



Grafton Group plc 2010 Half-yearly Financial Report

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Highlights

Grafton Group plc announces its interim results for the six months ended 30 June 2010.

	2010	2009
Revenue	€979 m	€990 m
Operating profit / (loss)	€14.8 m	(€8.3 m)
Profit before tax	€13.4 m	€3.7 m
Earnings per share	5.6 c	1.5 c
Dividend / 'A' ordinary share purchase	2.5 c	2.5 c

FINANCIAL HIGHLIGHTS:

- Turnover decline stabilised at €979m
- Turnaround of €23m brings operating profits to €14.8m
- Gross margin increased by 26 basis points
- Like for like costs reduced by €22.6m
- Shareholders' funds increase by €54.8m to €966.6m or €4.18 per share
- Strong operational cash flow of €60.2m
- Further net debt reduction of €41.4m lowers debt/equity ratio to 29 per cent
- Refinancing of net debt to 2013 completed

OPERATIONAL HIGHLIGHTS:

Merchanting UK:

- Operating profit more than doubles
- Turnover increases by 5 per cent to €678.5m
- Merchanting market improves
- Two small businesses acquired and one branch opened

Merchanting Ireland:

- Approaches breakeven with €0.5m loss
- Rate of contraction in turnover moderates to low single digits
- Overheads reduced by €12m

OUTLOOK:

Commenting on the outlook, Michael Chadwick, Executive Chairman said:

"The market challenges faced by the Group over recent years eased considerably in the first half. Losses in Irish merchanting were much reduced and operating profit in UK merchanting increased strongly. The improved trends in Group turnover were sustained in July and August. Grafton's profits are now recovering and we expect further profit improvement in the second half. A good base has been established from which renewed growth in earnings can be generated over the coming years as market conditions normalise."



Conference Call

Grafton will host an Analysts' conference call today at 8.30am (Irish Time) to discuss this announcement. The dial-in numbers are:

Ireland:	+ 353	1 436 4265
UK:	+ 44	208 817 9301
US:	+1 718	354 1226
Other Countries:	+353	1 436 4265

A replay of the conference call will be available from 11.30am (Irish Time). To access the recording, the dial-in numbers are:

Ireland:	+353	1 436 4267
UK:	+44	207 769 6425
US:	+1 630	652 3111
Other:	+353	1 436 4267

The digital replay security code is: 3382593#

A copy of this statement is also available on our website www.graftonplc.com



Interim Management Report

For the six months ended 30 June 2010

Overview

The performance of the Group improved significantly in the first half of 2010. Profits recovered strongly in the second quarter relative to the weather-affected first quarter and the corresponding quarter in 2009.

On a relatively stable turnover base of €978.7 million for the half year (2009: €989.9 million) Group operating profit improved significantly to €14.8 million from an operating loss of €8.3 million last year. The improvement in operating profit was mainly due to the measures taken during 2009 to adjust the cost base of the Group. Costs were €22.6 million lower than the previous half year in the like for like business. Restructuring costs amounted to €2.9 million. The gross margin increased by 26 basis points due to improved supply chain and sourcing arrangements.

Profit before tax was €13.4 million compared to a profit of €3.7 million last year that included exceptional investment and property profits of €28.1 million. The net bank and loan note interest charge was reduced materially by €6.1 million on the back of lower net debt and after taking advantage of historically low short term interest rates available in financial markets.

The Group continued to have a strong and well capitalised balance sheet and shareholders' funds increased by €54.8 million to €966.6 million during the period.

The Group's businesses produced operating cash flow of €60.2 million (2009: €78.0 million). Net debt was reduced further by €41.4 million to €281.0 million, resulting in a modest debt to equity ratio of 29 per cent (31 December 2009: 35 per cent). The increased focus on cash generation and lower working capital over the past 30 months enabled a reduction in net debt by €270 million over the period.

Financial flexibility and liquidity continued to be maintained with cash deposits and balances of €330.3 million held by the Group at the half year (31 December 2009: €302.0 million). With effect from the end of August Grafton has refinanced the equivalent of the Group's net debt (€280 million) through new three year revolving bilateral term loan agreements with Bank of Ireland, Ulster Bank and HSBC Corporate Banking Ireland. The all inclusive margins of up to 3 per cent over Inter Bank Rates reflect the current high cost of bank finance. The principal covenants include a maximum net debt to equity ratio of 85 per cent (at the end of June 2010 this ratio was 26 per cent as defined for covenant purposes), a minimum EBITDA / Interest cover ratio which rises from one times to three times by 2013 and a minimum shareholders' funds balance of €750 million (over €1,063 million at 30 June 2010 as calculated for covenant purposes). Although this refinancing is not reflected in the June balance sheet it consolidates the Group's strong and liquid financial position going forward.

Dividend

An interim dividend of 2.5 cent per share (2009: purchase of one A ordinary share per Grafton Unit for 2.5 cent each) has been approved.



Operations Review - Merchancing

Turnover was marginally lower at €339.5 million (2009: €339.8 million). Operating profit before restructuring costs increased to €27.4 million (2009: €12.8 million).

The UK economy continued to emerge from recession and growth resumed in the UK merchancing business following the sharp volume declines over the previous two years. In Ireland, half year turnover in the merchancing business declined as the sharp fall in domestic demand and investment experienced last year continued into 2010. The rate of decline in the Irish merchancing business moderated significantly in recent months.

Merchancing turnover in the UK increased by five per cent to €678.5 million (2009: €647.3 million) and operating profit more than doubled to €27.9 million (2009: €13.7 million).

Merchancing volumes in the UK fell by more than a quarter over 2008 and 2009 as households cut discretionary and non-essential spending on housing maintenance and improvement projects and house building more than halved over the period. House building recovered during the half year from a very low base. Housing transactions also recovered but to a lesser degree increasing to approximately half pre-recession levels. Trading was seriously affected by adverse weather in January but demand improved in the following months and average daily like for like sales were up by four per cent in the February to June period. The recovery in turnover was centred on the heavyside and specialist branches that supply the new housing market and demand in the RMI market was stable.

The overall gross margin gained in an improving market from purchasing synergies, increased Hire Base turnover and an extension of product ranges with the introduction of more own brand products. Overheads in the like for like business were down due to the range of measures taken during the second half of 2009.

Integration of the Buildbase, Plumbase, Jacksons and Specialist brands under a streamlined reporting structure and single support office based in Oxford was completed. Two small merchancing businesses were acquired and one branch was opened during the half year.

Selco, the trade only warehouse format business operating from 28 stores, increased sales and operating profit significantly. The three new stores that opened last year performed ahead of expectation.

Turnover was lower in Macnaughton Blair as the merchancing market in Northern Ireland stabilised following the significant fall in volumes in 2009.

The rate of contraction in merchancing turnover in the Republic of Ireland moderated from 33 per cent in the last quarter of 2009 to 16 per cent in the first half of 2010. The pace of decline continued to moderate in July and August. The business achieved a turnover of €161.0 million (2009: €192.5 million) in the period. The Heiton Buckley and Chadwicks brands traded successfully in a challenging market. Developing new lines of business and expanding product ranges enabled an increase in the proportion of RMI related turnover. There was a significant recovery in turnover in the Heiton Steel business in the second quarter with volumes well ahead of 2009 levels. The Irish merchancing business was returned close to a breakeven position for the first half despite the significant decline in turnover. The business made an operating loss of €0.5 million, a significant improvement on the equivalent operating loss of €6.9 million incurred in the first six months of 2009.

The exercise of price discipline and tight management of sourcing and procurement supported an improvement in gross margins. Cost reductions in the Irish merchancing business were achieved through a more integrated structure to manage the two brands, consolidation of a small number of branches in areas of overlap and the scaling back of branch costs in response to the



market downturn. Overheads were reduced by €12 million, a decline of 22 per cent in the cost base of the business.

Operations Review - Retailing

Turnover declined by seven per cent to €117.5 million from €126.8 million and, in the traditionally less profitable first half, the business reported an operating loss before restructuring costs of €1.2 million (2009: loss of €0.6 million).

Woodie's DIY produced a relatively strong trading performance despite a challenging market. Transaction numbers were marginally higher and average volumes were lower reflecting weaker demand for 'big ticket' products. The gross margin benefited from increased sales of higher margin products and a lower level of promotional activity on seasonal categories. The impact of the reduction in turnover was offset by the cost reduction measures implemented in the second half of 2009 and an improved gross margin.

The In-House kitchens business benefited from the introduction in 2009 of a new range of kitchens positioned at a competitive value for money price point. The new range together with sales of "Smart Fit" fully assembled kitchens, also launched last year, enabled overall volumes and gross margins to be maintained at similar levels to last year but on a lower turnover.

Operations Review - Manufacturing

Turnover in the manufacturing segment declined by 7 per cent to €21.7 million (2009: €23.4 million) and the operating loss before restructuring costs reduced to €2.3 million (2009: €4.1 million).

Volumes in the UK mortar business were impacted by adverse weather conditions in January and February but recovered strongly to increase turnover as the business benefited from a strong recovery in housing starts from historically low levels.

The Irish manufacturing businesses suffered from falling demand in the new housing market that was partly offset by public sector projects and further cost reductions.

Financial Review

Net debt as at 30 June 2010 was €281.0 million, a reduction of €41.4 million, from the 2009 year-end position. The reduction was secured by strong operational cash flows of €60.2 million (2009: €78.0 million) including a further improvement in working capital. Capital expenditure continued to be tightly controlled.

The refinancing of Group debt was completed with effect from the end of August. This debt now extends to 2013. These facilities will enable the Group to continue to maintain a good level of liquidity through a mixture of revolving committed facilities and cash deposits. Margins on the new bank facilities have, as anticipated, increased significantly from the low pre credit crisis levels. However, the reduction in Group debt in recent years will help to contain the overall interest charge incurred by the Group.

Shareholders' funds increased by €54.8 million to €966.6 million yielding an asset value equivalent to €4.18 per share. The increase in shareholders' funds included a net gain of €61.5 million on translation of sterling assets and borrowings into euro due to the strengthening of the sterling exchange rate. Details of other significant balance sheet movements have been provided in the relevant notes later in this report.



Risks and Uncertainties

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

Trading in the Group's business is affected by economic conditions in the UK and Ireland where the Group's earnings are generated. Demand in the UK and Irish builders merchandising markets and in the Irish DIY and UK mortar markets are sensitive to economic conditions generally including credit conditions, consumer confidence, interest rates, employment trends, inflation, demographic factors and housing market conditions. More difficult market conditions may reduce demand in the Group's markets resulting in lower volumes with a related impact on performance.

A further deterioration in the UK and Irish economies could lead to lower demand in the Group's merchandising, DIY and mortar businesses. Sterling weakness could lead to lower reported Group numbers on translation of the results of the UK business into euro at the average rate of exchange for the second half of the year.

Outlook

The UK economy grew over the first half of 2010 at a rate that was close to its long-run average and the overall outlook has improved, although signs of consumer sentiment softening have emerged recently due to concerns about cuts in Government spending. It is too soon to judge whether this will translate into softer spending. Most of the burden of cutting the deficit will fall on spending cuts rather than increased taxes. Demand fundamentals for the Group's exposure to the UK RMI market are attractive due to the age of the housing stock.

The outlook for Ireland is for a tentative recovery to take hold and for modest growth to return in late 2011. There are indications that consumers, while remaining cautious due to the downward pressure on earnings and a weak labour market, are becoming more confident with some signs of positive spending patterns starting to emerge. Due to the scale of the decline in consumer spending and reduced access to credit it will take some time for the recovery to gather momentum and become firmly established.

The improving trends in turnover evident during the first half were sustained in July and August.

In July, average daily like for like turnover increased by 6.3 per cent in the UK merchandising business and the decline in Irish merchandising turnover moderated to 6 per cent. The turnover trend in retailing and manufacturing in July was consistent with the first half. These more positive trends continued at a similar pace during August.

The challenges encountered in our markets over the past three years have eased considerably and further improvement in profit is expected over the remainder of the year.



Grafton Group plc

Group Condensed Income Statement

For the six months ended 30 June 2010

	Six months to 30 June 2010 (Unaudited) €000	Six months to 30 June 2009 (Unaudited) €000	Twelve months to 31 Dec 2009 (Audited) €000
Revenue	978,685	989,946	1,979,796
Operating costs and income	<u>(963,930)</u>	<u>(998,209)</u>	<u>(1,974,912)</u>
Operating profit/(loss)	14,755	(8,263)	4,884
Finance expense	(11,459)	(16,846)	(29,419)
Finance income	<u>10,132</u>	<u>28,794</u>	<u>38,115</u>
Profit before tax	13,428	3,685	13,580
Income tax expense	<u>(547)</u>	<u>(295)</u>	<u>(188)</u>
Profit after tax for the financial period	<u>12,881</u>	<u>3,390</u>	<u>13,392</u>
Profit attributable to: Equity holders of the Company	<u>12,881</u>	<u>3,390</u>	<u>13,392</u>
Earnings per ordinary share - basic	<u>5.58c</u>	<u>1.47c</u>	<u>5.81c</u>
Diluted earnings per share	<u>5.55c</u>	<u>1.47c</u>	<u>5.79c</u>



Grafton Group plc

Group Condensed Balance Sheet as at 30 June 2010

	30 June 2010 (Unaudited) €000	30 June 2009 (Unaudited) €000	31 Dec 2009 (Audited) €000
ASSETS			
Non-current assets			
Goodwill	568,449	564,077	544,286
Intangible assets	5,568	7,780	6,665
Property, plant and equipment	616,446	642,674	604,838
Deferred tax assets	25,111	28,019	22,459
Derivative financial instruments	14,372	11,405	12,524
Investment in associate	3,690	3,690	3,690
Financial assets	184	217	211
Total non-current assets	1,233,820	1,257,862	1,194,673
Current assets			
Inventories	288,234	314,544	265,748
Trade and other receivables	353,398	365,364	306,863
Derivative financial instruments	7,679	4,028	4,405
Cash and cash equivalents	330,307	270,143	301,985
Properties held for sale	14,300	13,392	12,363
Total current assets	993,918	967,471	891,364
Total assets	2,227,738	2,225,333	2,086,037
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Equity share capital	11,632	11,597	11,598
Share premium account	291,205	289,665	289,800
Capital redemption reserve	905	902	905
Revaluation reserve	31,850	32,055	31,952
Other reserves	5,128	7,083	4,677
Cash flow hedge reserve	(2,076)	(1,264)	(1,182)
Foreign currency translation reserve	(97,094)	(132,770)	(158,611)
Retained earnings	730,751	728,048	738,356
Treasury shares held	(5,746)	(5,746)	(5,746)
Total equity	966,555	929,570	911,749
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	292,442	558,066	536,789
Provisions	17,488	16,129	16,800
Retirement benefit obligations	41,742	40,710	25,259
Derivative financial instruments	1,042	845	682
Deferred tax liabilities	46,323	46,568	43,965
Total non-current liabilities	399,037	662,318	623,495
Current liabilities			
Interest-bearing loans and borrowings	338,477	105,787	103,174
Trade and other payables	463,587	459,606	387,331
Current income tax liabilities	51,383	54,565	51,571
Derivative financial instruments	1,440	599	737
Provisions	7,259	12,888	7,980
Total current liabilities	862,146	633,445	550,793
Total liabilities	1,261,183	1,295,763	1,174,288
Total equity and liabilities	2,227,738	2,225,333	2,086,037



Grafton Group plc Group Condensed Cash Flow Statement

For the six months ended 30 June 2010

	Six Months to 30 June 2010 (Unaudited) €000	Six Months to 30 June 2009 (Unaudited) €000	Twelve months to 31 Dec 2009 (Audited) €000
Profit before taxation	13,428	3,685	13,580
Finance income	(10,132)	(28,794)	(38,115)
Finance expense	11,459	16,846	29,419
Operating profit/(loss)	14,755	(8,263)	4,884
Depreciation	22,164	23,822	47,939
Intangible amortisation	1,097	1,097	2,212
Goodwill write-off on termination	-	-	135
Goodwill impairment loss	-	-	5,469
Share based payments charge/(credit)	451	1,042	(1,364)
Non cash movement in provisions	2,440	3,369	4,420
Profit on sale of property, plant and equipment	(528)	(6,803)	(6,819)
Contributions to pension schemes in excess of IAS 19 charge	(996)	(3,722)	(11,975)
Decrease in working capital	20,834	67,493	93,719
Cash generated from operations	60,217	78,035	138,620
Interest paid	(5,459)	(13,108)	(21,241)
Income taxes paid	(337)	(836)	(1,069)
Cash flows from operating activities	54,421	64,091	116,310
Investing activities			
Proceeds from sale of property, plant and equipment	2,332	2,212	13,210
Investment profit realised in cash	-	22,058	22,058
Interest received	2,697	1,274	5,242
Sale of financial assets	44	35	35
	5,073	25,579	40,545
<i>Outflows</i>			
Acquisition of subsidiary undertakings and businesses	(653)	-	(2,255)
Net cash acquired with subsidiary undertakings	1	-	604
Deferred acquisition consideration	(667)	-	(1,556)
Claims paid on provisions	(1,779)	(847)	(1,903)
Purchase of property, plant and equipment	(5,819)	(7,184)	(12,420)
Investment in associate	-	(3,690)	(3,690)
	(8,917)	(11,721)	(21,220)
Cash flows from investing activities	(3,844)	13,858	19,325
Financing activities			
<i>Inflows</i>			
Proceeds from the issue of share capital	1,439	734	873
Proceeds from borrowings	-	73,679	73,679
	1,439	74,413	74,552
<i>Outflows</i>			
Repayment of borrowings	(99)	(64,624)	(78,007)
Dividends paid	(5,768)	-	-
Purchase of 'A' ordinary shares	-	(11,510)	(17,276)
Payment of finance lease liabilities	(281)	(347)	(383)
Redemption of loan notes payable net of derivatives	(34,692)	(49,207)	(49,370)
	(40,840)	(125,688)	(145,036)
Cash flows from financing activities	(39,401)	(51,275)	(70,484)
Net increase in cash and cash equivalents	11,176	26,674	65,151
Cash and cash equivalents at 1 January	301,984	224,827	224,827
Effect of exchange rate fluctuations on cash held	17,147	18,641	12,006
Cash and cash equivalents at the end of the period	330,307	270,142	301,984



Group Condensed Statement of Comprehensive Income

For the six months ended 30 June 2010

	Six months to 30 June 2010 (Unaudited) €000	Six months to 30 June 2009 (Unaudited) €000	Twelve months to 31 Dec 2009 (Audited) €000
Profit after tax for the financial period	<u>12,881</u>	<u>3,390</u>	<u>13,392</u>
Other comprehensive income			
Currency translation effects			
- on foreign currency net investments	79,653	99,211	60,576
- on foreign currency borrowings and derivatives designated as net investment hedges	(18,136)	(29,147)	(16,353)
Actuarial (loss)/gain on Group defined benefit pension schemes	(17,482)	(2,556)	4,778
Deferred tax credit on Group defined benefit pension schemes	2,662	1,817	452
Deferred tax on capital gains tax rate increase	-	(1,012)	(1,012)
Fair value gain on investment	-	22,058	22,058
Transfer of gain on investment to income statement	-	(22,058)	(22,058)
Fair value movement on cash flow hedges:			
- Fair value losses	(2,144)	(1,588)	(2,353)
- Included in finance expense	1,117	144	994
Deferred tax on cash flow hedges	133	180	177
Total other comprehensive income	<u>45,803</u>	<u>67,049</u>	<u>47,259</u>
Total comprehensive income for the financial period	<u>58,684</u>	<u>70,439</u>	<u>60,651</u>
Attributable to:			
Equity holders of the Company	<u>58,684</u>	<u>70,439</u>	<u>60,651</u>



Grafton Group plc
Group Condensed Statement of Changes in Equity

	Equity share capital	Share premium account	Capital redemption reserve	Revaluation reserve	Shares to be issued reserve	Cash Flow hedge reserve	Foreign currency translation reserve	Retained earnings	Treasury shares	Total equity
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Six months to 30 June 2010 (Unaudited)										
At 1 January 2010	11,598	289,800	905	31,952	4,677	(1,182)	(158,611)	738,356	(5,746)	911,749
Profit after tax for the financial period	-	-	-	-	-	-	-	12,881	-	12,881
Actuarial loss on pensions (net of tax)	-	-	-	-	-	-	-	(14,820)	-	(14,820)
Deferred tax – capital gains tax rate increase	-	-	-	-	-	-	-	-	-	-
Movement in cash flow hedge reserve (net of tax)	-	-	-	-	-	(894)	-	-	-	(894)
Currency translation effect on foreign currency net investments	-	-	-	-	-	-	79,653	-	-	79,653
Currency translation effect on foreign currency borrowings and derivatives	-	-	-	-	-	-	(18,136)	-	-	(18,136)
Dividends paid	-	-	-	-	-	-	-	(5,768)	-	(5,768)
Issue of Grafton Units (net of issue expenses)	34	1,405	-	-	-	-	-	-	-	1,439
Adjustment for share based payments expense	-	-	-	-	451	-	-	-	-	451
Transfer from revaluation reserve	-	-	-	(102)	-	-	-	102	-	-
At 30 June 2010	11,632	291,205	905	31,850	5,128	(2,076)	(97,094)	730,751	(5,746)	966,555
Six months to 30 June 2009 (Unaudited)										
At 1 January 2009	11,579	288,951	900	32,157	6,041	-	(202,834)	737,817	(5,746)	868,865
Profit after tax for the financial period	-	-	-	-	-	-	-	3,390	-	3,390
Actuarial loss on pensions (net of tax)	-	-	-	-	-	-	-	(739)	-	(739)
Deferred tax – capital gains tax rate increase	-	-	-	-	-	-	-	(1,012)	-	(1,012)
Movement in cash flow hedge reserve (net of tax)	-	-	-	-	-	(1,264)	-	-	-	(1,264)
Currency translation effect on foreign currency net investments	-	-	-	-	-	-	99,211	-	-	99,211
Currency translation effect on foreign currency borrowings and derivatives	-	-	-	-	-	-	(29,147)	-	-	(29,147)
Purchase of 'A' ordinary shares	(2)	-	2	-	-	-	-	(11,510)	-	(11,510)
Issue of Grafton Units (net of issue expenses)	20	714	-	-	-	-	-	-	-	734
Adjustment for share based payments expense	-	-	-	-	1,042	-	-	-	-	1,042
Transfer from revaluation reserve	-	-	-	(102)	-	-	-	102	-	-
At 30 June 2009	11,597	289,665	902	32,055	7,083	(1,264)	(132,770)	728,048	(5,746)	929,570



Year to 31 December 2009 (Audited)

At 1 January 2009	11,579	288,951	900	32,157	6,041	-	(202,834)	737,817	(5,746)	868,865
Profit after tax for the financial year	-	-	-	-	-	-	-	13,392	-	13,392
Actuarial gain on pensions (net of tax)	-	-	-	-	-	-	-	5,230	-	5,230
Deferred tax – capital gains tax rate increase	-	-	-	-	-	-	-	(1,012)	-	(1,012)
Movement in cash flow hedge reserve (net of tax)	-	-	-	-	-	(1,182)	-	-	-	(1,182)
Currency translation effect on foreign currency net investments	-	-	-	-	-	-	60,576	-	-	60,576
Currency translation effect on foreign currency borrowings and derivatives	-	-	-	-	-	-	(16,353)	-	-	(16,353)
Purchase of 'A' ordinary shares	(5)	-	5	-	-	-	-	(17,276)	-	(17,276)
Issue of Grafton Units (net of issue expenses)	24	849	-	-	-	-	-	-	-	873
Adjustment for share based payments credit	-	-	-	-	(1,364)	-	-	-	-	(1,364)
Transfer from revaluation reserve	-	-	-	(205)	-	-	-	205	-	-
At 31 December 2009	11,598	289,800	905	31,952	4,677	(1,182)	(158,611)	738,356	(5,746)	911,749



Grafton Group plc
Notes to Condensed Interim Financial Statements for the half year ended 30 June 2010

1. General Information

The condensed interim financial statements for the half year ended 30 June 2010 are unaudited but have been reviewed by the auditor whose report is set out on page 23.

The financial information presented in this report has been prepared using accounting policies consistent with International Financial Reporting Standards (IFRS) as adopted by the European Union and in accordance with IAS 34 *Interim Financial Reporting*. These condensed interim financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements in respect of the year ended 31 December 2009 that are available on the Company's website www.graftonplc.com.

The financial information included in this report in relation to the year ended 31 December 2009 does not comprise statutory annual financial statements within the meaning of section 19 of the Companies (Amendment) Act 1986. Those 2009 annual financial statements have been filed with the Registrar of Companies and the audit report thereon was unqualified and did not contain any matters to which attention was drawn by way of emphasis.

Basis of Preparation and Accounting Policies

The financial information contained in the condensed interim financial statements has been prepared in accordance with the accounting policies set out in the last annual financial statements except for the adoption of the following revised accounting policies:

IFRS 3 (Revised 2008) – Business Combinations

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

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

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



Grafton Group plc

Notes to Condensed Interim Financial Statements for the half year ended 30 June 2010

The following are the other new standards that are effective for the Group's financial year ending on 31 December 2010 and that had no impact on the results or financial position of the Group for the period ended 30 June 2010:

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

Prospective accounting changes

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

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

These amendments are not expected to have a material impact on the Group.



2. Segmental Analysis

The amount of revenue and operating profit under the Group's operating segments of merchandising, retailing and manufacturing is as follows:

	Six months to 30 June 2010 (Unaudited) €000	Six months to 30 June 2009 (Unaudited) €000	Twelve months to 31 Dec 2009 (Audited) €000
Revenue			
Merchandising	839,488	839,791	1,686,933
Retailing	117,485	126,785	247,784
Manufacturing	24,710	26,430	50,985
Less: Inter-segment revenue - manufacturing	(2,998)	(3,060)	(5,906)
	<u>978,685</u>	<u>989,946</u>	<u>1,979,796</u>
Segment operating profit/(loss) before restructuring costs			
Merchandising	27,403	12,840	39,305
Retailing	(1,198)	(618)	3,274
Manufacturing	(2,345)	(4,063)	(5,060)
	<u>23,860</u>	<u>8,159</u>	<u>37,519</u>
Restructuring costs			
Merchandising	(2,865)	(7,951)	(17,014)
Retailing	-	(310)	(508)
Manufacturing	(30)	(870)	(1,398)
	<u>(2,895)</u>	<u>(9,131)</u>	<u>(18,920)</u>
Segment operating profit/(loss) after restructuring costs			
Merchandising	24,538	4,889	22,291
Retailing	(1,198)	(928)	2,766
Manufacturing	(2,375)	(4,933)	(6,458)
	<u>20,965</u>	<u>(972)</u>	<u>18,599</u>
Reconciliation to consolidated operating profit			
Central activities	(5,113)	(6,194)	(11,351)
Intangible amortisation	(1,097)	(1,097)	(2,212)
Goodwill impairment – manufacturing segment	-	-	(5,469)
Past service credit on pension schemes	-	-	5,317
Operating profit/(loss)	<u>14,755</u>	<u>(8,263)</u>	<u>4,884</u>
Finance expense	(11,459)	(16,846)	(29,419)
Finance income	10,132	28,794	38,115
Profit before tax	<u>13,428</u>	<u>3,685</u>	<u>13,580</u>
Income tax expense	(547)	(295)	(188)
Profit after tax for the financial period	<u>12,881</u>	<u>3,390</u>	<u>13,392</u>

The merchandising result in both the half year to 30 June 2009 and in the full year to 31 December 2009 includes a property profit of €6.1 million. Finance income in the 2009 half year and in the 2009 full year includes an investment profit of €22.1 million.



Operating segment assets are analysed below:

	30 June 2010 (Unaudited) €000	30 June 2009 (Unaudited) €000	31 Dec 2009 (Audited) €000
Segment assets			
Merchanting	1,659,576	1,717,030	1,559,158
Retailing	112,799	115,879	115,013
Manufacturing	74,020	74,922	66,592
	<u>1,846,395</u>	<u>1,907,831</u>	<u>1,740,763</u>
Reconciliation to total assets per Group balance sheet			
Deferred tax assets	25,111	28,019	22,459
Investment in associate	3,690	3,690	3,690
Financial assets	184	217	211
Derivative financial instruments	22,051	15,433	16,929
Cash and cash equivalents	330,307	270,143	301,985
Total assets per Group balance sheet	<u>2,227,738</u>	<u>2,225,333</u>	<u>2,086,037</u>

The amount of revenue by geographic area is as follows:

	Six months to 30 June 2010 (Unaudited) €000	Six months to 30 June 2009 (Unaudited) €000	Twelve months to 31 Dec 2009 (Audited) €000
Revenue			
United Kingdom	693,418	659,934	1,341,954
Ireland	285,267	330,012	637,842
	<u>978,685</u>	<u>989,946</u>	<u>1,979,796</u>

3. Finance Expense and Finance Income

	Six months to 30 June 2010 (Unaudited) €000	Six months to 30 June 2009 (Unaudited) €000	Twelve months to 31 Dec 2009 (Audited) €000
Finance expense			
Bank loans and overdrafts	* (2,947)	(7,057)	(12,412)
Net change in fair value of cash flow hedges transferred from other comprehensive income	(1,117)	(144)	(994)
Interest on finance leases	(223)	(237)	(488)
Finance cost on pension scheme liabilities	# (5,530)	(5,406)	(10,826)
Interest on loan notes	* (3,093)	(4,307)	(7,091)
Fair value movement on hedged financial liabilities	(19,289)	4,788	7,720
Fair value movement on fair value hedges	20,776	(4,012)	(4,682)
Ineffectiveness on net investment hedge	-	(441)	(677)
Ineffectiveness on cash flow hedges	(36)	(30)	(60)
Foreign exchange gain	-	-	1,009
Recycling of foreign exchange loss on net investment hedge	-	-	(918)
	<u>(11,459)</u>	<u>(16,846)</u>	<u>(29,419)</u>
Finance income			
Investment gain realised in cash	-	22,058	22,058
Foreign exchange gain	732	-	-
Ineffectiveness on net investment hedge	718	-	-
Interest income on bank deposits	* 2,604	1,884	6,336
Expected return on pension plan assets	# 6,078	4,852	9,721
	<u>10,132</u>	<u>28,794</u>	<u>38,115</u>

* Net bank/loan note interest of €3.4 million (June 2009: €9.5 million; Dec 2009: €13.2 million).

Net expected pension return of €0.5 million (June 2009: charge of €0.6 million; Dec 2009: charge of €1.1 million)



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

	30 June 2010 €000	30 June 2009 €000	31 Dec 2009 €000
Net increase in cash and cash equivalents	11,176	26,674	65,151
Net movement in derivative financial instruments	(1,063)	(1,444)	(1,419)
Cash-flow from movement in debt and lease financing	35,072	40,499	54,081
Change in net debt resulting from cash flows	<u>45,185</u>	<u>65,729</u>	<u>117,813</u>
Other non-cash movements relating to debt and leasing	-	(186)	1,185
Bank loans and loan notes acquired with subsidiaries	-	-	-
Translation adjustment	(3,760)	(9,644)	(5,846)
Movement in net debt in the period	<u>41,425</u>	<u>55,899</u>	<u>113,152</u>
Net debt at 1 January	<u>(322,468)</u>	<u>(435,620)</u>	<u>(435,620)</u>
Net debt at end of the period	<u>(281,043)</u>	<u>(379,721)</u>	<u>(322,468)</u>
Gearing	<u>29%</u>	<u>41%</u>	<u>35%</u>

The increase in current interest bearing loans and borrowings and the reduction in non-current interest bearing loans and borrowings reflects the maturity profile of the Group's debt at 30 June 2010 which is the subject of refinancing arrangements referred to earlier in the statement.



5. Earnings per Share

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

	Half Year 30 June 2010 (Unaudited) €000	Half Year 30 June 2009 (Unaudited) €000	Year Ended 31 Dec 2009 (Audited) €000
Numerator for basic, adjusted and diluted earnings per share:			
Profit after tax for the financial period	12,881	3,390	13,392
Numerator for basic and diluted earnings per share	<u>12,881</u>	<u>3,390</u>	<u>13,392</u>
Finance income – investment profit	-	(22,058)	(22,058)
Intangible amortisation after tax	960	960	1,936
Net rationalisation and impairment costs	2,393	7,740	19,072
Numerator for adjusted earnings per share	<u>16,234</u>	<u>(9,968)</u>	<u>12,342</u>
	Number of Grafton Units	Number of Grafton Units	Number of Grafton Units
Denominator for basic and adjusted earnings per share:			
Weighted average number of Grafton Units in issue	230,996,616	230,268,982	230,467,983
Effect of potential dilutive Grafton Units	1,169,587	100,501	782,192
Denominator for diluted earnings per share	<u>232,166,203</u>	<u>230,369,483</u>	<u>231,250,175</u>
Earnings per share (cent)			
- Basic	5.58	1.47	5.81
- Diluted	5.55	1.47	5.79
Adjusted earnings per share (cent)			
- Basic	7.03	(4.33)	5.36
- Diluted	6.99	(4.33)	5.34

6. Dividends

An interim dividend of 2.5 cent per share will be paid on the 'C' Ordinary Share 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 10 September 2010 (the 'Record Date'). The cash consideration will be paid on 8 October 2010.

7. Exchange Rates

The results and cash flows of the Group's United Kingdom subsidiaries have been translated into euro using the average exchange rate. The related balance sheets of the Group's United Kingdom subsidiaries at 30 June 2010, 30 June 2009 and 31 December 2009 have been translated at the rate of exchange ruling at the balance sheet date.

The average euro / sterling rate of exchange for the six months ended 30 June 2010 was Stg87.00p (six months to 30 June 2009: Stg89.39p and twelve months to 31 December 2009: Stg89.09p). The euro / sterling exchange rate at 30 June 2010 was Stg81.75p (30 June 2009: Stg85.21p and 31 December 2009: Stg88.81p).



8. Movement in Working Capital

	Inventory €000	Trade and other receivables €000	Trade and other payables €000	Total €000
At 1 January 2010	265,748	306,863	(387,331)	185,280
Translation adjustment	13,636	17,970	(18,555)	13,051
Interest accrual and other movements	-	(109)	268	159
Acquisitions	347	110	(68)	389
Movement in 2010	8,503	28,564	(57,901)	(20,834)
At 30 June 2010	288,234	353,398	(463,587)	178,045

9. Retirement Benefits

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

	Six months ended 30 June			
	Irish Schemes		UK Schemes	
	2010 %	2009 %	2010 %	2009 %
Rate of increase in salaries	3.00*	3.00	2.50	2.90
Inflation	2.00	2.00	3.10	3.15
Discount rate	4.90	6.00	5.60	6.40

*3% applies from 2 January 2014



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

	Assets		Six months ended 30 June		Liabilities		Net asset/(deficit)	
	2010	2009	2010	2009	2010	2009	2010	2009
	€000	€000	€000	€000	€000	€000	€000	€000
At 1 January	165,764	133,855	(191,023)	(174,747)	(25,259)	(40,892)		
Expected return on plan assets	6,078	4,852	-	-	6,078	4,852		
Contributions by employer	1,998	5,272	-	-	1,998	5,272		
Contributions by members	925	1,065	(925)	(1,065)	-	-		
Benefit payments	(2,655)	(2,514)	2,655	2,514	-	-		
Current service cost	-	-	(1,025)	(1,532)	(1,025)	(1,532)		
Past service cost	-	-	-	-	-	-		
Settlement loss	-	-	-	(756)	-	(756)		
Curtailement gain	-	-	23	738	23	738		
Interest cost on scheme liabilities	-	-	(5,530)	(5,406)	(5,530)	(5,406)		
Actuarial gains/(losses)	(5,879)	(3,436)	(11,603)	880	(17,482)	(2,556)		
Translation adjustment	7,076	7,737	(7,621)	(8,167)	(545)	(430)		
At 30 June	173,307	146,831	(215,049)	(187,541)	(41,742)	(40,710)		
Related deferred tax asset					6,355	6,515		
Net pension liability					(35,387)	(34,195)		

10. Acquisition of Subsidiary Undertakings

Two single branch merchanting acquisitions were completed in the first half of the year being Corgi Direct (Acquired: 22 April 2010) and Unvented Components Limited (Acquired: 10 May 2010).

The total acquisition consideration and the fair value of the net assets acquired were €652,000 and €401,000 respectively. The income statement impact of these transactions in the half year was not material.

Details of the acquisitions made in 2009 are disclosed in the Group's 2009 Annual Report.

11. Goodwill

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



12. Related Party Transactions

There have been no related party transactions or changes in related party transactions from those described in the 2009 Annual Report that materially affected the financial position or the performance of the Group during the half year to 30 June 2010.

13. Events after the Balance Sheet Date

There have been no material events subsequent to 30 June 2010 other than the completion of the Group re-financing referred to in the Financial Review on page 5.

14. Comparative Figures

At 31 December 2009 accruals for insurance claims and dilapidations were reclassified as provisions and for consistency the corresponding amounts at 30 June 2009 have also been reclassified. The comparative information at 30 June 2009 in note 2 has been presented on a basis consistent with the presentation in the 2009 Annual Report.

15. Cautionary Statement

This interim report contains forward-looking statements. These statements have been made by the directors in good faith based on the information available to them up to the time of their approval of this report. Due to the inherent uncertainties, including both economic and business risk factors underlying such forward-looking information, actual results may differ materially from those expressed or implied by these forward-looking statements. The directors undertake no obligation to update any forward-looking statements contained in this report, whether as a result of new information, future events, or otherwise.

16. Board Approval

This announcement was approved by the Board of Grafton Group plc on 30 August 2010.



Statement of the directors in respect of the half-yearly financial report

Each of the directors confirm that, to the best of each person's knowledge and belief:

- a) The Group Condensed Interim Financial Statements comprising the Group Condensed Income Statement, Group Condensed Statement of Comprehensive Income, the Group Condensed Balance Sheet, the Group Condensed Cash Flow Statement and the Group Condensed Statement of Changes in Equity and related notes have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.
- b) The half-yearly financial report includes a fair review of the information required by:
 - *Regulation 8(2) of the Transparency (Directive 2004/109/EC) Regulations 2007*, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
 - *Regulation 8(3) of the Transparency (Directive 2004/109/EC) Regulations 2007*, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

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

On behalf of the Board:

Michael Chadwick
Executive Chairman

Colm Ó Nualláin
Finance Director



Independent Review Report to Grafton Group plc

Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2010 which comprises the Group Condensed Income Statement, the Group Condensed Statement of Comprehensive Income, the Group Condensed Balance Sheet, the Group Condensed Cash Flow Statement and the Group Condensed Statement of Changes in Equity and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors’ responsibilities

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

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

Our responsibility

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

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly report for the six months ended 30 June 2010 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU, the TD Regulations and the Transparency Rules of the Irish Financial Services Regulatory Authority.



KPMG
Chartered Accountants
Dublin
30 August 2010