(3,689)**	-
Foreign exchange	**28**	-
At 31 December	**14,926**	18,613

In 2011 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 2012 €'000	Non- current 2011 €'000
At 1 January	**3,439**	2,262
Acquisition (note 27)	**-**	324
Charge in year	**921**	816
Other release	**(57)**	-
Foreign exchange	**60**	37
At 31 December	**4,363**	3,439

22. Provisions (continued)

Other provisions	Non-current 2012 €'000	2011 €'000
At 1 January	-	-
Other charge	2,963	-
At 31 December	2,963	-

Deferred acquisition consideration	Current 2012 €'000	2011 €'000
At 1 January	4,315	2,681
Acquisitions (note 27 & note 14)	1,420	1,551
Paid during the year	(2,030)	-
Foreign exchange	65	83
At 31 December	3,770	4,315

The deferred acquisition consideration is payable over the period from January to December 2013 subject to certain conditions.

WEEE provision	Current 2012 €'000	2011 €'000
At 1 January	250	250
At 31 December	250	250

23. Trade and Other Payables

	2012 €'000	2011 €'000
Trade payables	**354,224**	312,654
Accruals	**88,310**	82,637
Social welfare	**4,086**	3,205
Income tax	**3,940**	4,440
Value added tax	**18,941**	18,722
	469,501	421,658

24. Obligations under Finance Leases

	2012			2011		
	Minimum lease payments €'000	**Interest €'000**	**Principal €'000**	Minimum lease payments €'000	Interest €'000	Principal €'000
Committed finance lease obligations:						
Within one year	**1,051**	**319**	**732**	1,092	495	597
Between one and five years	**3,407**	**1,259**	**2,148**	3,740	1,828	1,912
Greater than five years	**12,528**	**9,615**	**2,913**	12,807	9,019	3,788
	16,986	**11,193**	**5,793**	17,639	11,342	6,297

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

25. Deferred Taxation

Recognised deferred tax assets and liabilities	**Assets 2012 €'000**	**Liabilities 2012 €'000**	**Net (assets)/ liabilities 2012 €'000**	Assets 2011 €'000	Liabilities 2011 €'000	Net (assets)/ liabilities 2011 €'000
Property, plant and equipment	**(23,760)**	**42,449**	**18,689**	(21,195)	38,787	17,592
Intangible assets	**-**	**-**	**-**	-	281	281
Financing	**(79)**	**-**	**(79)**	(7,311)	-	(7,311)
Other items	**-**	**1,732**	**1,732**	(2,878)	804	(2,074)
Pension	**(9,094)**	**-**	**(9,094)**	(4,947)	-	(4,947)
(Assets)/liabilities	**(32,933)**	**44,181**	**11,248**	(36,331)	39,872	3,541

25. Deferred Taxation (continued)

At 31 December 2012, there were unrecognised deferred tax assets in relation to capital losses of €5.0 million (2011: €3.7 million), trading losses of €11.4 million (2011: €9.4 million) and deductible temporary differences of €5.0 million (2011: €3.7 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 concerning 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 12 €'000	**Recognised in profit or loss €'000**	**Recognised in other comprehensive income €'000**	**Foreign exchange retranslation €'000**	**Arising on acquisitions €'000**	**Balance 31 Dec 12 €'000**
Property, plant and equipment	**17,592**	**(2,221)**	**566**	**432**	**2,320**	**18,689**
Intangible assets	**281**	**(281)**	**-**	**-**	**-**	**-**
Financing	**(7,311)**	**7,353**	**66**	**(187)**	**-**	**(79)**
Other items	**(2,074)**	**2,397**	**-**	**1,348**	**61**	**1,732**
Pension	**(4,947)**	**1,288**	**(5,407)**	**(28)**	**-**	**(9,094)**
	3,541	**8,536**	**(4,775)**	**1,565**	**2,381**	**11,248**

	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

26. Movement in Working Capital

	Inventory €'000	Trade and other receivables €'000	Trade and other payables €'000	Total €'000
At 1 January 2011	271,918	305,560	(399,890)	177,588
Translation adjustment	5,025	6,833	(7,221)	4,637
Interest accrual 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 1 January 2012	**271,217**	**323,044**	**(421,658)**	**172,603**
Translation adjustment	**3,989**	**6,004**	**(6,603)**	**3,390**
Interest accruals and other movements	**-**	**1,050**	**567**	**1,617**
Acquisitions (note 27)	**14,564**	**21,093**	**(11,272)**	**24,385**
Deemed disposal arising from joint venture becoming a subsidiary undertaking (notes 14 & 27)	**(6,426)**	**(9,446)**	**5,195**	**(10,677)**
Movement in 2012	**22,172**	**(9,306)**	**(35,730)**	**(22,864)**
At 31 December 2012	**305,516**	**332,439**	**(469,501)**	**168,454**

27. Acquisition of Subsidiary Undertakings and Businesses

In the twelve months to 31 December 2012, the Group acquired two merchanting branches in Northern Ireland previously owned by the Brooks Group (acquired: 5 April 2012); Electricbase, a single branch merchanting business in Stockton-on-Tees, (acquired: 31 August 2012) and two merchanting branches in England previously owned by Burdens (acquired: 19 December 2012).

The Group also acquired a controlling interest in BMC Groep NV (BMC), the Belgian joint venture, on 31 October 2012 and now accounts for BMC as a subsidiary undertaking with a non-controlling interest. Under IFRS 3 Business Combinations the Group is deemed to have made a disposal of its equity interest of 65 per cent and re-acquired 100 per cent of BMC at this date with a non-controlling interest recognised. The fair value of assets and liabilities acquired reflects this accounting treatment. BMC acquired Holvoet, a two branch merchanting business, located in North West Belgium on 1 November 2012.

In 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).

Acquisitions would have contributed €48.0 million and €15.8 million to revenue in the years ended 31 December 2012 and 31 December 2011 respectively on the assumption that they had been acquired on 1 January in both years.

Acquisitions would have contributed an operating profit of €2.6 million and an operating loss of €0.4 million in the years ended 31 December 2012 and 31 December 2011 respectively if they had been acquired on 1 January in both years.

Acquisitions completed in 2012 contributed revenues of €7.0 million (2011 acquisitions: €12.4 million) and a loss of €0.4 million (2011 acquisitions: loss of €0.3 million) for the period from the date of acquisition until the year end.

27. Acquisition of Subsidiary Undertakings and Businesses (continued)

	2012 €'000	2011 €'000
The fair values of assets and liabilities acquired are set out below:		
Property, plant and equipment (note 12)	**10,003**	1,254
Financial assets (note 13)	**31**	-
Inventories (note 26)	**14,564**	1,871
Trade and other receivables (note 26)	**21,093**	319
Trade and other payables (note 26)	**(11,272)**	(107)
Dilapidations provision (note 22)	**-**	(324)
Corporation tax	**(1,491)**	-
Deferred tax liability (note 25)	**(2,381)**	(4)
Finance leases acquired	**(305)**	-
Bank debt acquired	**(17,142)**	-
Cash acquired	**6,816**	-
Net assets acquired	**19,916**	3,009
Goodwill (note 11)	**14,453**	936
Consideration	**34,369**	3,945
Satisfied by:		
Cash paid	**18,202**	3,945
Net cash outflow	**18,202**	3,945
Fair value of the Group's portion of BMC's net assets before becoming a subsidiary	**9,625**	-
Deferred acquisition consideration (note 22)	**1,420**	-
Non-controlling interest	**5,122**	-
	34,369	3,945

The fair value of identifiable net assets acquired was €19,916,000.

	Fair Values €'000	Consideration €'000	Goodwill €'000
Total acquisitions	**19,916**	**34,369**	**14,453**

27. Acquisition of Subsidiary Undertakings and Businesses (continued)

The fair values were calculated as follows:

	Book Values €'000	Fair Value Adjustment €'000	Fair Values €'000
Property, plant and equipment	**10,003**	**-**	**10,003**
Financial assets	**31**	**-**	**31**
Working capital	**24,309**	**76**	**24,385**
Corporation tax	**(1,491)**	**-**	**(1,491)**
Deferred tax	**(2,358)**	**(23)**	**(2,381)**
Finance leases	**(305)**	**-**	**(305)**
Bank debt	**(17,142)**	**-**	**(17,142)**
Cash acquired	**6,816**	**-**	**6,816**
	19,863	**53**	**19,916**

The fair value of the net assets of BMC Groep NV were assessed at 31 October 2012 and it was determined that there was no material difference between the carrying value of the Group's existing interest in the net assets and their fair values.

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 properties acquired and cost.

Goodwill reflects the anticipated purchasing and operational synergies for the businesses acquired as part of the enlarged Group. No intangible assets were acquired.

The fair value of net assets acquired in 2011 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

Notes to the Group Financial Statements

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

	2012 €'000	2011 €'000
Net increase/(decrease) in cash and cash equivalents	**19,065**	(101,016)
Net movement in derivative financial instruments	**991**	639
Movement in financial liabilities from cessation of hedge accounting	**-**	515
Cash flow from movement in debt and lease financing	**9,737**	128,271
Change in net debt resulting from cash flows	**29,793**	28,409
Non-cash movement on finance lease extinguished	**-**	706
Finance leases acquired with subsidiary undertakings*	**(123)**	-
Bank loans acquired with subsidiary undertakings*	**(6,526)**	-
Bank loans acquired with joint venture acquisitions	**-**	(883)
Translation adjustment	**762**	933
Movement in net debt in the year	**23,906**	29,165
Net debt at 1 January	**(225,945)**	(255,110)
Net debt at 31 December	**(202,039)**	(225,945)

*Net of deemed disposal as referred to in note 27.

29. Capital Expenditure Commitments

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

	2012 €'000	2011 €'000
Contracted for	**3,716**	7,031
Not contracted for	**16,511**	16,171
	20,227	23,202

Capital commitments in the UK and Ireland amounted to €17.2 million (2011: €20.7 million) and €2.3 million (2011: €2.5 million) respectively and relate mainly to replacement of the distribution fleet and store development projects. Capital commitments in the Belgian business amounted to €0.7 million.

Notes to the Group Financial Statements

30. Operating Leases

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

	Land and buildings 2012 €'000	**Other 2012 €'000**	Land and buildings 2011 €'000	Other 2011 €'000
Operating lease payments due:				
Within one year	**61,517**	**5,144**	62,572	4,358
Between two and five years	**205,575**	**9,506**	236,395	10,950
Over five years	**525,425**	**-**	636,950	-
	792,517	**14,650**	935,917	15,308

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 2012 €61.4 million (2011: €60.4 million) was recognised as an expense in the income statement in respect of operating leases.

The significant reduction in the operating lease commitments at 31 December 2012 principally reflects the new lease arrangements agreed as part of the Atlantic Home Care Limited examinership and a reduction in the outstanding lease period.

Notes to the Group Financial Statements

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 2012 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.

Financial Assumptions

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

	At 31 Dec 2012 Irish schemes	**At 31 Dec 2012 UK schemes**	At 31 Dec 2011 Irish schemes	At 31 Dec 2011 UK schemes
Valuation method	**Projected Unit**	**Projected Unit**	Projected Unit	Projected Unit
Rate of increase in salaries	**3.00%***	**2.50%**	3.00%*	2.30%
Rate of increase of pensions in payment	**-**	**2.90%**	-	2.90%
Discount rate	**3.75%**	**4.50%**	5.10%	5.00%
Inflation rate increase	**2.00%**	**2.90%****	2.00%	2.90%**

* 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 2012 and 2011 year end IAS19 disclosures are as follows:

2012 Mortality		**Years**	2011 Mortality		Years
Future Pensioner aged 65:	**Male**	**23.2**	Future Pensioner aged 65:	Male	22.0
	Female	**24.9**		Female	24.3
Current Pensioner aged 65:	**Male**	**21.9**	Current Pensioner aged 65:	Male	21.2
	Female	**23.8**		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 2012 and 31 December 2011 are set out below:

	2012 Irish schemes*#	**2012 UK Schemes#**	2011 Irish Schemes*	2011 UK schemes
Equities	**6.4%**	**7.5%**	6.9%	7.5%
Bonds	**2.9%**	**4.2%**	3.4%	4.5%
Property	**5.4%**	**7.0%**	5.9%	7.0%
Cash	**0.9%**	**2.0%**	2.9%	2.0%

	%	**2012 €'000**	%	2011 €'000
Equities	**71**	**153,262**	71	136,528
Bonds	**18**	**38,302**	17	32,611
Property	**6**	**12,651**	7	12,576
Cash	**5**	**12,338**	5	9,339
	100	**216,553**	100	191,054
Actuarial value of liabilities		**(279,524)**		(224,614)
Deficit in the schemes		**(62,971)**		(33,560)

*Net of the Government pension levy of 0.6%.

With effective from 1 January 2013 under the Amendment to IAS 19 – Employee Benefits, the expected rate of return on assets is no longer based on an estimate of returns but will now be equal to the discount rate. This amendment will have an impact on the Group's financial statements as the expected return on assets and interest on scheme liabilities will be replaced with a single net finance income/expense figure. The expected rate of return on assets for 2013 will equal the discount rate. This will result in a net finance expense for pensions in 2013 of circa €2.5 million compared to a net expected pension return of €0.9 million in 2012.

The net pension deficit of €62,971,000 (2011: €33,560,000) is shown in the Group balance sheet as retirement benefit obligations (non-current liabilities) of which €11,653,000 (2011: €6,012,000) relates to the two UK schemes and €51,318,000 (2011: €27,548,000) to the five Irish schemes. Changes in the rates used to discount liabilities, in line with changes in corporate bond rates, increased scheme liabilities by €44.2 million.

31. Pension Commitments (continued)

History of scheme assets, liabilities and deficit in the schemes

Historical information	**2012 €'000**	2011 €'000	2010 €'000	2009 €'000	2008 €'000
Assets at bid value	**216,553**	191,054	190,943	165,764	133,855
Actuarial value of liabilities	**(279,524)**	(224,614)	(208,502)	(191,023)	(174,747)
Deficit in the schemes	**(62,971)**	(33,560)	(17,559)	(25,259)	(40,892)

Historical information	**2012 €'000**	2011 €'000	2010 €'000	2009 €'000	2008 €'000
Experience adjustment on					
scheme liabilities	**2,688**	(506)	(1,580)	4,156	3,905
As % of scheme liabilities	**1.0%**	0.2%	0.8%	2.2%	2.2%
Experience adjustment on					
scheme assets	**7,859**	(16,653)	9,580	15,331	(72,585)
As % of scheme assets	**3.6%**	8.7%	5.0%	9.2%	54.2%

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 2012 of the Group's schemes is 6.0% (31 December 2011: 6.4%).

The actual return on plan assets is set out below:

	2012 €'000	2011 €'000
Actual return on plan assets	**20,304**	(3,615)

Sensitivity of pension liability to judgemental assumptions

Assumption	Change in Assumptions	Impact on Scheme Liabilities
Discount rate	Increase by 0.25%	Reduce by 4.5%
Rate of salary growth	Increase by 0.25%	Increase by 0.9%
Rate of inflation*	Increase by 0.25%	Increase by 2.6%
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)	
	2012 €'000	2011 €'000	**2012 €'000**	2011 €'000	**2012 €'000**	2011 €'000
At 1 January	**191,054**	190,943	**(224,614)**	(208,502)	**(33,560)**	(17,559)
Expected return on plan assets	**12,445**	13,038	**-**	-	**12,445**	13,038
Contributions by employer	**7,655**	7,496	**-**	-	**7,655**	7,496
Contributions by members	**1,750**	1,827	**(1,750)**	(1,827)	**-**	-
Benefit payments	**(6,510)**	(8,566)	**6,510**	8,566	**-**	-
Current service cost	**-**	-	**(2,314)**	(2,280)	**(2,314)**	(2,280)
Past service credit	**-**	-	**558**	462	**558**	462
Settlement loss	**-**	-	**-**	(378)	**-**	(378)
Curtailment gain	**-**	-	**333**	294	**333**	294
Interest cost on scheme liabilities	**-**	-	**(11,501)**	(11,187)	**(11,501)**	(11,187)
Actuarial (losses)/gains	**7,859**	(16,653)	**(44,340)**	(6,558)	**(36,481)**	(23,211)
Translation adjustment	**2,300**	2,969	**(2,406)**	(3,204)	**(106)**	(235)
At 31 December	**216,553**	191,054	**(279,524)**	(224,614)	**(62,971)**	(33,560)
Related deferred tax asset (net)					**9,094**	4,947
Net pension liability					**(53,877)**	(28,613)

31. Pension Commitments (continued)

Expense recognised in operating costs

	2012 €'000	2011 €'000
Past service credit (i)	**(558)**	(462)
Settlement loss (ii)	**-**	378
Curtailment gain (iii)	**(333)**	(294)
Current service cost	**2,314**	2,280
Total operating charge	**1,423**	1,902

(i) The past service credit of €558,000 (2011: €462,000) arose from the 0.6% pension levy imposed by the Irish Government on the Group's Irish plan assets.

(ii) The settlement loss in 2011 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 individuals who ceased to be employed by the Group during the year.

Recognised directly in other comprehensive income

	2012 €'000	2011 €'000
Actuarial loss on pensions	**(36,481)**	(23,211)
Deferred tax on pensions	**5,407**	4,088
	(31,074)	(19,123)

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

	2012 €'000	2011 €'000
Operating costs	**1,423**	1,902
Finance income (expected return on scheme assets)	**(12,445)**	(13,038)
Finance expense (interest on scheme liabilities)	**11,501**	11,187
Total operating charge	**479**	51

Cumulative net actuarial losses reported in the Group statement of comprehensive income since 1 January 2004, the transition date to IFRS, to 31 December 2012 is €92.6 million (2011: €56.1 million). The contributions expected to be paid to the Group's defined benefit schemes in 2013 is approximately €5.3 million (2012: €7.7 million).

32. Share Based Payments

The Group's employee share schemes are equity settled share based payments as defined in IFRS 2 Share Based Payments. The total share based payments expense for the year charged to the income statement was €762,000 (2011: credit of €670,000).

Details of the schemes operated by the Group are set out below:

Long Term Incentive Plan (LTIP)

A Long Term Incentive Plan (LTIP) was introduced in 2011. Details of the plan are set out in the Report of the Remuneration Committee on Directors' Remuneration on pages 37 to 39. Awards over 1,180,300 Grafton Units were granted under the plan on 18 April 2012.

A summary of the award granted on 18 April 2012 is set out below:

	Grafton Group LTIP 2012	Grafton Group LTIP 2011
Grant Date	**18 April 2012**	25 May 2011
Share price at date of award	**€3.19**	€3.44
Exercise price	**N/A**	N/A
Number of employees	**148**	158
Number of share awards	**1,180,300**	1,159,000
Vesting period	**3 years**	3 years
Expected volatility	**43.2%**	33.5%
Award life	**3 years**	3 years
Expected life	**3 years**	3 years
Risk free rate	**0.68%**	2.00%
Expected dividends expressed as dividend yield	**2.56%**	2.19%
Possibility of ceasing employment before vesting	**0%**	0%
Valuation model	**Binomial model**	Binomial model
Fair value of share award – EPS component	**€2.96**	€3.22
Fair value of share award – TSR component	**€2.00**	€1.80

This expected volatility is based on historic volatility over the last 3 years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on bonds from the European Central Bank of a term consistent with the life of the award at the grant date.

A reconciliation of all share awards granted under the LTIP is as follows:

	2012 Number	2011 Number
Outstanding at 1 January	**1,159,000**	-
Granted	**1,180,300**	1,159,000
Outstanding at 31 December	**2,339,300**	1,159,000

32. Share Based Payments (continued)

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.

(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 complied with Institutional Guidelines.

The number of Grafton Units issued during the year under the Company's Executive Share Schemes was Nil (2011: 464,297) and the total consideration received amounted to €Nil (2011: €1,312,000). Costs relating to the issues were €Nil (2011: €16,000). Entitlements outstanding at 31 December 2012 amounted to 9,143,801 (2011: 11,857,795). Grafton Units may be acquired, in accordance with the terms of the scheme, at prices ranging between €1.66 and €11.50 during the period to 2019.

32. Share Based Payments (continued)

Share Schemes (continued)

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

	2012		2011	
	Number	**Weighted average exercise price €**	Number	Weighted average exercise price €
Outstanding at 1 January	**11,857,795**	**6.35**	12,870,047	6.22
Granted	**-**		-	-
Forfeited	**(2,128,900)**	**6.76**	(547,955)	6.28
Expired	**(585,094)**	**4.03**	-	-
Exercised	**-**	**-**	(464,297)	2.83
Outstanding at 31 December	**9,143,801**	**6.40**	11,857,795	6.35

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 3.8 years (2011: 4.6 years).

At 31 December 2012 6.64 million (31 December 2011: 6.82 million) share entitlements at a weighted average exercise price of €8.20 (2011: €7.82) 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.

UK SAYE Scheme

Options over 2,136,800 (2011: 2,131,928 under the 2008 SAYE Scheme) Grafton Units were outstanding at 31 December 2012, pursuant to a new 2012 three year saving contract under the Grafton Group (UK) plc Savings Related Share Option Scheme at a price of €2.85 (2011: €2.96 under 2008 SAYE Scheme). These options are normally exercisable within a period of six months after the third anniversary of the savings contract, being March 2016. The number of Grafton Units issued during the year under the Company's 2008 SAYE Scheme to good leavers was 159,429 (2011: 19,286) and the total consideration received amounted to €472,000 (2011: €57,000). Options forfeited in the year were 17,435 (2011: 106,879).

32. Share Based Payments (continued)

UK SAYE Scheme (continued)

A summary of the new 2012 UK SAYE grant on 25 September 2012 is set out below:

	UK SAYE Scheme 2012
Grant Date	25 September 2012
Share price at date of grant	€3.17
Exercise price	€2.85
Number of employees	1,161
Share under option	2,154,235
Vesting period	3 years
Expected volatility	38.7%
Option life	3.5 years
Expected life	3.5 years
Risk free rate	0.32%
Expected dividends expressed as dividend yield	2.62%
Possibility of ceasing employment before vesting	5%
Valuation model	Binomial model
Fair value of option	€0.97

The expected volatility is based on historic volatility over the last 3 years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on bonds from the European Central Bank of a term consistent with the life of the option.

A reconciliation of options granted under the Grafton Group (UK) plc Savings Related Share Option Scheme is as follows:

	2012		2011	
	Number	Option price €	Number	Option price €
Outstanding at 1 January	2,131,928	2.96	2,258,093	2.96
Granted	2,154,235	2.85	-	-
Forfeited	(17,435)	2.85	(106,879)	2.96
Expired	(1,972,499)	2.96	-	-
Exercised	(159,429)	2.96	(19,286)	2.96
Outstanding at 31 December	2,136,800	2.85	2,131,928	2.96

33. Accounting Estimates and Judgements

The Group's main accounting policies affecting its results and financial condition are set out on pages 53 to 65. 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 €583.5 million at 31 December 2012 (2011: €566.3 million) as detailed in note 11. 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 calculations 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 2012 (2011: Nil).

Retirement benefit obligations

The Group operates a number of defined benefit retirement plans which are as set out in note 31. The Group's total obligation in respect of defined benefit plans is calculated by independent, qualified actuaries and updated at least annually and totals €279.5 million at 31 December 2012 (2011: €224.6 million). Plan assets at 31 December 2012 amounted to €216.5 million (2011: €191.0 million) giving a net scheme deficit of €63.0 million (2011: €33.6 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 also sensitive to asset returns and the level of contributions made by the Group.

Insurance provisions

Insurance provisions of €13.5 million (2011: €15.7 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 €11.1 million (2011: €11.7 million) for the year ended 31 December 2012;
- No dividend income was received by the Company from subsidiaries during the year (2011: 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 (2011: €3.16 million).

The Group acquired a controlling interest in BMC Groep NV (BMC), the Belgian joint venture, on 31 October 2012 and now accounts for BMC as a subsidiary undertaking with a non-controlling interest. It is included in the Acquisition of Subsidiary Undertakings in Note 27. Prior to 31 October 2012 the Group's interest in BMC was proportionally consolidated. The Group's shareholding increased from 53 per cent to 58 per cent in May 2012 and to 65 per cent on 31 October 2012 when a controlling interest was acquired and BMC was accounted for as a subsidiary with a non-controlling interest. 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.

Key Management Personnel

The term key management personnel for 2012 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 36 to 43 provides detailed disclosure for 2012 and 2011 of 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 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 2012 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 48 to 125 on 6 March 2013.

Company Balance Sheet

As at 31 December 2012

	Notes	2012 €'000	2011 €'000
ASSETS			
Non-current assets			
Property, plant and equipment	3	**180**	250
Deferred tax asset	9	**2**	2
Investments in subsidiary undertakings	4	**362,362**	361,791
Financial assets	4	**13**	13
Receivables from Group companies	5	**38,737**	41,717
Total non-current assets		**401,294**	403,773
Current assets			
Receivables from Group companies	5	**550,226**	741,552
Other receivables	5	**6,185**	5,476
Cash and cash equivalents		**23,802**	7,054
Total current assets		**580,213**	754,082
Total assets		**981,507**	1,157,855
EQUITY			
Capital and reserves			
Equity share capital	6	**11,664**	11,656
Share premium account	6	**293,009**	292,545
Capital redemption reserve		**905**	905
Shares to be issued reserve		**4,337**	4,588
Retained earnings		**326,112**	320,285
Treasury shares held	6	**(5,746)**	(5,746)
Total equity		**630,281**	624,233
LIABILITIES			
Current liabilities			
Payables to Group companies	8	**342,201**	525,556
Other payables	8	**9,023**	8,054
Current income tax liabilities		**2**	12
Total current liabilities		**351,226**	533,622
Total liabilities		**351,226**	533,622
Total equity and liabilities		**981,507**	1,157,855

On behalf of the Board

G. Slark
C Ó Nualláin
Directors

6 March 2013

Company Cash Flow Statement

For the year ended 31 December 2012

	Notes	2012 €'000	2011 €'000
Profit before tax		**4,827**	5,714
Finance income		**(82)**	(240)
Finance expense		**212**	232
Operating profit		**4,957**	5,706
Depreciation	3	**114**	110
Share-based payments charge/(credit)		**191**	(214)
Contributions to pension schemes in excess of IAS 19 charge		**(7)**	(7)
Decrease/(increase) in working capital	10	**260**	(1,324)
Cash generated from operations		**5,515**	4,271
Interest paid		**(158)**	(177)
Income taxes paid		**(5)**	(2,005)
Cash flows from operating activities		**5,352**	2,089
Investing activities			
Inflows			
Interest received		**17**	168
Outflows			
Investment in subsidiary undertakings	4	**-**	(1,312)
Purchase of property, plant and equipment	3	**(44)**	(145)
		(44)	(1,457)
Cash flows from investing activities		**(27)**	(1,289)
Financing activities			
Inflows			
Proceeds from the issue of share capital		**472**	1,353
Movement on Group receivables		**194,306**	-
Movement on Group payables		**-**	38,288
		194,778	39,641
Outflows			
Movement on Group payables		**(183,355)**	-
Movement on Group receivables		**-**	(40,448)
		(183,355)	(40,448)
Cash flows from financing activities		**11,423**	(807)
Net increase/(decrease) in cash and cash equivalents		**16,748**	(7)
Cash and cash equivalents at 1 January		**7,054**	7,061
Cash and cash equivalents at 31 December		**23,802**	7,054
Cash and cash equivalents are broken down as follows:			
Cash at bank and short-term deposits		**23,802**	7,054

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 2012							
At 1 January 2012	**11,656**	**292,545**	**905**	**4,588**	**320,285**	**(5,746)**	**624,233**
Profit after tax for the financial year	-	-	-	-	**4,832**	-	**4,832**
Total other comprehensive income						-	
Actuarial loss on pensions (net of tax)	-	-	-	-	**(18)**	-	**(18)**
Total comprehensive income	-	-	-	-	**4,814**	-	**4,814**
Transactions with owners of the Company recognised directly in equity							
Issue of Grafton Units (net of issue expenses)	**8**	**464**	-	-		-	**472**
Transfer from other reserve-shares to be issued				**(1,013)**	**1,013**		-
Share based payments charge	-	-	-	**762**	-	-	**762**
	8	**464**	-	**(251)**	**1,013**	-	**1,234**
At 31 December 2012	**11,664**	**293,009**	**905**	**4,337**	**326,112**	**(5,746)**	**630,281**
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							
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

Notes to the Company Financial Statements

1. Income Statement

In accordance with Section 148(8) of the Companies Act, 1963, and section 7(1)(a) of the Companies (Amendment) Act, 1986, the Company is availing of the exemption from presenting its income statement to the Annual General Meeting and from filing it with the Companies Registration Office. There was a profit after tax of €4.8 million (2011: €3.7 million) attributable to the parent undertaking for the financial year.

2. Statutory and Other Information

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

	2012 €'000	2011 €'000
Statutory audit (refer to Note 2 of Group Financial Statements)	**60**	60
Depreciation	**114**	110
Operating lease costs	**515**	515
Directors' remuneration	**3,105**	3,276

The Directors' remuneration is set out in detail in the Report of the Remuneration Committee on Directors' Remuneration on pages 36 to 43.

The average number of persons employed by the Company during the year was 20 (2011:18).

	2012 €'000	2011 €'000
The aggregate remuneration costs of employees were:		
Wages and salaries	**4,096**	4,903
Social welfare	**346**	426
Share-based payments charge/(credit)	**191**	(214)
Defined contribution and pension related costs	**101**	309
Charged to operating profit	**4,734**	5,424
Finance cost on pension scheme liabilities	**54**	57
Expected return on pension scheme assets	**(65)**	(72)
Charged to Income Statement	**4,723**	5,409
Actuarial loss on pension scheme	**18**	22
Total employee benefit cost	**4,741**	5,431

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:

	2012	2011
Number of Individuals	**8**	10

	2012 €000	2011 €'000
Short-term employee benefits	**2,915**	3,355
Share-based payment charge/(credit)	**214**	(129)
Retirement benefits expense	**565**	518
Charged to operating profit	**3,694**	3,744

3. Property, plant and equipment

Plant and equipment in the Company is stated as follows:

	Plant and equipment	
	2012 €'000	2011 €'000
Company		
Cost		
At 1 January	**1,933**	1,788
Additions	**44**	145
At 31 December	**1,977**	1,933
Depreciation		
At 1 January	**1,683**	1,573
Charge for year	**114**	110
At 31 December	**1,797**	1,683
Net book amount		
At 31 December	**180**	250
At 1 January	**250**	215

Notes to the Company Financial Statements

4. Financial Assets

	Other investments €'000	Investments in subsidiary undertakings €'000	Total €'000
At 1 January 2011	**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**
Capital contribution – share-based payments	-	571	571
At 31 December 2012	**13**	**362,362**	**362,375**

Other investments represent sundry equity investments at fair value.

5. Trade and Other Receivables

	2012 €'000	2011 €'000
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	**550,226**	741,552
Other receivables	**6,185**	5,476
	556,411	747,028
Amounts falling due after one year:		
Amounts owed by subsidiary undertakings	**38,737**	41,717

None of the amounts owed by subsidiary undertakings of €589.0 million (2011: €783.3 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.

Notes to the Company Financial Statements

7. Financial Instruments and Financial Risk

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

The maximum credit risk is the carrying amount of the asset. Cash balances and deposits at the year end are mainly 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 to variable rate instruments.

31 December 2012	Carrying amount €'000	Contractual cash flow €'000	Within 1 Year €'000
Non-Derivative Financial Instruments			
Receivables from Group companies	**550,226**	**550,226**	**550,226**
Other receivables	**6,185**	**6,185**	**6,185**
Payable to Group companies	**(342,201)**	**(342,201)**	**(342,201)**
	214,210	**214,210**	**214,210**

31 December 2011	Carrying amount €'000	Contractual cash flow €'000	Within 1 Year €'000
Non-Derivative Financial Instruments			
Receivables from Group companies	741,552	741,552	741,552
Other receivables	5,476	5,476	5,476
Payable to Group companies	(525,556)	(525,556)	(525,556)
	221,472	221,472	221,472

8. Trade and Other Payables

	2012 €'000	2011 €'000
Trade and other payables		
Accruals	**9,023**	8,054
Amounts owed to subsidiary undertakings	**342,201**	525,556
	351,224	533,610

9. Deferred Taxation

Recognised deferred tax (assets) and liabilities	Assets 2012 €'000	Liabilities 2012 €'000	Net (assets)/ liabilities 2012 €'000	Assets 2011 €'000	Liabilities 2011 €'000	Net (assets)/ liabilities 2011 €'000
Other items	**(2)**	**-**	**(2)**	(2)	-	(2)

2012	Balance 1 Jan 12 €'000	Recognised in income €'000	Recognised in other comprehensive income €'000	Balance 31 Dec 12 €'000
Other items	**(2)**	**-**	**-**	**(2)**

2011	Balance 1 Jan 11 €'000	Recognised in income €'000	Recognised in other comprehensive income €'000	Balance 31 Dec 11 €'000
Other items	(2)	-	-	(2)

10. Movement in Working Capital

	Trade and other receivables €'000	Trade and other payables €'000	Total €'000
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 1 January 2012	**5,476**	**(8,054)**	**(2,578)**
Movement in 2012	709	(969)	(260)
At 31 December 2012	**6,185**	**(9,023)**	**(2,838)**

Notes to the Company Financial Statements

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

	2012 €'000	2011 €'000
Net increase/(decrease) in cash and cash equivalents	**16,748**	(7)
Cash flow from movement in debt and lease financing	**-**	-
Change in net debt resulting from cash flows	**16,748**	(7)
Net cash at 1 January	**7,054**	7,061
Net cash at 31 December	**23,802**	7,054

12. Operating Leases

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

	Land and Buildings 2012 €'000	Land and Buildings 2011 €'000
Operating lease payments due:		
Within one year	**482**	515
Between two and five years	**442**	2,060
Over five years	**221**	3,605
	1,145	6,180

The reduction in the operating lease commitments reflects new terms agreed during the year.

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 2012 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 2012 Company scheme	At 31 Dec 2011 Company scheme
Valuation Method	**Projected Unit**	Projected Unit
Discount rate	**3.75%**	5.10%
Inflation rate increase	**2.00%**	2.00%

The Company's obligations to the scheme at the end of 2012 and 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)**	
	2012 €'000	2011 €'000	**2012 €'000**	2011 €'000	**2012 €'000**	2011 €'000
At 1 January	**1,101**	1,107	**(1,101)**	(1,107)	**-**	-
Expected return on plan assets	**65**	72	**-**	-	**65**	72
Benefit payments	**(78)**	(78)	**78**	78	**-**	-
Past service credit	**-**	-	**7**	7	**7**	7
Interest cost on scheme liabilities	**-**	-	**(54)**	(57)	**(54)**	(57)
Actuarial gains/(losses)	**198**	-	**(216)**	(22)	**(18)**	(22)
At 31 December	**1,286**	1,101	**(1,286)**	(1,101)	**-**	-
Related deferred tax asset (net)					**-**	-
Net pension liability					**-**	-

Notes to the Company Financial Statements

13. Pension Commitments (continued)

Expense recognised in operating costs

	2012 €'000	2011 €'000
Past service credit	**7**	7
Total operating credit	**7**	7

Recognised directly in other comprehensive income

	2012 €'000	2011 €'000
Actuarial loss on pensions	**(18)**	(22)
	(18)	(22)

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

	2012 €'000	2011 €'000
Operating income	**(7)**	(7)
Finance income (expected return on scheme assets)	**(65)**	(72)
Finance expense (interest on scheme liabilities)	**54**	57
Total operating credit	**(18)**	(22)

No contributions are expected to be paid to the Company's defined benefit scheme in 2013 (2012: €nil).

14. Share-Based Payments

Please refer to the Group Share-Based Payments note (note 32) set out on pages 120 to 123.

15. 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 €11.1 million (2011: €11.7 million) for the year ended 31 December 2012;
- No dividend income was received by the Company from subsidiaries during the year (2011: Nil);
- Loans were granted to and by the Company to its subsidiaries.

Notes to the Company Financial Statements

15. Related Party Transactions (continued)

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 (2011: €3.16 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 36 to 43 provides detailed disclosure for 2012 and 2011 of 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.

16. Principal Operating Subsidiaries

The principal operating subsidiaries operating in Ireland are:

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

The Company owns 100 per cent of the ordinary shares, the only class of shares in issue, of its principal subsidiary undertakings operating in Ireland. 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.

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 Company owns 100 per cent of the share capital of its principal subsidiary undertakings operating in the UK. 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.

Notes to the Company Financial Statements

16. Principal Operating Subsidiaries (continued)

The principal operating subsidiary in Belgium is BMC Groep NV (Builders merchants). The registered office of BMC Groep NV is Ropswalle 26, 8930 Menen, Belgium. The Company owns 65 per cent of the share capital of BMC Groep NV.

17. Section 17 Guarantees

Pursuant to the provisions of Section 17, Companies (Amendment) Act, 1986, the Company has guaranteed the liabilities of certain wholly owned subsidiaries in the Republic of Ireland for the financial year ended 31 December 2012 and, as a result, such subsidiary undertakings have been exempted from the filing provisions of Section 7, Companies (Amendment) Act, 1986 and Regulation 20 of the European Communities (Accounts Regulations), 1993.

This guarantee applies to the following 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 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), Grafton Merchanting ROI Limited, 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, 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, Panelling Centre Limited, Payless D.I.Y. Limited, Pechura Limited, Plumbing Distributors Limited, Plumbland Limited, Pouladuff Developments Limited, Pouladuff Manufacturing Limited, Powlett Properties 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, Woodies DIY (Irl) Limited, and Woodie's DIY Limited.

18. Other Guarantees

The Company has given guarantees in respect of the bank borrowings of subsidiary undertakings which amounted to €337.6 million at the balance sheet date. The Company has also guaranteed certain property lease obligations of subsidiary undertakings.

19. Approval of Financial Statements

The Board of Directors approved the Company Financial Statements in respect of the year ended 31 December 2012 on 6 March 2013.

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 Squire Sanders, London
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. 2 Grand Canal Square, Dublin 2 Phone; 00-353-1-5530050 Email: enquiries@capitaregistrars.ie www.capitaregistrars.ie

Financial Calendar

Results	
Half-yearly results	29 August 2012
Full year results	7 March 2013
Annual general meeting	14 May 2013
Interim Dividends	
Record date	7 September 2012
Record date	15 March 2013

Location of Annual General Meeting

The Annual General Meeting of the Company will be held on 14th of May 2013 at 10.30 am in the

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

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, or have any queries on the day of the AGM, please call 087 971 0851.

Grafton Group plc
Heron House, Corrig Road
Sandyford Industrial Estate
Dublin 18, Ireland.

Telephone: +353 1 216 0600
Fax: +353 1 295 4470
Email: email@graftonplc.com
Web: www.graftonplc.com