



# Grafton Group plc 2011 Half-yearly Financial Report

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## Financial Highlights

Grafton Group plc announces its interim results for the six months ended 30 June 2011.

	2011	2010	Change
Revenue	<b>€1,008 m</b>	€979 m	+3%
Adjusted operating profit*	<b>€26.2 m</b>	€18.7 m	+40%
Operating profit per income statement	<b>€21.1 m</b>	€14.8 m	+43%
Profit before tax	<b>€15.1 m</b>	€13.4 m	+13%
Profit after tax	<b>€12.4 m</b>	€12.9 m	-4%
EBITDA (before restructuring costs)	<b>€47.3 m</b>	€40.9 m	+16%
Adjusted earnings per share*	<b>7.2 c</b>	7.0 c	+3%
Basic earnings per share	<b>5.4 c</b>	5.6 c	-4%
Dividend	<b>2.75c</b>	2.5 c	+10%
Net debt	<b>€245.8 m</b>	€281.0 m	
Gearing	<b>26%</b>	29%	

\* Before intangible amortisation €1.1m (2010: €1.1m) and restructuring costs €4.0m (2010: €2.9m)

### Highlights:

- Merchanting operating profit increased by 22% to €33.4m
- UK turnover and profits increase
- UK operating margin improved to 4.5%
- Cost reductions improve returns in weak Irish market

### Financial:

- Strong cash flow from operations of €48.6m reduces gearing to 26%
- Renewed investment in asset replacement and development expenditure
- Further reduction in debt
- Agreement in principle to extend maturity profile of net debt to five years

Commenting on the outlook, Gavin Slark, Chief Executive Officer said:

*“The Group is well placed to deal with the continued difficult trading conditions in our core markets. A number of self help initiatives have been identified that will enable us to improve our performance in margins, costs control and cash generation. This leaves us in a strong position to take advantage of any economic upturn or expansion opportunities.”*



## Interim Results

### For the Six Months Ended 30 June 2011

Group turnover was higher and operating profit showed a good improvement in the half year following the return to growth in 2010.

UK operating profit increased in a market that experienced a small contraction in volumes. Despite a prolonged period of market weakness, the performance of the Irish Merchancing and DIY Retailing businesses improved in the half year in response to the measures taken to reduce costs.

Group turnover increased by 3 per cent to €1,008.1 million (2010: €978.7 million). Operating profit before amortisation and restructuring increased by 40 per cent to €26.2 million (2010: €18.7 million). Group profit before taxation, amortisation and restructuring costs increased by 16 per cent to €20.2 million (2010: €17.4 million). The gross margin was in line with 2010 and overheads in the like for like business were marginally lower. Restructuring costs of €4.0 million were incurred in the period (2010: €2.9 million).

The Group continued to generate strong cashflow from operations and ended the half year in a healthy financial position with gearing reduced to 26 per cent of shareholders' equity (30 June 2010: 29 per cent).

The Belgian builders merchancing business in which the Group had a 49 per cent interest traded successfully and completed two acquisitions in the current year increasing its annualised turnover to circa €50 million. Group turnover now includes the Group's share of that business which amounted to €10.8 million in the half year.

### Dividend

An interim dividend of 2.75 cent per share has been approved representing an increase of 10 per cent on last year's interim dividend of 2.5 cent per share.

### Operational Review

#### Merchandising

Turnover in the Merchancing business increased by 4.0 per cent to €872.9 million (2010: €839.5 million). The segment operating profit (before restructuring costs) increased by 22.0 per cent to €33.4 million (2010: €27.4 million).

The UK Merchancing business increased turnover by 5.0 per cent to €712.7 million (2010: €678.5 million). The increase in sterling turnover was 4.8 per cent and average daily like for like turnover increased by 4.7 per cent. Operating profit before restructuring costs increased by 14.1 per cent to €31.9 million (2010: €27.9 million). The UK operating margin improved to 4.5 per cent from 4.1 per cent.

Trading in the half year was set against the backdrop of softening economic growth. The fall in real post-tax disposable incomes since the start of the year due to the increase in the UK VAT rate together with higher energy and food prices contributed to weakness in consumer spending as households adjusted their spending patterns. Uncertainty over the prospects for the UK economy contributed to low consumer confidence and weakness in the housing market. House prices were under downward pressure and housing transactions, which influence demand in the merchancing market, weakened in the half year.



Average daily like for like turnover growth of 4.7 per cent in the half year reflected a sharp weather related increase in January and stable growth of 3.3 per cent over the course of the February to June period. Turnover growth was primarily driven by the recovery of energy and commodity related price increases. RMI (Repair, Maintenance and Improvement) volumes were down marginally.

Buildbase experienced strong turnover growth in its civils branches which service the new build market together with a healthy advance in turnover in its general merchanting branches. Two single branch bolt-on acquisitions were completed. Plumbase turnover growth benefitted from a high exposure to the RMI market while the branch network increased to 198 with the acquisition of 16 plumbing and heating branches in England and Wales. Market conditions were stable in the East Midlands market and Jacksons, the market leader in the region, improved its performance through a continuing focus on cost reduction.

Selco Builders Warehouse, the trade only builders merchants, reported strong growth in turnover and operating profit. The business had a successful opening of its twenty-ninth branch at Catford, South London. This is the fourteenth London branch, all of which are located inside the M25 motorway. Two further store openings in London are scheduled for early next year. Later this year a new branch in Slough, Berkshire will open and relocation of the Swansea and Minworth, Birmingham branches will significantly expand the capacity of both stores.

In Northern Ireland, turnover in the Macnaughton Blair business stabilised against the background of a fragile recovery in economic growth. Initiatives to improve the gross margin and continuing cost reduction measures resulted in a significant increase in operating profit.

Turnover in the Irish Merchanting business declined by 7.2 per cent to €149.4 million (2010: €161.0 million). The business was returned to profitability in the second half of 2010 and despite the decline in turnover achieved an operating profit (before restructuring costs) of €1.0 million in the first half of 2011 compared to a loss of €0.5 million in the first half of 2010. The improved outcome was primarily achieved as a result of the cost reduction programmes implemented over the past three years in response to volume declines in the merchanting market that continued into 2011.

The rate of decline in turnover moderated over the course of 2010 but the deterioration in consumer confidence in the final months of the year in response to negative news flow on the economy contributed to further weakness in the merchanting market in 2011.

A weak labour market, tight credit conditions and declining prices contributed to very low levels of activity in the new housing market. Data on housing registrations and commencement notices, a proxy for housing starts, point to an historically low level of house construction. Demand in the residential RMI market, now the principal end-use market for the Irish Merchanting business, was more resilient but not immune from wider economic weakness and also experienced a decline in volumes. In this difficult trading environment, the Chadwicks and Heiton Buckley branches continued to orientate their product offerings to service customers in the RMI market and also effectively used purchasing scale benefits to support an increased level of promotional activity. Higher international steel prices and increased demand generated by a range of projects in the non-residential new build sector resulted in increased turnover and profit in the Heiton Steel business.

Branch consolidations were successfully implemented in the Bray, Co. Wicklow and Limerick City branches. Overheads were maintained at the same percentage of turnover due to payroll, bad debt and other operational cost savings. The gross margin continued to trend upwards.



## **Retailing**

Turnover declined by 4.6 per cent to €112.1 million from €117.5 million but the segment operating loss (before restructuring costs) reduced to €0.4 million from €1.2 million.

Core retail sales volumes continued to trend lower but at a more moderate pace compared to the sharp falls of recent years. Spending was impacted by downward pressure on earnings and increased taxes which combined to reduce disposable incomes. Consumer confidence remained fragile but recovered somewhat from the low levels experienced at the end of 2010 as consumers became more hopeful about the outlook for the economy and their personal finances.

Woodie's DIY maintained transaction volumes at last year's level despite the challenging retail environment. The decline in half year turnover was concentrated over a small number of seasonal ranges including garden furniture, barbeques and garden plants. The unsettled weather conditions in May and June with higher than normal rainfall levels reduced demand for these products over that period. Turnover in a number of product categories benefitted from range refreshment and development including the Party Zone, plumbing, wallpaper, kitchenware, flooring and lighting ranges.

Changes in product mix and purchasing scale benefits enabled the business to maintain its competitive pricing position and also improve gross margin. Overheads were lower because of the measures taken last year to reduce costs in line with lower volumes.

The store at Airside Retail Park, Swords, Co. Dublin was successfully revamped. A break option in the lease of the Letterkenny, Co. Donegal store was exercised and the store was closed.

In-House, the seven store kitchens business, performed in line with the comparative period, maintaining volumes in a difficult market. The sector experienced some reduction in capacity. A number of new kitchen ranges were introduced for trade and retail customers.

## **Manufacturing**

Turnover was up by 6.5 per cent to €23.1 million (2010: €21.7 million) and the segment operating loss (before restructuring costs) was substantially reduced to €0.9 million from €2.3 million.

EuroMix, the market leader in the supply of dry mortar in Britain, where it trades almost nationally from nine plants, increased turnover strongly in the half year and improved its operating performance having returned to profitability in the second half of 2010. Volumes benefitted from milder weather conditions in the early months of the year. The recovery of higher input prices also contributed to the increase in turnover.

Activity in the new housing market was restricted by a lack of mortgage availability with monthly approvals continuing to trend at less than half the pre-credit crisis level and housing starts were lower in the half year. The business focused on opportunities in other end-use markets and secured contracts for the supply of materials to a number of infrastructure projects.

The rate of decline in turnover in the Irish Manufacturing business continued to moderate as the volume of residential and non-residential new build construction activity contracted to well below normal levels of activity.



## Financial Review

The Group achieved a significant improvement in its operating performance, generated strong cashflows and further strengthened its financial position in the half year.

### *Cashflow*

The Group's track record for generating strong internal cashflows continued in the half year with cashflow of €48.6 million from operations and €3.8 million from asset disposals. During the three years to the end of 2010 the Group responded to the downturn in its markets by significantly scaling back asset replacement and development expenditure and reducing its investment in working capital. The substantial cash flow generated by the business over this period was deployed to reduce debt. The return to profit growth in 2010 and emergence of the business from the downturn in a strong financial position enabled a pick-up in the pace of asset replacement and development expenditure in the first half to €16.7 million (2010: €7.1 million). Payment of the second interim dividend for 2010, paid in April 2011, amounted to €10.4 million (2010: €5.8 million).

### *Taxation*

The tax rate of 18 per cent (2010: 4 per cent) largely reflects a non-cash charge in the Income Statement for deferred tax assets recognised in the UK business in 2010. It is not expected that a material cash tax cost will arise for the year due to the availability of tax deductions carried forward from 2010 and prior years.

### *Net Debt and Liquidity*

Net debt of €245.8 million at the end of the half year was €9.3 million lower than at the end of 2010 and €35.2 million lower than the position at 30 June 2010. The combined effect of lower debt reduced the gearing ratio to 26 per cent (30 June 2010: 29 per cent).

Since the period end the Group has reached agreement in principle for new arrangements which when finalised will leave the Group with five year revolving facilities for €270 million maturing in 2016 comprising new facilities of €75 million and refinancing existing facilities of €195 million. Agreement in principle has also been reached for a new three year revolving facility for €33 million maturing in 2014 and to extend the maturity of an existing facility of €85 million until 2014. These arrangements when implemented will further extend the maturity profile of net debt. The Group's strong internal cashflow together with the new facilities will provide the financial capacity and funding flexibility to support ongoing corporate development.

### *Net Finance Expense*

The interest charge on net bank and loan note debt increased to €7.7 million from €3.4 million due to the higher bank margin attributable to debt refinanced in August 2010 compared to the competitive margin arrangements put in place prior to the credit crisis. EBITDA interest cover, as defined for covenant purposes, was 7.1.

### *Shareholders' Equity*

Shareholders' equity of €955.0 million at 30 June 2011 (31 December 2010: €990.3 million and 30 June 2010: €966.6 million) was equivalent to €4.12 per share.



## *Pensions*

The deficit on the defined benefit pension schemes reduced to €12.7 million from €15.5 million at the end of 2010 net of deferred tax. An increase in the rate used to discount liabilities in line with changes in corporate bond yields and cash contributions in excess of service costs contributed to the reduction in the deficit. Plan assets of €187.8 million funded 93 per cent of employee benefit obligations at the end of the half year after taking account of the new 0.6% pension levy imposed by the Irish Government on the Irish plan assets.

## **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. Adverse weather conditions normally reduces activity in the new build, RMI and DIY markets leading to lower turnover and operating profit in the Group's businesses.

## **Outlook**

It is expected that the current softness in UK growth and pressure on disposable incomes will continue to weigh on consumer spending over the remainder of the year. The uncertain outlook for the economy, low consumer confidence and tight lending conditions are likely to limit near-term growth in housing transactions and a recovery in RMI volumes from the current historically low levels.

The Irish economy continues to face major challenges and while many risks remain, some evidence of stabilisation is beginning to emerge. The development of a broadly based recovery will take some time and is also dependent on continued growth in the international economy.

Average daily like for like sales in July and August increased by 2.5 per cent in the UK and were down by 5.8 per cent in Ireland.

The Group's strong market positions and focus in recent years on reducing costs and generating cash has provided a solid platform on which to improve profitability from internal initiatives, and also to benefit from a cyclical recovery in its markets.



## Grafton Group plc

### Group Condensed Income Statement

For the six months ended 30 June 2011

	Six months to 30 June 2011 (Unaudited) €'000	Six months to 30 June 2010 (Unaudited) €'000	Twelve months to 31 Dec 2010 (Audited) €'000
<b>Revenue</b>	<b>1,008,075</b>	978,685	2,004,418
Operating costs and income	<u>(986,931)</u>	<u>(963,930)</u>	<u>(1,971,397)</u>
<b>Operating profit</b>	<b>21,144</b>	14,755	33,021
Finance expense	<b>(14,108)</b>	(11,459)	(26,001)
Finance income	<b>8,072</b>	10,132	18,534
<b>Profit before tax</b>	<b>15,108</b>	13,428	25,554
Income tax (expense)/credit	<b>(2,720)</b>	(547)	38,432
<b>Profit after tax for the financial period</b>	<b><u>12,388</u></b>	<b><u>12,881</u></b>	<b><u>63,986</u></b>
Profit attributable to: Equity holders of the Company	<b><u>12,388</u></b>	<b><u>12,881</u></b>	<b><u>63,986</u></b>
<b>Earnings per ordinary share - basic</b>	<b><u>5.35c</u></b>	<b><u>5.58c</u></b>	<b><u>27.68c</u></b>
<b>Earnings per ordinary share - diluted</b>	<b><u>5.31c</u></b>	<b><u>5.55c</u></b>	<b><u>27.54c</u></b>



## Grafton Group plc

### Group Condensed Balance Sheet as at 30 June 2011

	30 June 2011 (Unaudited) €'000	30 June 2010 (Unaudited) €'000	31 Dec 2010 (Audited) €'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Goodwill	542,099	568,449	552,831
Intangible assets	3,356	5,568	4,453
Property, plant and equipment	542,879	616,446	568,767
Deferred tax assets	36,121	25,111	46,252
Retirement benefit assets	4,728	-	1,107
Derivative financial instruments	4,238	14,372	11,068
Investment in associate	-	3,690	3,690
Financial assets	140	184	176
<b>Total non-current assets</b>	<b>1,133,561</b>	<b>1,233,820</b>	<b>1,188,344</b>
<b>Current assets</b>			
Inventories	290,062	288,234	271,918
Trade and other receivables	349,700	353,398	305,560
Derivative financial instruments	4,558	7,679	5,798
Cash and cash equivalents	212,063	330,307	234,275
Properties held for sale	15,744	14,300	14,693
<b>Total current assets</b>	<b>872,127</b>	<b>993,918</b>	<b>832,244</b>
<b>Total assets</b>	<b>2,005,688</b>	<b>2,227,738</b>	<b>2,020,588</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Equity share capital	11,656	11,632	11,632
Share premium account	292,528	291,205	291,216
Capital redemption reserve	905	905	905
Revaluation reserve	31,645	31,850	31,747
Other reserves	4,628	5,128	5,258
Cash flow hedge reserve	(477)	(2,076)	(1,440)
Foreign currency translation reserve	(176,172)	(97,094)	(136,310)
Retained earnings	796,057	730,751	793,078
Treasury shares held	(5,746)	(5,746)	(5,746)
<b>Total equity</b>	<b>955,024</b>	<b>966,555</b>	<b>990,340</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	371,430	292,442	353,019
Provisions	18,394	17,488	17,555
Retirement benefit obligations	18,534	41,742	18,666
Derivative financial instruments	343	1,042	812
Deferred tax liabilities	35,831	46,323	37,599
<b>Total non-current liabilities</b>	<b>444,532</b>	<b>399,037</b>	<b>427,651</b>
<b>Current liabilities</b>			
Interest-bearing loans and borrowings	94,513	338,477	151,432
Trade and other payables	468,126	463,587	399,890
Current income tax liabilities	36,970	51,383	43,959
Derivative financial instruments	398	1,440	988
Provisions	6,125	7,259	6,328
<b>Total current liabilities</b>	<b>606,132</b>	<b>862,146</b>	<b>602,597</b>
<b>Total liabilities</b>	<b>1,050,664</b>	<b>1,261,183</b>	<b>1,030,248</b>
<b>Total equity and liabilities</b>	<b>2,005,688</b>	<b>2,227,738</b>	<b>2,020,588</b>



## Grafton Group plc Group Condensed Cash Flow Statement

For the six months ended 30 June 2011

	Six Months to 30 June 2011 (Unaudited) €'000	Six Months to 30 June 2010 (Unaudited) €'000	Twelve months to 31 Dec 2010 (Audited) €'000
<b>Profit before taxation</b>	<b>15,108</b>	13,428	25,554
Finance income	(8,072)	(10,132)	(18,534)
Finance expense	<b>14,108</b>	<b>11,459</b>	<b>26,001</b>
<b>Operating profit</b>	<b>21,144</b>	14,755	33,021
Depreciation	<b>21,039</b>	22,164	44,524
Intangible amortisation	<b>1,097</b>	1,097	2,212
Share-based payments (credit)/charge	(630)	451	581
Non-cash movement in operating provisions	<b>2,884</b>	2,440	4,596
Non-cash movement on asset impairment	-	-	10,039
Profit on sale of property, plant and equipment	(1,007)	(528)	(563)
Contributions to pension schemes in excess of IAS 19 charge	(1,566)	(996)	(3,799)
Decrease in working capital	<b>5,593</b>	<b>20,834</b>	<b>8,792</b>
<b>Cash generated from operations</b>	<b>48,554</b>	60,217	99,403
Interest paid	(7,880)	(5,459)	(13,955)
Income taxes paid	(2,444)	(337)	(974)
<b>Cash flows from operating activities</b>	<b>38,230</b>	<b>54,421</b>	<b>84,474</b>
<b>Investing activities</b>			
<i>Inflows</i>			
Proceeds from sale of property, plant and equipment	<b>3,792</b>	2,332	4,262
Interest received	<b>991</b>	2,697	7,062
Sale of financial assets	<b>33</b>	44	44
	<b>4,816</b>	<b>5,073</b>	<b>11,368</b>
<i>Outflows</i>			
Acquisition of subsidiary undertakings and businesses	(2,651)	(653)	(1,638)
Investment in joint venture	(1,030)	-	-
Net cash assumed with joint venture	(23)	-	-
Net cash acquired with subsidiary undertakings	-	1	102
Deferred acquisition consideration paid	-	(667)	(853)
Claims paid on provisions	(2,389)	(1,779)	(3,725)
Purchase of property, plant and equipment	(13,049)	(5,819)	(9,608)
	(19,142)	(8,917)	(15,722)
<b>Cash flows from investing activities</b>	<b>(14,326)</b>	<b>(3,844)</b>	<b>(4,354)</b>
<b>Financing activities</b>			
<i>Inflows</i>			
Proceeds from the issue of share capital	<b>1,336</b>	1,439	1,450
Net proceeds from borrowings	<b>59,122</b>	-	280,984
	<b>60,458</b>	<b>1,439</b>	<b>282,434</b>
<i>Outflows</i>			
Repayment of borrowings	(53,722)	(99)	(390,460)
Dividends paid	(10,421)	(5,768)	(11,551)
Payment of finance lease liabilities	(252)	(281)	(520)
Redemption of loan notes payable net of derivatives	(32,034)	(34,692)	(34,776)
	(96,429)	(40,840)	(437,307)
<b>Cash flows from financing activities</b>	<b>(35,971)</b>	<b>(39,401)</b>	<b>(154,873)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(12,067)</b>	11,176	(74,753)
Cash and cash equivalents at 1 January	<b>234,275</b>	301,984	301,984
Effect of exchange rate fluctuations on cash held	(10,145)	17,147	7,044
<b>Cash and cash equivalents at the end of the period</b>	<b>212,063</b>	<b>330,307</b>	<b>234,275</b>



## Group Condensed Statement of Comprehensive Income

For the six months ended 30 June 2011

	Six months to 30 June 2011 (Unaudited) €'000	Six months to 30 June 2010 (Unaudited) €'000	Twelve months to 31 Dec 2010 (Audited) €'000
Profit after tax for the financial period	<u>12,388</u>	<u>12,881</u>	<u>63,986</u>
<b>Other comprehensive income</b>			
Currency translation effects			
- on foreign currency net investments	(43,286)	79,653	25,584
- on foreign currency borrowings and derivatives designated as net investment hedges	3,424	(18,136)	(3,283)
Actuarial gain/(loss) on Group defined benefit pension schemes	1,459	(17,482)	2,971
Deferred tax on Group defined benefit pension schemes	(549)	2,662	(889)
Fair value movement on cash flow hedges:			
- Effective portion of changes in fair value of cash flow hedges	290	(2,144)	(2,481)
- Net change in fair value of cash flow hedges transferred from equity	805	1,117	2,175
Deferred tax on cash flow hedges	(132)	133	48
<b>Total other comprehensive income</b>	<u>(37,989)</u>	<u>45,803</u>	<u>24,125</u>
<b>Total comprehensive income for the financial period</b>	<u>(25,601)</u>	<u>58,684</u>	<u>88,111</u>
<b>Attributable to:</b>			
Equity holders of the Company	<u>(25,601)</u>	<u>58,684</u>	<u>88,111</u>



## Grafton Group plc Group Condensed Statement of Changes in Equity

	Equity share capital €'000	Share premium account €'000	Capital redemption reserve €'000	Revaluation reserve €'000	Shares to be issued reserve €'000	Cash Flow hedge reserve €'000	Foreign currency translation reserve €'000	Retained earnings €'000	Treasury shares €'000	Total equity €'000
<b>Six months to 30 June 2011 (Unaudited)</b>										
At 1 January 2011	11,632	291,216	905	31,747	5,258	(1,440)	(136,310)	793,078	(5,746)	990,340
Profit after tax for the financial period	-	-	-	-	-	-	-	12,388	-	12,388
<b>Total other comprehensive income</b>	-	-	-	-	-	-	-	910	-	910
Actuarial gain on pensions (net of tax)	-	-	-	-	-	-	-	-	-	963
Movement in cash flow hedge reserve (net of tax)	-	-	-	-	-	963	-	-	-	-
Currency translation effect on foreign currency net investments	-	-	-	-	-	-	(43,286)	-	-	(43,286)
Currency translation effect on foreign currency borrowings and derivatives	-	-	-	-	-	-	3,424	-	-	3,424
<b>Total comprehensive income</b>	-	-	-	-	-	963	(39,862)	13,298	-	(25,601)
<b>Transactions with owners of the Company recognised directly in equity</b>										
Dividends paid	-	-	-	-	-	-	-	(10,421)	-	(10,421)
Issue of Grafton Units – Employee share schemes (net of issue expenses)	24	1,312	-	-	-	-	-	-	-	1,336
Adjustment for share based payments credit	-	-	-	-	(630)	-	-	-	-	(630)
Transfer from revaluation reserve	-	-	-	(102)	-	-	-	102	-	-
	24	1,312	-	(102)	(630)	-	-	(10,319)	-	(9,715)
<b>At 30 June 2011</b>	<b>11,656</b>	<b>292,528</b>	<b>905</b>	<b>31,645</b>	<b>4,628</b>	<b>(477)</b>	<b>(176,172)</b>	<b>796,057</b>	<b>(5,746)</b>	<b>955,024</b>
<b>Six months to 30 June 2010 (Unaudited)</b>										
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
<b>Total other comprehensive income</b>	-	-	-	-	-	-	-	(14,820)	-	(14,820)
Actuarial loss on pensions (net of tax)	-	-	-	-	-	-	-	-	-	(894)
Movement in cash flow hedge reserve (net of tax)	-	-	-	-	-	(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)
<b>Total comprehensive income</b>	-	-	-	-	-	(894)	61,517	(1,939)	-	58,684
<b>Transactions with owners of the Company recognised directly in equity</b>										
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	-	-
	34	1,405	-	(102)	451	-	-	(5,666)	-	(3,878)
<b>At 30 June 2010</b>	<b>11,632</b>	<b>291,205</b>	<b>905</b>	<b>31,850</b>	<b>5,128</b>	<b>(2,076)</b>	<b>(97,094)</b>	<b>730,751</b>	<b>(5,746)</b>	<b>966,555</b>



	Equity share capital €'000	Share premium account €'000	Capital redemption reserve €'000	Revaluation reserve €'000	Shares to be issued reserve €'000	Cash Flow hedge reserve €'000	Foreign currency translation reserve €'000	Retained earnings €'000	Treasury shares €'000	Total equity €'000
<b>Year to 31 December 2010 (Audited)</b>										
At 1 January 2010	11,598	289,800	905	31,952	4,677	(1,182)	(158,611)	738,356	(5,746)	911,749
Profit after tax for the financial year	-	-	-	-	-	-	-	63,986	-	63,986
<b>Total other comprehensive income</b>										
Actuarial gain on pensions (net of tax)	-	-	-	-	-	-	-	2,082	-	2,082
Movement in cash flow hedge reserve (net of tax)	-	-	-	-	-	(258)	-	-	-	(258)
Currency translation effect on foreign currency net investments	-	-	-	-	-	-	25,584	-	-	25,584
Currency translation effect on foreign currency borrowings and derivatives	-	-	-	-	-	-	(3,283)	-	-	(3,283)
<b>Total comprehensive income</b>	-	-	-	-	-	(258)	22,301	66,068	-	88,111
<b>Transactions with owners of the Company recognised directly in equity</b>										
Dividends paid	-	-	-	-	-	-	-	(11,551)	-	(11,551)
Issue of Grafton Units (net of issue expenses)	34	1,416	-	-	-	-	-	-	-	1,450
Adjustment for share based payments expense	-	-	-	-	581	-	-	-	-	581
Transfer from revaluation reserve	-	-	-	(205)	-	-	-	205	-	-
	34	1,416	-	(205)	581	-	-	(11,346)	-	(9,520)
<b>At 31 December 2010</b>	<b>11,632</b>	<b>291,216</b>	<b>905</b>	<b>31,747</b>	<b>5,258</b>	<b>(1,440)</b>	<b>(136,310)</b>	<b>793,078</b>	<b>(5,746)</b>	<b>990,340</b>



**Grafton Group plc**  
**Notes to Condensed Interim Financial Statements for the half year ended 30 June 2011**

**1. General Information**

The condensed consolidated interim financial statements for the half year ended 30 June 2011 are unaudited but have been reviewed by the auditor whose report is set out on page 24.

The financial information presented in this report has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union. These condensed 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 2010 that are available on the Company's website [www.graftonplc.com](http://www.graftonplc.com).

The financial information included in this report in relation to the year ended 31 December 2010 does not comprise statutory annual financial statements within the meaning of section 19 of the Companies (Amendment) Act 1986. Those 2010 annual financial statements have been filed with the Registrar of Companies and the audit report thereon was unqualified and did not contain any matters to which attention was drawn by way of emphasis.

**Basis of Preparation, Accounting Policies and Estimates**

(a) Basis of Preparation and Accounting Policies

The 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.

The following are the other new standards that are effective for the Group's financial year ending on 31 December 2011 and that had no significant impact on the results or financial position of the Group for the period ended 30 June 2011:

- Improvements to IFRSs (2010)
- IAS 24 Revised: 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

(b) Estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2010.



## 2. Segmental Analysis

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

	<b>Six months to 30 June 2011 (Unaudited) €'000</b>	Six months to 30 June 2010 (Unaudited) €'000	Twelve months to 31 Dec 2010 (Audited) €'000
<b>Revenue</b>			
Merchanting	<b>872,863</b>	839,488	1,730,610
Retailing	<b>112,085</b>	117,485	230,528
Manufacturing	<b>25,975</b>	24,710	49,144
Less: Inter-segment revenue - manufacturing	<b>(2,848)</b>	(2,998)	(5,864)
	<b><u>1,008,075</u></b>	<u>978,685</u>	<u>2,004,418</u>
<b>Segment operating profit/(loss) before restructuring costs</b>			
Merchanting	<b>33,436</b>	27,403	61,524
Retailing	<b>(431)</b>	(1,198)	2,351
Manufacturing	<b>(925)</b>	(2,345)	(3,457)
	<b><u>32,080</u></b>	<u>23,860</u>	<u>60,418</u>
<b>Restructuring costs</b>			
Merchanting	<b>(2,376)</b>	(2,865)	(5,151)
Retailing	<b>(1,547)</b>	-	-
Manufacturing	<b>(49)</b>	(30)	(185)
	<b><u>(3,972)</u></b>	<u>(2,895)</u>	<u>(5,336)</u>
<b>Segment operating profit/(loss) after restructuring costs</b>			
Merchanting	<b>31,060</b>	24,538	56,373
Retailing	<b>(1,978)</b>	(1,198)	2,351
Manufacturing	<b>(974)</b>	(2,375)	(3,642)
	<b><u>28,108</u></b>	<u>20,965</u>	<u>55,082</u>
<b>Reconciliation to consolidated operating profit</b>			
Central activities	<b>(5,867)</b>	(5,113)	(9,810)
Intangible amortisation	<b>(1,097)</b>	(1,097)	(2,212)
Asset impairment - manufacturing segment	<b>-</b>	-	(10,039)
<b>Operating profit</b>	<b><u>21,144</u></b>	<u>14,755</u>	<u>33,021</u>
Finance expense	<b>(14,108)</b>	(11,459)	(26,001)
Finance income	<b>8,072</b>	10,132	18,534
<b>Profit before tax</b>	<b><u>15,108</u></b>	<u>13,428</u>	<u>25,554</u>
Income tax (expense)/credit	<b>(2,720)</b>	(547)	38,432
<b>Profit after tax for the financial period</b>	<b><u>12,388</u></b>	<u>12,881</u>	<u>63,986</u>



## 2. Segmental Analysis (continued)

Operating segment assets are analysed below:

	30 June 2011 (Unaudited) €'000	30 June 2010 (Unaudited) €'000	31 Dec 2010 (Audited) €'000
<b>Segment assets</b>			
Merchanting	1,572,970	1,659,576	1,550,860
Retailing	114,969	112,799	111,520
Manufacturing	55,901	74,020	55,842
	<u>1,743,840</u>	<u>1,846,395</u>	<u>1,718,222</u>
<b>Reconciliation to total assets per Group balance sheet</b>			
Deferred tax assets	36,121	25,111	46,252
Retirement benefit assets	4,728	-	1,107
Investment in associate	-	3,690	3,690
Financial assets	140	184	176
Derivative financial instruments	8,796	22,051	16,866
Cash and cash equivalents	212,063	330,307	234,275
	<u>2,005,688</u>	<u>2,227,738</u>	<u>2,020,588</u>

The amount of revenue by geographic area is as follows:

	Six months to 30 June 2011 (Unaudited) €'000	Six months to 30 June 2010 (Unaudited) €'000	Twelve months to 31 Dec 2010 (Audited) €'000
<b>Revenue</b>			
United Kingdom	729,544	693,418	1,432,525
Ireland	267,715	285,267	571,893
Belgium – joint venture	10,816	-	-
	<u>1,008,075</u>	<u>978,685</u>	<u>2,004,418</u>

## 3. Finance Expense and Finance Income

	Six months to 30 June 2011 (Unaudited) €'000	Six months to 30 June 2010 (Unaudited) €'000	Twelve months to 31 Dec 2010 (Audited) €'000
<b>Finance expense</b>			
Bank loans and overdrafts	* (6,437)	(2,947)	(9,094)
Net change in fair value of cash flow hedges transferred from equity	(805)	(1,117)	(2,175)
Interest on finance leases	(208)	(223)	(449)
Finance cost on pension scheme liabilities	# (5,594)	(5,530)	(11,134)
Interest on loan notes	* (2,187)	(3,093)	(5,434)
Fair value movement on hedged financial liabilities	7,884	(19,289)	(10,168)
Fair value movement on fair value hedges	(6,725)	20,776	12,691
Ineffectiveness on cash flow hedges	(36)	(36)	(75)
Foreign exchange loss	-	-	(163)
	<u>(14,108)</u>	<u>(11,459)</u>	<u>(26,001)</u>
<b>Finance income</b>			
Foreign exchange gain	157	732	-
Ineffectiveness on net investment hedge	453	718	1,284
Interest income on bank deposits	* 944	2,604	5,007
Expected return on pension plan assets	# 6,518	6,078	12,243
	<u>8,072</u>	<u>10,132</u>	<u>18,534</u>

\* Net bank/loan note interest of €7.7 million (June 2010: €3.4 million; Dec 2010: €9.5 million).

# Net expected pension return of €0.9 million (June 2010: return of €0.5 million; Dec 2010: return of €1.1 million)



#### 4. Earnings per Share

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

	<b>Half Year 30 June 2011 (Unaudited) €'000</b>	Half Year 30 June 2010 (Unaudited) €'000	Year Ended 31 Dec 2010 (Audited) €'000
<b>Numerator for basic, adjusted and diluted earnings per share:</b>			
Profit after tax for the financial period	<b>12,388</b>	12,881	63,986
<b>Numerator for basic and diluted earnings per share</b>	<b>12,388</b>	12,881	63,986
Intangible amortisation after tax	<b>960</b>	960	1,936
Taxation credit	-	-	(38,432)
Net rationalisation and impairment costs	<b>3,366</b>	2,393	15,375
<b>Numerator for adjusted earnings per share</b>	<b>16,714</b>	16,234	42,865
	<b>Number of Grafton Units</b>	Number of Grafton Units	Number of Grafton Units
<b>Denominator for basic and adjusted earnings per share:</b>			
Weighted average number of Grafton Units in issue	<b>231,663,780</b>	230,996,616	231,176,982
Effect of potential dilutive Grafton Units	<b>1,716,379</b>	1,169,587	1,202,602
<b>Denominator for diluted earnings per share</b>	<b>233,380,159</b>	232,166,203	232,379,584
<b>Earnings per share (cent)</b>			
- Basic	<b>5.35</b>	5.58	27.68
- Diluted	<b>5.31</b>	5.55	27.54
<b>Adjusted earnings per share (cent)</b>			
- Basic	<b>7.21</b>	7.03	18.54
- Diluted	<b>7.16</b>	6.99	18.45

#### 5. Dividends

The payment of a second interim dividend for 2010 of 4.5 cent on the 'C' Ordinary shares in Grafton Group (UK) plc from UK-sourced income amounted to €10.4 million.

An interim dividend of 2.75 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 9 September 2011 (the 'Record Date'). The cash consideration will be paid on 7 October 2011.

#### 6. Exchange Rates

The results and cash flows of the Group's United Kingdom subsidiaries have been translated into euro using the average exchange rate for the period which approximates actual exchange rates at the date of transactions. The related balance sheets of the Group's United Kingdom subsidiaries at 30 June 2011, 30 June 2010 and 31 December 2010 have been translated at the rate of exchange ruling at the balance sheet date.



## 6. Exchange Rates (continued)

The average euro/sterling rate of exchange for the six months ended 30 June 2011 was Stg86.82p (six months to 30 June 2010: Stg87.00p and twelve months to 31 December 2010: Stg85.78p). The euro/sterling exchange rate at 30 June 2011 was Stg90.26p (30 June 2010: Stg81.75p and 31 December 2010: Stg86.08p)

## 7. Interest in Joint Venture

The Group interest in BMC Group NV, a Belgian builders merchanting business was previously treated as an associate. From 1 January 2011 the Group has accounted for its interest as a joint venture and has proportionally consolidated its 49 per cent shareholding to reflect a change in arrangements between the Group and its joint venture partner. The fair value of the net assets of the joint venture were assessed at 1 January 2011. It was determined that there was no material difference between the carrying value of the Group's investment in associate at 1 January 2011 and the fair value of the Group's interest in the net assets. The Group's shareholding increased to 53 per cent in July 2011.

The Group share of the income and expense of its Belgium joint venture for the half year ended 30 June 2011 is as follows:

### Impact on Consolidated Income Statement

	Six months To 30 June 2011 (Unaudited) €'000
<i>Group share of:</i>	
<b>Revenue</b>	10,816
Operating costs and income	<u>(10,299)</u>
<b>Operating profit</b>	517
Finance costs (net)	<u>(63)</u>
<b>Profit before tax</b>	454
Income tax expense	<u>(145)</u>
<b>Profit after tax for the financial period</b>	<u><u>309</u></u>

### Impact on Consolidated Balance Sheet

	30 June 2011 (Unaudited) €'000
<i>Group share of:</i>	
Non-current assets	3,685
Current assets	<u>9,460</u>
<b>Total assets</b>	<u><u>13,145</u></u>
Total equity	<u>5,060</u>
Non-current liabilities	1,600
Current liabilities	<u>6,485</u>
<b>Total liabilities</b>	<u><u>8,085</u></u>
Total equity and liabilities	<u><u>13,145</u></u>
Net debt included above	<u>(3,419)</u>



## 8. Movement in Working Capital

	Inventory €'000	Trade and other receivables €'000	Trade and other payables €'000	Total €'000
<b>At 1 January 2011</b>	<b>271,918</b>	<b>305,560</b>	<b>(399,890)</b>	<b>177,588</b>
Translation adjustment	(7,711)	(10,599)	11,126	(7,184)
Interest accrual and other movements	13	135	(154)	(6)
Acquisitions through business combinations	1,685	80	(107)	1,658
Acquisition through joint venture	3,375	5,464	(3,666)	5,173
Other movement in 2011	20,782	49,060	(75,435)	(5,593)
<b>At 30 June 2011</b>	<b>290,062</b>	<b>349,700</b>	<b>(468,126)</b>	<b>171,636</b>

## 9. Interest Bearing Loans and Borrowings and Net Debt

	30 June 2011 €'000	30 June 2010 €'000	31 Dec 2010 €'000
<b>Non-current liabilities</b>			
Bank loans	321,319	192,649	260,784
Loan notes	43,969	93,075	85,785
Finance leases	6,142	6,718	6,450
<b>Total non-current interest bearing loans and borrowings</b>	<b>371,430</b>	<b>292,442</b>	<b>353,019</b>
<b>Current liabilities</b>			
Bank loans and overdrafts	58,055	295,613	112,225
Loan notes	35,913	42,342	38,690
Finance leases	545	522	517
<b>Total current interest bearing loans and borrowings</b>	<b>94,513</b>	<b>338,477</b>	<b>151,432</b>
<b>Derivatives-non current</b>			
Included in non-current assets	(4,238)	(14,372)	(11,068)
Included in non-current liabilities	343	1,042	812
<b>Derivatives-current</b>			
Included in current assets	(4,558)	(7,679)	(5,798)
Included in current liabilities	398	1,440	988
<b>Total derivatives</b>	<b>(8,055)</b>	<b>(19,569)</b>	<b>(15,066)</b>
<b>Cash and cash equivalents</b>	<b>(212,063)</b>	<b>(330,307)</b>	<b>(234,275)</b>
<b>Net debt</b>	<b>245,825</b>	<b>281,043</b>	<b>255,110</b>

The increase in non-current interest bearing loans and borrowings and the reduction in current interest bearing loans and borrowings reflects the maturity profile of the Group's debt at 30 June 2011.

The movement in derivatives (current and non-current) reflects the movement in the fair values of the underlying cross-currency and interest rate swaps.



## 10. Reconciliation of Net Cash Flow to Movement in Net Debt

	<b>30 June 2011 €'000</b>	30 June 2010 €'000	31 Dec 2010 €'000
Net (decrease)/increase in cash and cash equivalents	(12,067)	11,176	(74,753)
Net movement in derivative financial instruments	1,059	(1,063)	(381)
Cash-flow from movement in debt and lease financing	26,886	35,072	144,772
<b>Change in net debt resulting from cash flows</b>	<u>15,878</u>	<u>45,185</u>	<u>69,638</u>
Bank loans and loan notes assumed with joint venture	(4,039)	-	-
Translation adjustment	(2,554)	(3,760)	(2,280)
<b>Movement in net debt in the period</b>	<u>9,285</u>	<u>41,425</u>	<u>67,358</u>
Net debt at 1 January	<u>(255,110)</u>	<u>(322,468)</u>	<u>(322,468)</u>
<b>Net debt at end of the period</b>	<u>(245,825)</u>	<u>(281,043)</u>	<u>(255,110)</u>
<b>Gearing</b>	<u>26%</u>	<u>29%</u>	<u>26%</u>

## 11. Retirement Benefits

The principal financial assumptions employed in the valuation of the Group's defined benefit scheme liabilities for the current reporting period and the 2010 year were as follows:

	<b>Irish Schemes</b>		<b>UK Schemes</b>	
	<b>At 30 June 2011</b>	At 31 Dec 2010	<b>At 30 June 2011</b>	At 31 Dec 2010
	%	%	%	%
Rate of increase in salaries	<b>3.00%*</b>	3.00%*	<b>2.65%</b>	2.55%
Inflation	<b>2.00%</b>	2.00%	<b>3.40%</b>	3.30%
Discount rate	<b>5.50%</b>	5.30%	<b>5.80%</b>	5.50%

\*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		Liabilities		Net asset/(deficit)	
	Half year 30 June 2011 €'000	Year to 31 Dec 2010 €'000	Half year 30 June 2011 €'000	Year to 31 Dec 2010 €'000	Half year 30 June 2011 €'000	Year to 31 Dec 2010 €'000
<b>At 1 January</b>	<b>190,943</b>	165,764	<b>(208,502)</b>	(191,023)	<b>(17,559)</b>	(25,259)
Expected return on plan assets	<b>6,518</b>	12,243	-	-	<b>6,518</b>	12,243
Contributions by employer	<b>2,582</b>	5,738	-	-	<b>2,582</b>	5,738
Contributions by members	<b>894</b>	2,127	<b>(894)</b>	(2,127)	-	-
Benefit payments	<b>(2,963)</b>	(7,091)	<b>2,963</b>	7,091	-	-
Current service cost	-	-	<b>(1,139)</b>	(2,064)	<b>(1,139)</b>	(2,064)
Past service cost	-	-	-	-	-	-
Settlement loss	-	-	-	-	-	-
Curtailment gain	-	-	<b>123</b>	125	<b>123</b>	125
Interest cost on scheme liabilities	-	-	<b>(5,594)</b>	(11,134)	<b>(5,594)</b>	(11,134)
Actuarial gains/(losses)	<b>(5,561)</b>	9,580	<b>7,020</b>	(6,609)	<b>1,459</b>	2,971
Translation adjustment	<b>(4,610)</b>	2,582	<b>4,414</b>	(2,761)	<b>(196)</b>	(179)
<b>At 30 June</b>	<b>187,803</b>	190,943	<b>(201,609)</b>	(208,502)	<b>(13,806)</b>	(17,559)
Related deferred tax asset					<b>1,088</b>	2,034
Net pension liability					<b>(12,718)</b>	(15,525)

The net pension deficit of €13,806,000 is shown in the Group balance sheet as retirement benefit assets (non-current assets) of €4,728,000 relating to the two UK schemes and as retirement benefit obligations (non-current liabilities) of €18,534,000 relating to the five Irish schemes.

## 12. Acquisitions

In the six months to 30 June 2011, in addition to the joint venture set out in Note 7, the Group acquired one single branch merchanting business, Big Ord (Acquired: 24 January 2011) and completed the acquisition of 16 plumbing and heating branches in England and Wales from Travis Perkins Group plc (Acquired: 12 branches on 25 February 2011; 2 branches on 27 May 2011 and 2 branches on 30 June 2011).

The total acquisition consideration and the fair value of the net assets acquired were €2,651,000 and €2,177,000 respectively. The income statement impact of these transactions in the half year was not material. Goodwill acquired during the half year in the amount of €474,000 was allocated to the Merchanting cash generating unit.

Details of the acquisitions made in 2010 are disclosed in the Group's 2010 Annual Report.

## 13. 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 decrease in goodwill in the period principally reflects a currency translation movement.



## 14. Taxation

The taxation expense for the half year is an estimate based on the current expected full year tax rate.

The tax rate of 18 per cent (2010: 4 per cent) largely reflects a non-cash charge in the Income Statement for deferred tax assets recognised in the UK business in 2010. It is not expected that a material cash tax cost will arise for the year due to the availability of tax deductions carried forward from 2010 and prior years. The reduction to the deferred tax asset reflects the utilisation of tax deductions for which deferred tax assets were previously recognised.

### Accounting estimates and judgements

Accruals for tax contingencies require management to make judgements and estimates in relation to tax issues and exposures. In the ordinary course of business, the Group is party to many transactions for which the ultimate tax determination may be uncertain and as the Group is subject to tax 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 of country-specific tax law. If the final determination of these matters is different from the amounts that were initially recorded such differences will impact the income tax and deferred tax provisions and assets in the period in which the determination was made.

### Deferred tax

At 30 June 2011, there are unrecognised deferred tax assets in relation to capital losses, trading losses and deductible temporary differences in existence in the sum of €3.3 million (2010: €3.6 million) €6.4 million (2010: €5.1 million) and €3.5 million (2010: €3.3 million) respectively. These were not recognised as the capital losses can only be recovered against certain classes of taxable profits and the Directors cannot foresee such profits arising in the foreseeable future. In relation to the trading losses and deductible temporary differences, these arose in entities that have incurred losses in recent years and the Directors have no certainty as to when there will be sufficient taxable profits in the relevant entities against which to recover them.

## 15. Related Party Transactions

There have been no related party transactions or changes in related parties other than the appointment of Mr. Gavin Slark and Ms. Annette Flynn to the Board from 1 April 2011 and 15 March 2011 respectively from those described in the 2010 Annual Report that materially affected the financial position or the performance of the Group during the half year to 30 June 2011.

## 16. Grafton Group plc 2011 Long Term Incentive Plan (2011 LTIP)

The 2011 LTIP, details of which are disclosed in the 2010 Annual Report, was approved at the Group's Annual General Meeting on 4 May 2011. Share awards over 1,159,000 Grafton Units were granted under the plan on 25 May 2011.

## 17. Events after the Balance Sheet Date

There have been no material events subsequent to 30 June 2011 which would require disclosure in this report other than the agreement in principle to extend the maturity profile of bank debt and new facilities as referred to in the Financial Review on page 6.

## 18. Board Approval

These condensed consolidated interim financial statements were approved by the Board of Grafton Group plc on 30 August 2011.



## Directors' Responsibility Statement in respect of the half-yearly financial report for the six months ended 30 June 2011

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

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

The directors of Grafton Group plc are listed on the Grafton Group plc website: [www.graftonplc.com](http://www.graftonplc.com).

On behalf of the Board:

Gavin Slark  
Group Chief Executive

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 2011 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 Republic of Ireland’s Financial Regulator. 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 Republic of Ireland’s Financial Regulator.

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 2011 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 Republic of Ireland’s Financial Regulator.



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

30 August 2011



## 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:	+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: 5390987#

A copy of this statement is also available on our website [www.graftonplc.com](http://www.graftonplc.com)

## 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.