



Grafton Group plc 2009 Preliminary Statement

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Highlights

Grafton Group plc announces its final results for the twelve months ended 31 December 2009. Grafton is a major operator in the UK builders merchant market and the leading merchant and DIY business in Ireland.

	2009	2008
Revenue	€1.98bn	€2.67bn
Adjusted operating profit*	€26.2m	€118.6m
Operating profit per income statement	€4.9m	€99.2m
Profit before tax	€13.6m	€64.1m
Free cash flow	€171m	€212m
EBITDA	€74.1m	€172.9m
Adjusted earnings per share**	5.4c	32.2c
Basic earnings per share	5.8c	25.1c
Dividend / share purchase	5.0c	15.0c
Net debt	€322m	€435m
Gearing	35%	50%

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

** Before intangible amortisation, impairment, restructuring costs (net) and 2009 investment profit

FINANCIAL HIGHLIGHTS:

Extensive measures taken to reduce Group's cost base by an annualised €85m
Working capital management and tight capex boosts free cash flow to €171m
Debt to equity ratio reduced to 35 per cent
Net debt reduced by €113m to €322m
Freely available cash deposits of €302m at year end
Emerging from the downturn with a well protected balance sheet
Interim dividend of 2.5 cent payable on 31 March 2010



OPERATIONAL HIGHLIGHTS:

Sharp fall in market demand leads to decline in sales
Satisfactory market share performance
Benefits derived from lower cost base, integration, scale related and procurement efficiencies
Trading stabilises in second half
Trading outlook beginning to improve following period of significant uncertainty
UK accounts for 68 per cent of total sales

UK:

Turnover down 20 per cent to €1.34bn
UK turnover stabilises in second half as leading demand indicators turn more positive
Modest like for like growth returns to a number of UK activities
Ten new branches opened
Significant improvement in dry mortar sales

Ireland:

Turnover down 35 per cent to €638m
Rate of sales decline continues to moderate
Ongoing financial benefits from reduced costs
Restructuring positions merchanting network for return to profitability
Sharp fall in DIY volumes mitigated by improved operational efficiencies

OUTLOOK:

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

“Group sales in the second half of 2009 were similar to the first half. This stabilisation of sales, combined with the action taken to substantially reduce the cost base and integration benefits in our merchanting business, resulted in improved profitability during the second half of last year. Sales in the first two weeks of January 2010 were affected by severe adverse weather conditions. Since then sales have been close to expectations and last year with good increases into the UK new housing sector.

“The Group’s strong businesses and financial strength position it to consolidate market share in its key markets. With a lower cost base and more integrated merchanting business, it is well placed to benefit from its operating leverage as markets recover.”



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 4364267

The digital replay security code is: 2463095#

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



Preliminary Statement

For the Year Ended 31 December 2009

Overview

The background to trading during 2009 was the most difficult for decades. The UK and Irish economies were in recession leading to a sharp fall in demand in the merchanting and DIY markets as consumer confidence fell and housing related spending was reduced. The scale and intensity of the downturn made it inevitable that the Group would experience a sharp decline in sales. However, this has been mitigated by satisfactory market share performances across our markets.

Significant progress was made in responding to the challenging trading conditions. The Group is coming through the downturn in a strong position and is well placed to take advantage of organic growth and development opportunities as market conditions gradually improve. The reliability, service ethic and value propositions of the Group's brands with trade customers enabled the builders merchanting business to consolidate its market position.

Revenue at €1.98 billion, was down 26 per cent from €2.67 billion and by 20 per cent on a constant currency basis. Profit before taxation was €13.6 million, compared to €64.1 million in 2008. The result for the year includes an investment profit of €22.1 million, a property profit of €6.1 million and net rationalisation and impairment costs of €19.1 million.

Extensive measures were taken to reduce the Group's cost base by an annualised €85 million in order to manage successfully the business through the recession. The focus on cash flow enabled net debt to be reduced by €113.1 million. Operating cash flow of €138.6 million included €93.7 million of cash released from working capital. An investment gain and the disposal of surplus property and other assets generated additional cash of €35.3 million.

Group liquidity and financial flexibility is being maintained with €302.0 million of cash deposits available at the year end (31 December 2008: €224.8 million). A conservative approach to managing the Group's finances over the past two years has resulted in a €227.9 million reduction in net debt (41 per cent) from €550.4 million to €322.5 million.

The Group's business units located in the UK accounted for 68 per cent of total revenue. Following the stabilisation of the Group's UK turnover in the second half of 2009 more positive news flow has been emerging about the UK economy and housing market. Leading indicators for our sector have been more positive and we expect that this will be reflected in our business. A number of our UK based activities have already returned to modest like for like sales growth.

In Ireland, the pace of decline has moderated and economists anticipate economic activity beginning to increase in the second half of 2010. The Irish economy and housing market have been amongst the hardest hit by recession and, although near term risks and challenges remain, the anticipated recovery presents the Group's merchanting and DIY businesses with a significant medium term growth opportunity.



Operations Review

Merchandising

Turnover in the merchandising business was €1.69 billion, down 26 per cent from €2.28 billion. Segment operating profit before rationalisation costs was €39.3 million compared to €121.9 million in the prior year.

Merchandising branches located in the UK recorded a turnover decline of 20 per cent to €1.32 billion from €1.64 billion. The decline in sterling turnover was 10 per cent and average daily like for like sales were down by 11.9 per cent. Operating profit before rationalisation costs declined to €43.5 million from €73.6 million. The operating profit margin was 3.3 per cent (2008: 4.5 per cent).

The Group's merchandising business traded against the backdrop of declining economies in both the UK and Ireland. The downturn affected all sectors of both economies and particularly the housing market which experienced declines in private sector investment of around 30 per cent over the two years to the middle of 2009 in the UK and up to 50 per cent in the ROI. House prices fell significantly in both jurisdictions. In the UK most housing market indicators picked up in the second half of 2009 from seasonally low levels (more particularly in the South East) while recovery in the North of England and the Irish market is expected to materially lag the recovery seen in the South East of England.

In the UK, 2008 average daily like for like sales were down by 6.5 per cent for the year. In quarter 1 of 2009, average daily sales contracted by 18 per cent after which the rate of decline moderated to 16 per cent in the second quarter and returned to modest growth by the year end.

Significant progress was made on integration with the successful merger of the management and administration functions of Buildbase, Plumbase, Jacksons and the smaller specialist merchandising brands under a streamlined reporting structure. The infrastructure supporting the brands continued to be improved and a central support office based in Oxford now provides Transport, IT, Finance, Administration, Property and Human Resources services. This has enabled a more co-ordinated approach to the delivery of these services, eliminating duplication and generating significant scale related efficiency and cost savings.

The procurement process was improved further with new internal appointments to lead heavyside and lightside purchasing. There was an increased focus on reducing the supplier base and developing closer alliances with key suppliers. This has resulted in greater leverage being achieved from the Group's purchasing scale and improved purchasing terms. The volume of products sourced directly through the warehouse facility in Shanghai continued to increase providing a new sourcing option for the Group's businesses to procure quality products at competitive prices.

Although a more cautious approach is being adopted to expansion until there is further evidence of how the recovery is developing and the likely pace of future growth, a leading independent distributor of quality branded products to the renewables market was acquired. New merchandising branches were opened in Bristol, Corby, York and Alford and new Plumbase branches were opened in Sutton, Bradford and Weston-Super-Mare.

Selco, the trade only warehouse format performed strongly achieving like for like turnover growth in mature stores and also increasing sales in line with expectations, in recently opened stores. The store network increased to 28 during the year with the opening of three new stores in Sidcup and Romford in London and in Nottingham. Thirteen Selco stores are located in the London area where further opportunities for expansion are under consideration.



In Northern Ireland, the economy contracted at the highest rate for several decades before emerging from recession in the fourth quarter. Construction volumes were down and the new residential market was particularly affected by the downturn. These factors resulted in a significant decline in turnover and profit in Macnaughton Blair despite significant progress in reducing operating costs in response to weaker market conditions.

Merchanting branches located in Ireland recorded a turnover decline of 42 per cent to €370 million from €642 million. The Irish merchanting branches combined reported an operating loss of €10.3 million before a property profit of €6.1 million and rationalisation costs. This compares to a profit of €48.3 million in 2008.

The businesses located in Ireland traded during 2009 against the background of an economy going through a severe recession and a housing market that continued to experience a very sharp decline in output following a prolonged period of growth. The Irish economy is estimated to have contracted by 7 per cent last year, as measured by GDP, following a decline of 3 per cent in 2008. The recession was accompanied by increased unemployment, tight credit conditions and an increase in precautionary saving.

The number of house completions in Ireland during 2009 is estimated at 17,000 units adjusting for unsold units in stock and at various stages of construction. This is less than a fifth of output at the peak of the market in 2006. Housing starts are estimated at less than 10,000 units comprising mainly one-off houses. Scheme house and apartment construction declined to negligible levels. Non-residential construction was also down due to weak demand for retail and commercial property.

Merchanting sales continued to weaken in 2009, as the economy and housing market worsened, falling by 46 per cent in the first half. The rate of decline eased to 41 per cent in the third quarter and to 33 per cent in the fourth quarter.

The fall in Irish merchanting turnover was primarily related to the sharp fall in housing output and non-residential construction. Heiton Buckley and Chadwicks performed relatively well demonstrating the resilience of the brands despite the very difficult economic conditions and sharp fall in housing volumes combined with price pressures. The business increased its share of the RMI market and strengthened its leadership position in a competitive Irish merchanting market. The end-use markets serviced by the business are now weighted towards residential RMI and infrastructure due to the fall in new build construction which now accounts for less than a quarter of turnover.

A range of measures were implemented across the merchanting segment to manage the business through the downturn and to ensure that it emerged in a strong position. Branch operating costs were reduced in response to the fall in volumes and the management structure and central support office was streamlined. A small number of branches were consolidated in areas of overlap eliminating spare capacity and releasing properties for disposal or alternative use within the business.

The performance of Heiton Steel was severely impacted by a sharp fall in commercial and agricultural construction and fall in steel prices resulting in the business reporting its first loss in four decades.

During the year vigorous action was taken to meet the challenges of the downturn and manage the business through the recession. The rationalisation and restructuring programme implemented was designed to position the overall branch network for a return to profitability. The changes made reduced costs but will also have a significant financial benefit in 2010 including the carry over effect of cost reductions implemented over 2009, an anticipated return to a more normalised level of bad debts, a recovery in steel prices and an improved operating performance due to branch consolidations.



Retailing

Turnover declined by 18 per cent to €248 million from €303 million. The segment recorded an operating profit of €3.3 million before rationalisation costs compared to a profit of €11.8 million in the prior year.

The 41 DIY stores and 7 kitchen showrooms in Ireland faced the toughest ever trading conditions. Declining employment and incomes, higher taxes, increased savings and a fall in personal wealth contributed to weak consumer confidence and the highest annual fall in retail sales on record. While the rate of decline in retail sales moderated, the DIY sector was vulnerable to lower volumes in housing related and discretionary expenditure.

Woodie's consolidated its position as the leading DIY retailing brand in Ireland. The business responded positively to the difficult economic conditions as customers' priorities were increasingly focused on value, quality and service. Working closely with suppliers provided the financial flexibility to maintain gross margins while ensuring products were competitively priced. Woodie's continued to refresh and upgrade key product groups and introduce new products that complemented existing ranges and differentiated the business from its competitors. Product development was also focused on growing own brand product ranges supported by competitive pricing.

The impact of the very sharp fall in volumes was partly mitigated by significant action to improve the ongoing operational efficiency of the business. This involved more closely aligning the cost base of the business with lower volumes and refining lines of reporting and improving accountability while maintaining a strong focus on customer service and support. The cost of property, utilities and other services were renegotiated where possible to reflect general price deflation in the economy.

In-House, the kitchens business, successfully introduced a new range of kitchens that enabled it to compete and grow volume in a very challenging market. The brand has proven to be resilient and adaptable to customers' preferences for a quality and value proposition that can be readily distinguished in the market place. The launch of "Smart Fit", fully assembled, kitchens that reduce on site installation costs for customers, provided an opportunity for extending the brand's market share.

Manufacturing

Turnover was down by 47 per cent to €45.1 million (2008: €85.4 million) and the segment operating loss before rationalisation and impairment costs was €5.1 million (2008: €3.2 million).

The manufacturing division is the UK's largest producer of dry mortar from nine plants and also operates mortar, plastics and windows manufacturing facilities in Ireland. The division suffered from very weak residential construction markets in both the UK and Ireland. Despite reporting an operating loss, the business was cash generative due to the release of working capital and the non-cash charge for depreciation in arriving at the operating result during a period of very low capital investment. Appropriate steps were taken to bring the divisions costs more closely into line with the lower volumes while preserving the long-term viability of the individual businesses.

Demand in the UK mortar business was adversely affected by the dramatic fall in housing starts which hit a low point in the last quarter of 2008 at the height of the global financial crisis. Housing starts picked up gradually during 2009 but remain low by historic standards. More positively, since November 2009 the Group has experienced a significant pick up in the sales of dry mortar as new house building volumes increased.



Financial Review

The Group faced the economic challenges of the past two years from a position of financial strength. It is now emerging from the downturn with its balance sheet well protected due to the actions taken to manage the business through the recession. The focus during 2009 was on reducing operating costs and on tight control of capital expenditure and working capital.

Cash Flow

A reduction in working capital generated a cash inflow of €93.7 million through lower levels of stock and debtors. An investment profit and asset disposals realised €35.3 million. A net cash inflow of €113.1 million was achieved after returning €17.3 million to shareholders through the purchase of A Ordinary shares and a spend of €19.3 million on capital projects and strategic growth opportunities in the merchanting market.

Liquidity and Debt

Net debt reduced by €113.1 million to €322.5 million (31 December 2008: €435.6 million). This is equivalent to year end debt to shareholders' funds ratio of 35 per cent (31 December 2008: 50 per cent). The Group's net debt fell by €227.9 million or 41 per cent in the two years to the end of 2009.

The Group retained strong financial flexibility and liquidity with freely available cash deposits of €302.0 million at the year end (31 December 2008: €224.8 million). Cash deposits are invested on a short-term basis with maturities of up to nine months.

The Group's bank facilities are subject to a minimum level of net assets, a requirement which currently leaves the Group with circa €300 million clear headroom, a maximum net debt to equity ratio of 100 per cent (currently 35 per cent) and a maximum current liabilities to current assets ratio of 1.2:1 (currently 0.62:1). There are no provisions for interest cover and EBITDA to debt covenants in agreements with lenders.

Net Finance Charges

The net finance charge (excluding the investment gain) reduced to €13.4 million from €35.1 million in the prior year largely due to the Group having positioned itself to take advantage of favourable short term interest rates.

Pensions

Pension benefits are provided principally through defined contribution based arrangements. A number of factors led to the deficit on defined benefit pension schemes reducing to €25.3 million from €40.9 million the most important of which was an increase in the fair value of scheme assets.

Property Disposal

The Group continued to realise cash and profit from exploiting opportunities associated with its significant portfolio of freehold properties. A profit of €6.1 million was realised on the disposal of surplus land, forming part of a merchanting branch in West Dublin, for a cash consideration of €7.2 million. It is expected that value will continue to be created from property transactions demonstrating the strong underlying value of the portfolio and benefit of holding a significant number of freehold properties.



Shareholders' Funds

Shareholders' funds increased by €42.9 million to €911.8 million (31 December 2008: €868.9 million). The improvement reflected an increase in the value of sterling assets on translation to euro and a fall in the deficit on the defined benefit pension schemes. Shareholders' funds at 31 December 2009 were equivalent to €3.95 per share.

Dividend

The Board has agreed to pay an interim dividend of 2.5 cent per Grafton Unit on 31 March 2010. The company purchased one "A" Ordinary share per Grafton unit for a cash consideration of 2.5 cent per share which was paid on 9 October 2009. The Board's decisions reflect the Group's strong financial position and the stabilisation of trading in 2009 and also recognises that, while risks and uncertainties remain, the trading outlook for the business is now beginning to improve following a period of significant uncertainty.

Outlook

The UK economy now appears to be in the early stages of a recovery that may be uneven. Housing market indicators have continued to improve in recent months from very low levels and UK housing starts, in particular, have been improving for some months. We would expect this trend to continue during the course of 2010 providing a positive backdrop for our UK businesses. Demand in the RMI market should benefit from the gradual recovery in household confidence following the UK's emergence from recession in Q4 2009. Recent evidence that the contraction in consumer spending may be easing, however, will likely be tempered by credit conditions remaining tight for some time. Overall, the sharp fall in merchanting volumes over the past two years, combined with the longer-term prospects of the UK construction market, driven by long term demand, provide an opportunity for growth over time at above trend rates while at the same time demand in the RMI market remains structurally intact.

In Ireland, the economy has moved closer to the end of a deep downturn. In 2010, the pace of decline is expected to continue moderating until mid-year. The strength of recovery will be influenced by the pick-up in the global economy and growth in exports aided by increased competitiveness. Low consumer confidence, a weak labour market and tight credit conditions are likely to weigh on near term demand in the RMI and DIY sectors. Having fallen by 90 per cent, housing starts are now well below levels reached at the bottom of the 1980s recession.

The Group ended 2009 in a strong financial position with net debt reduced by €113 million to €322 million and €302 million of freely available cash with substantial financial flexibility and headroom over covenants. Negotiations to refinance debt maturing over the next two years out to 2013 are at an advanced stage and indicative Heads of Terms have been issued recently by the Group's main relationship banks. It is anticipated that the new arrangement will come into effect in the third quarter of 2010.

Group sales in the second half of 2009 were similar to the first half. This stabilisation of sales, combined with the action taken to substantially reduce the cost base and integration benefits in our merchanting business, resulted in improved profitability during the second half of last year. Sales in the first two weeks of January 2010 were affected by severe weather conditions. Since then sales have been close to expectations and last year with good increases into the UK new housing sector.

The Group's strong businesses and financial strength position it to consolidate market share in its key markets. With a lower cost base and a more integrated merchanting business, it is well placed to benefit from its operating leverage as its markets recover.



Grafton Group plc

Group Condensed Income Statement

For the year ended 31 December 2009

	Twelve months to 31 Dec 2009 (Audited) €000	Twelve months to 31 Dec 2008 (Audited) €000
Revenue	1,979,796	2,672,984
Operating costs and income	(1,974,912)	(2,573,759)
Operating profit	4,884	99,225
Finance expense	(29,419)	(59,944)
Finance income	38,115	24,835
Profit before tax	13,580	64,116
Income tax expense	(188)	(6,418)
Profit after tax for the financial year	13,392	57,698
Profit attributable to: Equity holders of the Company	13,392	57,698
Earnings per ordinary share - basic	5.81c	25.09c
Diluted earnings per share	5.79c	25.00c



Grafton Group plc

Group Condensed Balance Sheet as at 31 December 2009

	31 Dec 2009 (Audited) €000	31 Dec 2008 (Audited) €000
ASSETS		
Non-current assets		
Goodwill	544,286	532,807
Intangible assets	6,665	8,877
Property, plant and equipment	604,838	633,336
Deferred tax assets	22,459	24,904
Retirement benefit assets	-	7
Derivative financial instruments	12,524	27,810
Investment in associate	3,690	-
Financial assets	211	227
Total non-current assets	1,194,673	1,227,968
Current assets		
Inventories	265,748	331,124
Trade and other receivables	306,863	353,581
Derivative financial instruments	4,405	10,943
Cash and cash equivalents	301,985	224,834
Properties held for sale	12,363	-
Total current assets	891,364	920,482
Total assets	2,086,037	2,148,450
EQUITY		
Capital and reserves attributable to the equity holders		
Equity share capital	11,598	11,579
Share premium account	289,800	288,951
Capital redemption reserve	905	900
Revaluation reserve	31,952	32,157
Other reserves	4,677	6,041
Cash flow hedge reserve	(1,182)	-
Foreign currency translation reserve	(158,611)	(202,834)
Retained earnings	738,356	737,817
Treasury shares held	(5,746)	(5,746)
Total equity	911,749	868,865
LIABILITIES		
Non-current liabilities		
Interest-bearing loans and borrowings	536,789	579,333
Provisions	16,800	16,634
Retirement benefit obligations	25,259	40,899
Derivative financial instruments	682	-
Deferred tax liabilities	43,965	40,732
Total non-current liabilities	623,495	677,598
Current liabilities		
Interest-bearing loans and borrowings	103,174	119,874
Trade and other payables	387,331	416,498
Current income tax liabilities	51,571	55,950
Derivative financial instruments	737	-
Provisions	7,980	9,665
Total current liabilities	550,793	601,987
Total liabilities	1,174,288	1,279,585
Total equity and liabilities	2,086,037	2,148,450



Grafton Group plc Group Condensed Cash Flow Statement

For the year ended 31 December 2009

	Twelve months to 31 Dec 2009 (Audited) €000	Twelve months to 31 Dec 2008 (Audited) €000
Profit before taxation	13,580	64,116
Finance income	(38,115)	(24,835)
Finance expense	<u>29,419</u>	<u>59,944</u>
Operating profit	4,884	99,225
Depreciation	47,939	54,287
Intangible amortisation	2,212	2,218
Goodwill write-off on termination	135	-
Goodwill impairment loss	5,469	-
Share based payments credit	(1,364)	(1,966)
Non cash movement in provisions	4,420	5,281
Profit on sale of property, plant and equipment	(6,819)	(4,655)
Contributions to pension schemes in excess of IAS 19 charge	(11,975)	(8,094)
Decrease in working capital	<u>93,719</u>	<u>108,463</u>
Cash generated from operations	138,620	254,759
Interest paid	(21,241)	(45,593)
Income taxes paid	<u>(1,069)</u>	<u>(1,579)</u>
Cash flows from operating activities	116,310	207,587
Investing activities		
Proceeds from sale of property, plant and equipment	13,210	10,953
Investment profit realised in cash	22,058	-
Interest received	5,242	8,781
Sale of financial assets	<u>35</u>	<u>433</u>
	<u>40,545</u>	<u>20,167</u>
<i>Outflows</i>		
Acquisition of subsidiary undertakings and businesses	(2,255)	(24,460)
Net cash acquired with subsidiary undertakings	604	4,915
Deferred acquisition consideration paid	(1,556)	(8,420)
Claims paid on provisions	(1,903)	(2,063)
Purchase of property, plant and equipment	(12,420)	(78,592)
Investment in associate	<u>(3,690)</u>	<u>-</u>
	<u>(21,220)</u>	<u>(108,620)</u>
Cash flows from investing activities	19,325	(88,453)
Financing activities		
Proceeds from the issue of share capital	873	1,528
Proceeds from borrowings	<u>73,679</u>	<u>91,944</u>
	<u>74,552</u>	<u>93,472</u>
<i>Outflows</i>		
Repayments of borrowings	(78,007)	(74,031)
Purchase of 'A' ordinary shares	(17,276)	(50,585)
Payment of finance lease liabilities	(383)	(1,209)
Redemption of loan notes payable net of derivatives	<u>(49,370)</u>	<u>(29,842)</u>
	<u>(145,036)</u>	<u>(155,667)</u>
Cash flows from financing activities	(70,484)	(62,195)
Net increase in cash and cash equivalents	65,151	56,939
Cash and cash equivalents at 1 January	224,827	203,489
Effect of exchange rate fluctuations on cash held	12,006	(35,601)
Cash and cash equivalents at the end of the period	301,984	224,827
Cash and cash equivalents are broken down as follows:		
Cash at bank and short-term deposits	301,985	224,834
Overdrafts	<u>(1)</u>	<u>(7)</u>
	<u>301,984</u>	<u>224,827</u>



Group Condensed Statement of Comprehensive Income

For the year ended 31 December 2009

	Twelve months to 31 Dec 2009 €000	Twelve months to 31 Dec 2008 €000
Profit after tax for the financial year	<u>13,392</u>	<u>57,698</u>
Other comprehensive income:		
Currency translation effects		
- on foreign currency net investments	60,576	(243,869)
- on foreign currency borrowings and derivatives designated as net investment hedges	(16,353)	71,569
Actuarial gain/(loss) on Group defined benefit pension schemes	4,778	(37,414)
Deferred tax on Group defined benefit pension schemes	452	4,730
Deferred tax on capital gains tax rate increase	(1,012)	-
Fair value gain on investment	22,058	-
Transfer of gain on investment to income statement	(22,058)	-
Fair value movement in cash flow hedges:		
- Fair value losses	(2,353)	(55)
- Included in finance expense	994	(529)
Deferred tax on cash flow hedge	177	73
Total other comprehensive income	<u>47,259</u>	<u>(205,495)</u>
Total comprehensive income for the financial year	<u>60,651</u>	<u>(147,797)</u>
Attributable to:		
Equity holders of the Company	<u>60,651</u>	<u>(147,797)</u>

Movement on Group Retained Earnings

	31 Dec 2009 €000	31 Dec 2008 €000
At 1 January	737,817	759,864
Profit after tax for the financial year	13,392	57,698
Purchase of 'A' ordinary shares	(17,276)	(50,585)
Actuarial gain/(loss) on pensions (net of tax)	5,230	(32,684)
Deferred tax on capital gains tax rate increase	(1,012)	-
Transfer from other reserve – shares to be issued	-	2,913
Transfer from revaluation reserve	205	611
At end of year	<u>738,356</u>	<u>737,817</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
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
Total comprehensive income for the financial year	-	-	-	-	-	(1,182)	44,223	17,610	-	60,651
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
Year to 31 December 2008 (Audited)										
At 1 January 2008	11,569	287,458	875	32,768	10,920	511	(30,534)	759,864	(5,746)	1,067,685
Total comprehensive income for the financial year	-	-	-	-	-	(511)	(172,300)	25,014	-	(147,797)
Purchase of 'A' ordinary shares	(25)	-	25	-	-	-	-	(50,585)	-	(50,585)
Issue of Grafton Units (net of issue expenses)	35	1,493	-	-	-	-	-	-	-	1,528
Adjustment for share based payments credit	-	-	-	-	(1,966)	-	-	-	-	(1,966)
Transfer from other reserve – shares to be issued	-	-	-	-	(2,913)	-	-	2,913	-	-
Transfer from revaluation reserve	-	-	-	(611)	-	-	-	611	-	-
At 31 December 2008	11,579	288,951	900	32,157	6,041	-	(202,834)	737,817	(5,746)	868,865



Grafton Group plc
Notes to Preliminary Statement for the year ended 31 December 2009

1. General Information

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 as set out in the Group's annual financial statements in respect of the year ended 31 December 2008 except as noted below. The financial information does not include all the information and disclosures required in the annual financial statements. The Annual Report will be distributed to shareholders and made available on the Companies website www.graftonplc.com in due course. It will also be filed with the Companies Annual Return in the Companies Registration Office. The auditors have reported on the financial statements for the year ended 31 December 2009 and their report was unqualified and did not contain any matters to which attention was drawn by way of emphasis. The financial information for the year ended 31 December 2008 represents an abbreviated version of the Group's statutory financial statements on which an unqualified audit report was issued and which have been filed with the Companies Registration Office.

Basis of Preparation and Accounting Policies

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

Primary Statements

IAS 1 (Amendment) – *Presentation of Financial Statements: A Revised Presentation* requires the presentation of a statement of changes in equity as a primary statement together with other presentational changes to the Group's primary statements.

Operating Segments

IFRS 8 *Operating Segments* requires operating segments to be identified on the basis of internal reports that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. Three operating segments have been identified Merchanting, Retailing and Manufacturing and the comparative numbers have been restated to reflect the new basis of segmentation. The new standard only impacts presentation and disclosure aspects, there is no impact on the results, cashflows or earnings per share.

Investments in Associates

Following the Group's investment in an associate undertaking in the year, the Group adopted a policy to account for associates using the equity method. Associates are recognised initially at cost. The consolidated financial statements include the Group's share of the income and expenses and other comprehensive income movements of investments in associates.

Assets held for Resale

Property assets that are held for sale rather than continuing use, are classified as held for sale. These properties are shown in the balance sheet at the lower of their carrying amount and fair value less any disposal costs. Impairment losses on initial classification as property held for sale and subsequent gains or losses on re-measurement are recognised in the income statement.



2. Segmental Analysis

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

	Twelve months to 31 Dec 2009 (Audited) €000	Twelve months to 31 Dec 2008 (Audited) €000
Revenue		
Merchandising	1,686,933	2,284,484
Retail	247,784	303,071
Manufacturing	50,985	95,621
Less: Inter-segment revenue - manufacturing	(5,906)	(10,192)
	<u>1,979,796</u>	<u>2,672,984</u>
Segment operating profit/(loss) result		
Merchandising	39,305	121,921
Retail	3,274	11,790
Manufacturing	(5,060)	(3,159)
	<u>37,519</u>	<u>130,552</u>
Restructuring costs		
Merchandising	(17,014)	(14,498)
Retail	(508)	(885)
Manufacturing	(1,398)	(1,765)
	<u>(18,920)</u>	<u>(17,148)</u>
Segment operating profit/(loss) result after restructuring costs		
Merchandising	22,291	107,423
Retail	2,766	10,905
Manufacturing	(6,458)	(4,924)
	<u>18,599</u>	<u>113,404</u>
Reconciliation to consolidated operating profit		
Central activities	(11,351)	(11,961)
Intangible amortisation	(2,212)	(2,218)
Goodwill impairment – manufacturing segment	(5,469)	-
Past service credit on pension scheme	5,317	-
Operating profit	<u>4,884</u>	<u>99,225</u>
Finance expense	(29,419)	(59,944)
Finance income	38,115	24,835
Profit before tax	<u>13,580</u>	<u>64,116</u>

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

Operating segment assets are analysed below:

	31 Dec 2009 (Audited) €000	31 Dec 2008 (Audited) €000
Segment assets		
Merchandising	1,559,158	1,660,199
Retail	115,013	130,422
Manufacturing	66,592	69,104
	<u>1,740,763</u>	<u>1,859,725</u>
Unallocated assets		
Deferred tax assets	22,459	24,904
Retirement benefit assets	-	7
Investment in associate	3,690	-
Financial assets	211	227
Derivatives and other financial instruments	16,929	38,753
Cash and cash equivalents	301,985	224,834
Total assets	<u>2,086,037</u>	<u>2,148,450</u>



The amount of revenue by geographic area is as follows:

	Twelve months to 31 Dec 2009 (Audited) €000	Twelve months to 31 Dec 2008 (Audited) €000
Revenue		
United Kingdom	1,341,954	1,687,333
Ireland	637,842	985,651
	<u>1,979,796</u>	<u>2,672,984</u>

3. Finance Expense and Finance Income

	Twelve months to 31 Dec 2009 (Audited) €000		Twelve months to 31 Dec 2008 (Audited) €000
Finance expense			
Bank loans and overdrafts	(12,412) *		(32,636)
Net changes in fair value of cash flow hedges transferred from equity	(994)		529
Interest on loan notes	(7,091) *		(14,953)
Interest payable on finance leases	(488)		(644)
Finance cost on pension scheme liabilities	(10,826) #		(12,868)
Fair value movement on hedged financial liabilities	7,720		(11,855)
Fair value movement on fair value hedges	(4,682)		12,483
Ineffectiveness on net investment hedge	(677)		-
Ineffectiveness on cash flow hedges	(60)		-
Foreign exchange gain	1,009		-
Recycling of exchange loss on net investment hedge	(918)		-
	<u>(29,419)</u>		<u>(59,944)</u>
Finance income			
Investment gain realised in cash	22,058		-
Interest income on bank deposits	6,336 *		9,015
Expected return on pension plan assets	9,721 #		15,820
	<u>38,115</u>		<u>24,835</u>

* Net bank/loan note interest of €13.2 million (2008: €38.6 million).

Net expected pension charge of €1.1 million (2008: Return of €3.0 million).

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

	31 Dec 2009 €000	31 Dec 2008 €000
Net increase in cash and cash equivalents	65,151	56,939
Net movement in derivative financial instruments	(1,419)	(584)
Cash-flow from movement in debt and lease financing	54,081	13,138
Change in net debt resulting from cash flows	<u>117,813</u>	<u>69,493</u>
Non cash movement on finance lease liability extinguished	1,185	-
Bank loans and loan notes acquired with subsidiaries	-	(179)
Translation adjustment	(5,846)	45,455
Movement in net debt in the year	<u>113,152</u>	<u>114,769</u>
Net debt at 1 January	<u>(435,620)</u>	<u>(550,389)</u>
Net debt at end of the year	<u>(322,468)</u>	<u>(435,620)</u>
Gearing	<u>35%</u>	<u>50%</u>



5. Earnings per Share

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

	Year Ended 31 Dec 2009 (Audited) €000	Year Ended 31 Dec 2008 (Audited) €000
Numerator for basic, adjusted and diluted earnings per share:		
Profit after tax for the period	13,392	57,698
Numerator for basic and diluted earnings per share	13,392	57,698
Finance income – investment profit	(22,058)	-
Intangible amortisation after tax	1,936	1,941
Net rationalisation and impairment costs	19,072	14,514
Numerator for adjusted earnings per share	12,342	74,153
	Number of Grafton Units	Number of Grafton Units
Denominator for basic and adjusted earnings per share:		
Weighted average number of Grafton Units in issue	230,467,983	229,985,105
Effect of potential dilutive Grafton Units	782,192	828,985
Denominator for diluted earnings per share	231,250,175	230,814,090
Earnings per share (cent)		
- Basic	5.81	25.09
- Diluted	5.79	25.00
Adjusted earnings per share (cent)		
- Basic	5.36	32.24
- Diluted	5.34	32.13

6. Dividend

The Board has agreed to pay an interim dividend of 2.5 cent per Grafton Unit to shareholders on the register at close of business on 12 March 2010 (record date) and the cash consideration will be paid on 31 March 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 31 December 2009 and 31 December 2008 have been translated at the rate of exchange ruling at the balance sheet date.

The average euro / sterling rate of exchange for the year ended 31 December 2009 was Stg89.09p (year to 31 December 2008: Stg79.63p). The euro / sterling exchange rate at 31 December 2009 was Stg88.81p (31 December 2008: Stg95.25p).

8. Movement in Working Capital

	Inventory €000	Trade and other receivables €000	Trade and other payables €000	Total €000
At 1 January 2009	331,124	353,581	(416,498)	268,207
Translation adjustment	12,383	24,188	(29,949)	6,622
Interest accrual and other movements	-	822	2,492	3,314
Acquisitions	463	660	(267)	856
Movement in 2009	(78,222)	(72,388)	56,891	(93,719)
At 31 December 2009	265,748	306,863	(387,331)	185,280

9. Retirement Benefits

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

	Year ended 31 December			
	Irish Schemes		UK Schemes	
	2009	2008	2009	2008
	%	%	%	%
Rate of increase in salaries	3.00*	3.00	2.75	2.5
Inflation	2.25	1.75	3.45	2.75
Discount rate	5.60	5.60	5.85	6.50

* 3% applies from 2 Jan 2014



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

	Assets		Year ended 31 December Liabilities		Net asset/(deficit)	
	2009	2008	2009	2008	2009	2008
	€000	€000	€000	€000	€000	€000
At 1 January	133,855	223,700	(174,747)	(239,023)	(40,892)	(15,323)
Expected return on plan assets	9,721	15,820	-	-	9,721	15,820
Contributions by employer	9,562	16,331	-	-	9,562	16,331
Contributions by members	2,298	2,730	(2,298)	(2,730)	-	-
Benefit payments	(5,401)	(5,734)	5,401	5,734	-	-
Current service cost	-	-	(3,069)	(4,325)	(3,069)	(4,325)
Past service credit/(charge)	-	-	5,317	(734)	5,317	(734)
Settlement loss	(4,435)	(25,400)	3,325	22,296	(1,110)	(3,104)
Curtailment gain	-	-	1,275	338	1,275	338
Interest cost on scheme liabilities	-	-	(10,826)	(12,868)	(10,826)	(12,868)
Actuarial gains/(losses)	15,331	(72,585)	(10,553)	35,171	4,778	(37,414)
Translation adjustment	4,833	(21,007)	(4,848)	21,394	(15)	387
At 31 December	165,764	133,855	(191,023)	(174,747)	(25,259)	(40,892)
Related deferred tax asset/(liability)					3,918	5,110
Net pension liability					(21,341)	(35,782)

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

The defined benefit pension scheme entitlements of the Group Financial Controller/Secretary were transferred to a Revenue approved self administered defined contribution pension scheme. The transfer was agreed by the Remuneration Committee on the basis of independent professional advice. The relevant pension showed a net deficit of €0.76 million in the defined benefit scheme and the Group Condensed Income Statement for the year reflects a charge for this amount to fund this deficit. The transfer of these pension assets out of the defined benefit scheme eliminates the related obligations and risks from the Group's balance sheet. The solvency of the defined benefit pension scheme has not changed as a result of the transfer. Ongoing contributions by the company to the self administered defined contribution scheme are made on the basis of actuarial advice received by the Remuneration Committee.

10. Acquisition of Subsidiary Undertakings

One acquisition, Secon Solar (Acquired: 31 July 2009), a distributor to the solar thermals market and based in Sunderland was completed in the year ended 31 December 2009. An investment was also made in an associate in the year.

Details of the acquisitions made in 2008 are disclosed in the Group's 2008 Annual Report.



11. Goodwill

Goodwill is subject to impairment testing on an annual basis and during the year if an indicator of impairment is considered to exist. The Group, having performed impairment testing, is satisfied that the carrying value of goodwill attributable to the merchanting and retail cash generating units has not been impaired. An impairment loss of €5.47 million was recognised by the Group in relation to the goodwill attributable to the manufacturing cash generating unit.

12. Related Party Transactions

There were no related party transactions or changes in related party transactions that could have materially affected the financial position or the performance of the Group during 2009 except as referred to in note 9.

13. Comparative Figures

The accrual for insurance claims and dilapidations were re-classified as provisions in 2009 and for consistency the corresponding amounts at 31 December 2008 were re-classified. In addition, certain comparative information in relation to derivatives has been reclassified on a basis consistent with the current year presentation.

14. Cautionary Statement

This 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.

15. Board Approval

This announcement was approved by the Board of Grafton Group plc on 3 March 2010.