Grafton Group plc

Annual Report 2009

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Group Profile

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

Grafton's strategy is to build on its strong market positions in Merchanting, DIY Retailing and Mortar Manufacturing, to develop in related markets and to grow in businesses with which it is familiar.

The Merchanting segment operates from 522 builders and plumbers merchanting branches. It trades under the Buildbase, Plumbase, Jackson and Selco brands in Britain and under the Heiton Buckley, Chadwicks and Macnaughton Blair brands in Ireland. These brands have leading national and regional market positions. In Britain, Grafton operates the third largest builders merchanting business and is among the top five plumbers merchanting businesses. The Merchanting segment also operates the largest merchanting business in Ireland. The network of merchanting branches mainly supply trade customers engaged in residential, repair, maintenance and improvement projects.

The Retailing segment incorporates the largest DIY retailing business in Ireland, trading nationally from 41 stores under the Woodie's DIY and Atlantic Homecare brands, and a seven store kitchens business that trades under the In-House and Panelling Centre brands.

The Manufacturing segment comprises the largest dry mortar business in Britain where it operates from nine plants and also includes the manufacture of mortar, plastics and windows in Ireland.

Grafton Group plc has strong national and regional market positions in the Merchanting, DIY Retailing and Mortar Manufacturing markets in Britain and Ireland. In 2009, sixty eight per cent of Group turnover was generated in the UK. The market sectors that Grafton operates within offer attractive growth prospects, with potential to earn above average returns on capital invested.

Financial Highlights

	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 (€22.1m)*

Financial Overview of 2009

- Extensive measures taken to reduce the Group's cost base by an annualised €85m
- Working capital management and tight control of capital expenditure boosted 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 strong balance sheet
- Interim dividend of 2.5 cent payable on 31 March 2010

Operational Overview of 2009

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

Segment Trading Locations

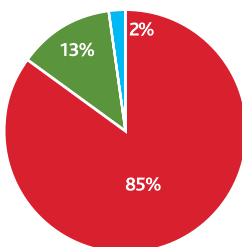
	Trading Locations		
	UK	Ireland	**Total**
Builders Merchanting	237	66	**303**
Plumbers Merchanting	214	5	**219**
Merchanting Segment	451	71	**522**
Manufacturing Segment	9	3	**12**
Retailing Segment	-	48	**48**
Total	460	122	**582**

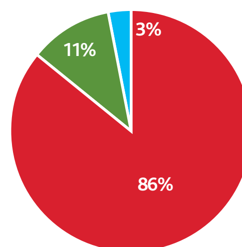
2009
€1.98bn

2008
€2.67bn

Segment Turnover

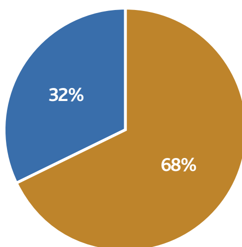
- Merchanting
- Retailing
- Manufacturing

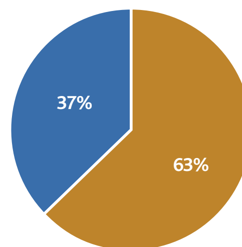




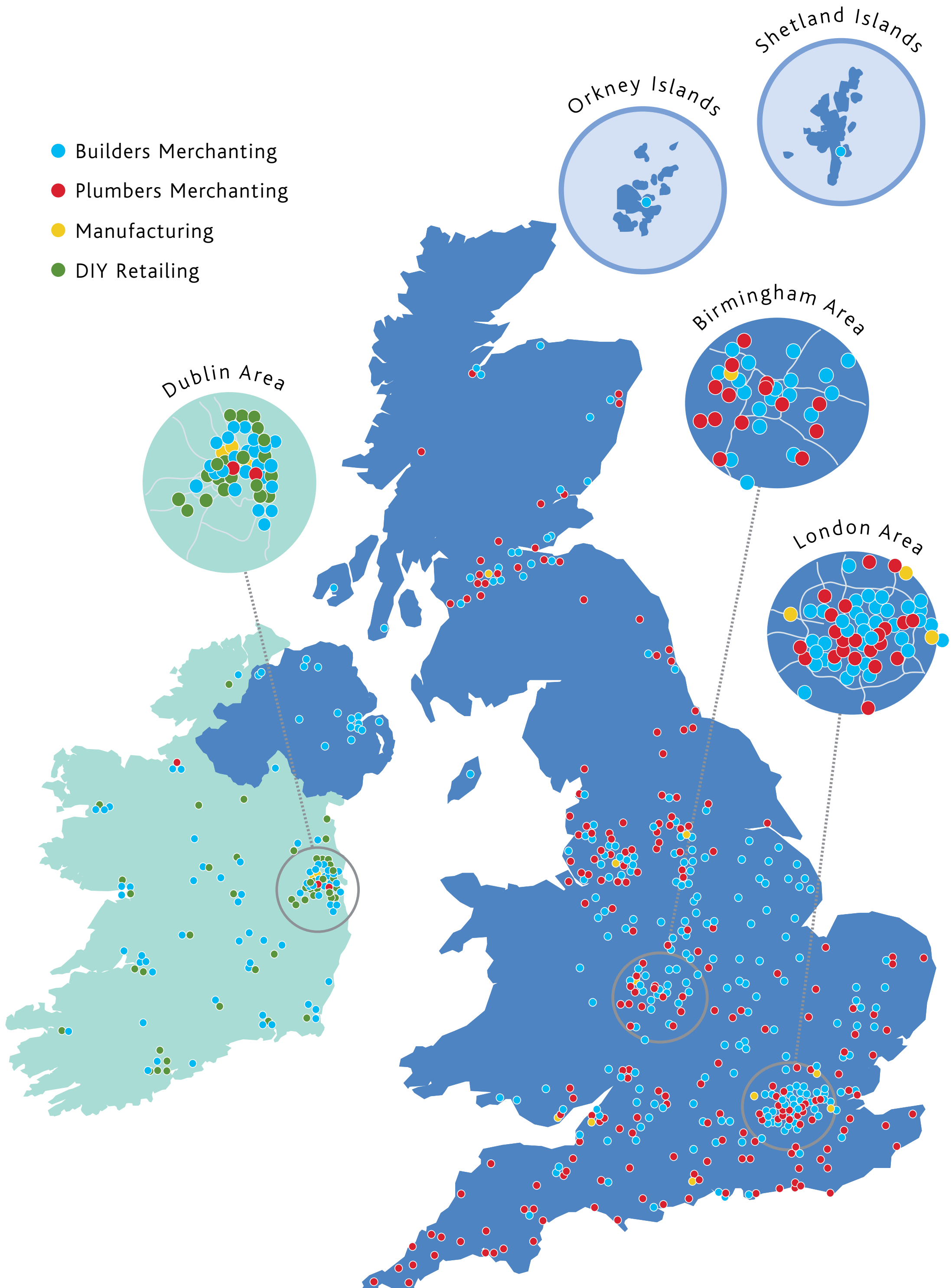
Geographic Turnover

- UK
- Ireland





Trading Locations



Principal Brands

Merchanting

The builders merchanting division trades from 303 branches, principally under the Buildbase, Jackson and Selco brands, in the South East, Midlands and North of England, and under the Chadwicks, Heiton Buckley and Macnaughton Blair brands in Ireland.

The plumbers merchanting division, trading from 219 branches primarily under the Plumbase brand, has a strong presence in England and Scotland.

BUILDBASE

CHADWICKS

PLUMBASE

Retailing

The Group is the largest DIY retailer in Ireland trading from 41 stores nationally and also operates a kitchens business from 7 stores.

Mortar Manufacturing

EuroMix, the largest manufacturer in Britain of silo-based mortar for use in a range of residential and commercial construction projects, trades from nine plants which provide market coverage in England and Scotland.

EuroMix

Chairman's Statement

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

Merchanting

Turnover in the merchanting 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.

Merchanting 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 merchanting 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 merchanting 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 merchanting 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.

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 the last quarter of 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.

Management and Staff

The strength of the Group's management teams was demonstrated by the very effective response to the exceptionally difficult trading conditions experienced in 2009. On behalf of the Board, we wish to thank management and all Grafton employees for their loyalty, commitment and contribution to the Group. We very much regret that many people have left our Group during 2009 as a consequence of the severe downturn in our markets.

Board

Anthony Collins will be retiring as a Director at our forthcoming AGM. Anthony has given long and distinguished service to the Board. His sound business judgement has been particularly beneficial in the strategic development of the Group, especially in relation to transactions with other public companies. He has actively participated on the Board as Senior Independent Director, in addition to Committee roles, including his Chairmanship of the Nomination Committee. Anthony's wise counsel and balanced good humour have been supportive in facing both the challenges of growth and the pressures of rapidly declining markets. On behalf of the Board, and personally, I thank Anthony for his distinguished service and offer him our best wishes for the future.

On behalf of the Board

Michael Chadwick
Chairman

Group Finance Review

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 a 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.

On behalf of the Board

Colm Ó Nualláin
Finance Director

Board of Directors and Secretary

Michael Chadwick
BA, MSc

EXECUTIVE CHAIRMAN

Michael Chadwick (58) joined the Group in 1975, was appointed to the Board in 1979 and became Executive Chairman in 1985. He is a Director of Pochin's Plc and of other companies in which he has invested.

Anthony E. Collins
MA, B Comm, Solicitor

DEPUTY CHAIRMAN – NON-EXECUTIVE

Anthony Collins (70) became a non-executive Director in 1988 and was appointed Deputy Chairman in 1995. A former President of the Law Society of Ireland, he is a Consultant to Eugene F. Collins, Solicitors and a Director of the Institute of Directors in Ireland Ltd. He was formerly Senior Partner in Eugene F. Collins, Solicitors, Chairman of the Automobile Association Ireland and Deputy Chairman of the Leinster Leader Ltd.

Colm Ó Nualláin
B Comm, FCA

FINANCE DIRECTOR

Colm Ó Nualláin (56) joined the Group as Financial Controller in 1989 and was appointed Finance Director in 1990. He previously held senior financial positions in a number of public and semi-state companies.

Leo J. Martin
BBS, MA, FCA

CHIEF OPERATING OFFICER

Leo Martin (58) was appointed to the Board in January 2005 following the acquisition of Heiton Group plc and in September 2006, he was appointed Chief Operating Officer with responsibility for the Merchanting Segment. He was Chief Executive of Heiton Group plc, having joined Heiton and the Board of Heiton as Finance Director in 1986. He is a Director of Buy4Now and is a member of the Chartered Accountants Regulatory Board.

Fergus Malone
BE, MBA

EXECUTIVE DIRECTOR

Fergus Malone (67) joined the Group's plastics division in 1972 having previously worked as an engineer in various industries. He was appointed to the Board in 1978 and is responsible for the Group's Manufacturing Segment.

Gillian Bowler
(UK)

NON-EXECUTIVE DIRECTOR

Gillian Bowler (57) joined the Board in 1995. She is Chairman of Irish Life & Permanent plc and is a Director of the VHI. She is also a member of the Advisory Board of the Smurfit Business School. She formerly served as Chairman of Fáilte Ireland and The Irish Museum of Modern Art, was a member of the Independent Radio and Television Commission and is Past President of the Institute of Directors in Ireland Ltd.

Richard W. Jewson
(UK) MA

NON-EXECUTIVE DIRECTOR

Richard Jewson (65) joined the Board in 1995. He is non-executive Chairman of Archant Ltd and non-executive Chairman of Raven Russia Limited. He is also a Director of Temple Bar Investment Trust plc. He was previously Chairman of Savills plc, Queens Moat House plc, Meyer International plc and PFI Infrastructure plc.

Roderick Ryan
B.Comm, FCA, AITI

NON-EXECUTIVE DIRECTOR

Roderick Ryan (53) joined the Board in 2006. He is a non-executive Director of Glen Dimplex and other companies and is a member of the Chartered Accountants Regulatory Board. He was formerly Managing Partner of Arthur Andersen in Ireland and was a member of Andersen's European Executive Committee. He formerly served as a member of the Government appointed IFSC Banking and Treasury Committee and the Revenue Powers Group, and as Chairman of the Foundation for Fiscal Studies.

Charles M. Fisher
(UK) MA

NON-EXECUTIVE DIRECTOR

Charles Fisher (60) joined the Board in 2009. He is currently Chairman of Country Homes & Gardens plc. He was Chairman and Chief Executive of Sharpe & Fisher plc, the UK builders merchanting company, from 1989 to 1999. He was formerly Chairman of Mowlem plc and previously served as a director of a number of other public companies including Travis Perkins plc, Baggeridge Brick plc, South Western Electricity plc and Delta plc.

Charles Rinn
MBA FCCA

GROUP FINANCIAL CONTROLLER AND SECRETARY

Board Committees

Audit
R.W. Jewson (Chairman)
G. Bowler
A.E. Collins
R. Ryan

Remuneration
G. Bowler (Chairman)
A.E. Collins
R.W. Jewson

Nomination
A.E. Collins (Chairman)
G. Bowler
M. Chadwick
R.W. Jewson
R. Ryan

Finance
M. Chadwick (Chairman)
C. Ó Nualláin
L. J. Martin
C. Rinn

Financial Review

	IFRS						Irish GAAP		
Group Income Statements	**2009 €'m**	2008 €'m	2007 €'m	2006 €'m	2005 €'m	2004 €'m	2003 €'m	2002 €'m	2001 €'m
Revenue	**1,979.8**	2673.0	3,205.0	2,933.9	2,629.5	1,872.3	1,496.0	1,152.4	988.8
Operating profit	**4.9**	99.2	263.5	242.7	213.8	161.1	115.8	89.7	77.3
Property profit	**-**	-	7.3	38.0	9.6	7.5	3.4	3.7	2.3
Finance income/(cost) (net)	**8.7**	(35.1)	(35.0)	(31.4)	(31.2)	(22.8)	(17.2)	(13.2)	(12.4)
Profit before taxation	**13.6**	64.1	235.8	249.3	192.2	145.8	102.0	80.2	67.2
Taxation	**(0.2)**	(6.4)	(30.6)	(32.4)	(26.1)	(19.9)	(15.3)	(12.0)	(8.7)
Profit after taxation	**13.4**	57.7	205.2	216.9	166.1	125.9	86.7	68.2	58.5

Balance Sheets	**2009 €'m**	2008 €'m	2007 €'m	2006 €'m	2005 €'m	2004 €'m	2003 €'m	2002 €'m	2001 €'m
Capital employed									
Goodwill and intangibles	**551.0**	541.7	611.9	596.2	547.8	247.1	210.8	100.4	62.5
Property, plant and equipment	**604.8**	633.3	703.7	686.2	623.2	406.2	346.8	302.3	251.5
Financial assets	**3.9**	0.2	0.9	0.4	0.3	47.0	33.7	33.6	33.6
Net current assets*	**138.1**	202.6	350.3	335.6	303.2	195.2	198.5	144.3	129.5
Other net non-current liabilities	**(63.6)**	(73.3)	(48.7)	(53.2)	(76.5)	(50.8)	(28.3)	(18.0)	(17.7)
	1,234.2	1,304.5	1,618.1	1,565.2	1,398.0	844.7	761.5	562.6	459.4
Financed as follows:									
Shareholders' funds equity	**911.7**	868.9	1,067.7	1,014.3	813.8	495.5	449.8	322.0	264.5
Net debt/(cash)	**322.5**	435.6	550.4	550.9	584.2	349.2	311.7	240.6	194.9
	1,234.2	1,304.5	1,618.1	1,565.2	1,398.0	844.7	761.5	562.6	459.4
Other Information									
Acquisitions & investments	**6.9**	28.1	89.2	87.1	477.7	88.7	220.1	88.8	61.8
Purchase of fixed assets	**12.4**	78.6	104.7	124.4	100.6	88.9	69.3	68.0	42.0
	19.3	106.7	193.9	211.5	578.3	177.6	289.4	156.8	103.8
Depreciation and intangible amortisation	**50.2**	56.5	59.0	55.4	50.4	34.6	37.6	26.6	21.9

Financial Highlights	**2009**	2008	2007	2006	2005	2004	2003	2002	2001
Adjusted EPS** (cent)	**5.4**	32.2	84.3	78.0	67.8	56.1	45.1	37.0	32.1
Dividend/share purchase per share (cent)	**5.0**	15.0	22.0	18.75	15.75	13.0	10.5	8.5	7.5
Cashflow per share (cent)#	**29.9**	49.7	108.3	100.4	88.3	72.4	58.7	52.0	44.9
Net assets per share (cent)	**395.2**	377.4	465.2	424.0	342.8	232.2	211.5	181.6	150.2
Net finance cost cover on EBITDA (times)	**5.5**	4.9	9.4	10.7	8.8	8.9	9.1	9.1	8.2
Dividend/share purchase cover	**1.1**	2.1	3.8	4.2	4.3	4.3	4.3	4.4	4.3
Net debt to shareholders' funds	**35%**	50%	52%	54%	72%	70%	69%	75%	74%

The summary financial information is stated under IFRS for 2004 to 2009 and under Irish GAAP for all years from 1989 to 2003.

* Excluding net debt/(cash)
** Before intangible amortisation, impairment, restructuring costs (net) and 2009 investment profit and excluding material property profits in previous years
# Based on profit after tax before depreciation, intangible amortisation and impairment and excluding material property profits in previous years

Irish GAAP

2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
€'m	€'m	€'m	€'m	€'m	€'m	€'m	€'m	€'m	€'m	€'m	€'m
830.5	620.2	427.6	327.6	244.0	195.7	169.0	133.2	122.4	119.9	109.5	87.8
64.6	46.3	33.1	25.6	19.1	14.2	11.3	6.1	6.5	6.1	7.3	5.7
-	-	-	-	1.8	0.8	-	-	-	-	-	-
(11.8)	(8.1)	(4.9)	(2.4)	(1.3)	(1.1)	(1.2)	(0.9)	(1.6)	(1.6)	(0.7)	(0.8)
52.8	38.2	28.2	23.2	19.6	13.9	10.1	5.2	4.9	4.5	6.6	4.9
(6.9)	(4.6)	(4.0)	(3.5)	(2.9)	(2.5)	(2.1)	(1.1)	(1.2)	(1.1)	(2.1)	(1.8)
45.9	33.6	24.2	19.7	16.7	11.4	8.0	4.1	3.7	3.4	4.5	3.1

2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
€'m	€'m	€'m	€'m	€'m	€'m	€'m	€'m	€'m	€'m	€'m	€'m
51.7	31.7	9.8	-	-	-	-	-	-	-	-	-
209.6	175.9	140.7	61.8	48.5	43.2	40.1	35.9	33.0	33.7	30.6	21.2
18.9	19.0	0.2	12.5	0.1	-	1.2	3.4	1.0	1.9	1.3	-
106.5	76.2	60.2	29.4	21.4	21.5	18.2	17.9	18.4	18.6	18.7	16.1
(16.1)	(14.1)	(12.4)	(1.2)	(1.1)	(1.1)	(1.1)	(1.1)	(1.0)	(1.0)	(1.0)	(0.6)
370.6	288.7	198.5	102.5	68.9	63.6	58.4	56.1	51.4	53.2	49.6	36.7
216.5	181.3	139.8	78.6	70.6	57.7	49.9	45.7	42.2	40.7	38.7	36.0
154.1	107.4	58.7	23.9	(1.7)	5.9	8.5	10.4	9.2	12.5	10.9	0.7
370.6	288.7	198.5	102.5	68.9	63.6	58.4	56.1	51.4	53.2	49.6	36.7
56.6	63.6	53.4	29.7	8.0	1.4	5.8	2.7	-	1.2	7.8	0.1
43.2	29.5	20.6	14.6	7.6	7.7	5.7	5.2	2.4	5.9	7.8	3.5
99.8	93.1	74.0	44.3	15.6	9.1	11.5	7.9	2.4	7.1	15.6	3.6
16.5	12.6	7.2	5.4	4.2	3.6	3.0	2.6	2.1	2.1	1.4	1.0

2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
25.9	19.5	14.2	11.6	9.0	6.5	4.8	2.5	2.2	2.0	2.7	2.3
6.1	4.5	3.3	2.7	2.1	1.5	1.0	0.9	0.8	0.7	0.7	0.6
36.2	27.5	19.4	15.7	12.2	9.0	7.0	4.3	3.7	3.5	3.8	3.3
124.3	104.9	84.9	48.8	44.2	36.6	31.7	29.3	27.0	26.2	24.9	23.1
6.9	7.2	8.3	12.9	20.2	17.1	12.4	9.9	5.5	5.0	12.1	8.2
4.3	4.3	4.3	4.3	4.3	4.3	4.7	2.9	2.9	2.7	3.8	3.8
71%	59%	42%	30%	-	10%	17%	23%	22%	31%	28%	2%

Report of the Directors

The Directors present their report to the shareholders together with the audited financial statements for the year ended 31 December 2009.

Group Results

Group revenue of €1.98 billion was 26 per cent lower than Group revenue of €2.67 billion in 2008. Group profit after taxation amounted to €13.4 million compared with €57.7 million in the previous year. Basic earnings per share amounted to 5.8 cent compared with 25.1 cent in the previous year. Adjusted earnings per share (before intangible amortisation, impairment, restructuring costs (net) and investment profit) decreased to 5.4 cent from 32.2 cent in 2008.

The cost of purchasing two 'A' ordinary shares per Grafton Unit on 8 April 2009 and 9 October 2009 amounted to €17.3 million. The Group and Company Financial Statements for the year ended 31 December 2009 are set out in detail on pages 36 to 113.

Dividend and 'A' Ordinary Share Purchase

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). The cash consideration will be paid on 31 March 2010. This follows the purchase of one 'A' ordinary share per Grafton Unit for a cash consideration of 2.5 cent that was paid on 9 October 2009.

Review of the Business

Shareholders are referred to the Chairman's Statement and Group Finance Review which contain a review of operations and the financial performance of the Group for 2009, the outlook for 2010 and the key performance indicators used to assess the performance of the Group.

Principal Risks and Uncertainties

The Group is required under Irish Company Law to give a description of the principal risks and uncertainties which it faces. The principal risks and uncertainties are set out below:

- Trading in the Group's business is affected by economic conditions in the UK and Ireland where the Group's earnings are generated.
- Contraction in economic growth in the UK and Ireland could result in lower demand in the Group's businesses.
- Demand in the UK and Irish builders merchanting markets and in the Irish DIY and UK mortar markets are sensitive to economic conditions generally including consumer confidence, interest rates, employment trends, inflation, demographic factors and housing market conditions. More difficult market conditions would reduce demand in the Group's markets resulting in lower volumes and could result in a material change in the financial performance of the Group.
- Tighter credit markets are having an impact on the wider economy and housing markets in the UK and Ireland and could lead to a fall in demand in the Group's merchanting, DIY and mortar businesses.
- Sterling weakness could lead to lower reported Group earnings on translation of the results of the UK business into euro at the average rate of exchange for the year.
- The Group faces strong ongoing competition in its merchanting, DIY and manufacturing businesses.
- The principal financial risks faced by the Group relate to liquidity and funding, credit risks connected to collection of trade debtors, increased sterling and euro interest rates and adverse movements in exchange rates relative to the euro.

Cautionary Statement

The Chairman's Statement and Group Finance Review contain forward-looking statements. These statements have been made on behalf of the Board in good faith based on the information available to them up to 3 March 2010, the date the Financial Statements were approved by the Board. Due to the inherent uncertainties including both economic and business

risk factors underlying such forward-looking information, the actual results of operations, financial position and liquidity of the Group may differ materially from those expressed or implied by these forward-looking statements. The Directors and the Board undertake no obligation to update any forward-looking statements contained in this Annual Report, whether as a result of new information, future events, or otherwise.

Board of Directors

Ms. G. Bowler and Mr. R.W. Jewson have served on the Board for more than nine years and, in accordance with Board Policy, they resign and, being eligible, offer themselves for re-election. Mr. M. Chadwick, Mr. C. Ó Nualláin and Mr. R. Ryan retire by rotation and, being eligible, offer themselves for re-election. Further details on the election and re-election of Directors are set out in the Directors' Statement on Corporate Governance on page 23.

Mr. P.S. Wood resigned from the Board on 29 April 2009. Mr. C.M. Fisher was appointed to the Board on 1 May 2009 and, in accordance with the Articles of Association, holds office until the Annual General Meeting and, being eligible, offers himself for election.

The Executive Directors seeking re-election do not have service contracts with the Company with a period of notice extending beyond twelve months.

Mr. A.E. Collins will retire from the Board at the Annual General Meeting on 6 May 2010.

Share Capital

At 31 December 2009, a Grafton Unit comprised one ordinary share of 5c and seventeen 'A' ordinary shares of 0.001 cent each in Grafton Group plc and one 'C' ordinary Share of Stg0.0001p in Grafton Group (UK) plc. The composition of the Company's share capital including a summary of the rights and obligations attaching to the three components of a Grafton Unit is set out in note 16 to the Group Financial Statements.

The Company has in place a number of employee share schemes, the details of which are set out in note 31 to the financial statements.

At the Annual General Meeting held in 2005, shareholders gave the Directors general authority to allot shares and that authority will expire at the close of business at the forthcoming Annual General Meeting, to be held on 6 May 2010. At this meeting, shareholders will be asked to renew, for a further five years, the Directors' authority to allot relevant securities, within the meaning of Section 20 of the Companies (Amendment) Act, 1983, up to the authorised unissued share capital of the Company.

At each Annual General Meeting, the Directors seek power to allot shares for cash, otherwise than in accordance with statutory pre-emption rights, by way of rights issues up to the amount of the unissued share capital of the Company, or otherwise up to approximately 5 per cent of the nominal value of the issued share capital of the Company. Under the Articles of Association, shareholders are requested to renew this power at each year's Annual General Meeting.

At the 2009 Annual General Meeting, shareholders gave the Company and/or any of its subsidiaries authority to make market purchases of up to ten per cent of the Company's own shares. Shareholders will be asked to renew this authority at the Annual General Meeting. Shareholders will also be asked to sanction the price range at which any treasury share may be re-issued other than on the Stock Exchange.

The minimum price which may be paid for shares purchased by the Company shall not be less than the nominal value of the shares and the maximum price will be 105 per cent of the average market price of such shares over the preceding five days. The Directors do not have any current intention of exercising the power to purchase the Company's own shares and will only do so if they consider it to be in the best interests of the Company and its shareholders. Details in relation to the purchase of 'A' Ordinary shares during 2009 are set out above.

The authorities which will be sought at the forthcoming AGM to disapply pre-emption rights and purchase the Company's Units will, if granted, expire on the earlier of the date of the Annual General Meeting in 2011 or 6th August 2011.

Shareholders' Rights Regulations

The Board will propose two special resolutions at the forthcoming Annual General Meeting to reflect the implementation of the Shareholders' Rights (Directive 2007/36/EC) Regulations 2009.

If adopted, the first resolution will maintain the existing authority in the Articles of Association which permits the Company to convene an extraordinary general meeting on 14 days notice in writing where the purpose of the meeting is to consider an ordinary resolution.

The second resolution, if adopted, will update the Company's Articles of Association in order to make them consistent with the Shareholders' Rights Regulations. A copy of the Articles of Association of the Company showing the proposed amendments is available at www.graftonplc.com and may also be inspected at the registered office of the Company. A copy showing these amendments will be available for inspection at the AGM for a period of at least 15 minutes before and during the AGM.

Substantial Holdings

So far as the Company is aware, in addition to the Chairman, Mr. Michael Chadwick, whose holding of 19,656,921 Grafton Units represents 8.52 per cent of the Units in issue (excluding treasury shares), the following held shares representing 3 per cent or more of its ordinary share capital (excluding treasury shares) at 3 March 2010:

Name	No. of units	%
Capital Research and Management Company*	22,828,782	9.90
Sprucegrove Investment Management*	15,694,390	6.80
Investec Asset Management Limited*	11,679,929	5.06
Invesco Limited*	10,668,291	4.63
Bank of Ireland Asset Management*	7,702,497	3.34
FMR LLC (Fidelity International)*	7,250,017	3.14

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

Apart from these holdings, the Company has not been notified at 3 March 2010 of any interest of 3 per cent or more in its ordinary share capital.

Directors' and Secretary's interests in the share capital of the Company are set out in the Report on Directors' Remuneration.

Accounting Records

The Directors are responsible for ensuring that proper books and accounting records are kept by the Company as required by Section 202 of the Companies Act, 1990. The Directors believe that they have complied with this requirement by providing adequate resources to maintain proper books and accounting records throughout the Group including the appointment of personnel with appropriate qualifications, experience and expertise. The books and accounting records of the Company are maintained at Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18.

Takeover Directive

The capital structure of the Company is detailed in note 16 to the Group Financial Statements. Details of employee share schemes are set out in note 31. In the event of a change of control, the conversion/exercise of share entitlements/options may be accelerated. The Group's banking facilities may require repayment in the event of a change of control. The Company's Articles of Association provide that the business of the Company shall be managed by the Directors, who may exercise all such powers of the Company subject to the Companies Acts and the Articles of Association. Details of the powers of the Directors in relation to the issuing or buying back by the Company of its shares are set out above.

Subsidiaries

The Group's principal operating subsidiary undertakings are set out on page 112.

Auditor

In accordance with Section 160 (2) of the Companies Act, 1963, the Auditor, KPMG, Chartered Accountants are willing to continue in office.

Annual General Meeting

The Annual General Meeting of the Company will be held at the IMI Conference Centre, Sandyford Road, Dublin 16 on Thursday 6 May 2010 at 10.30 am. Your attention is drawn to the circular enclosed with this report and available on the Company's website, www.graftonplc.com which sets out details of the matters to be considered at the Annual General Meeting.

On behalf of the Board

M. Chadwick
C. Ó Nualláin

Directors

3 March 2010

Corporate Social Responsibility

The Group recognises the importance of conducting its business in a socially responsible manner. This is demonstrated in the way we deal with our employees, customers, suppliers and the communities in which we do business. The Group considers that corporate social responsibility is an integral element of good business management.

The Environment

Group companies are committed to reducing the amount of waste they produce and to limiting the impact which our businesses have on the environment. The Group's Irish businesses are members of Repak and our UK businesses are members of Biffpack. The Woodie's DIY business stocks a range of environmentally friendly products including energy-saving lamps, solar garden lights and composters for recycling garden and household waste.

Buildbase has adopted the Timber Trades Federation 'Responsible Purchasing Policy'. This demonstrates that the company is committed to sourcing timber and timber products from legal and well-managed forests and supports the UK/EU global objective to stop illegal logging. Buildbase holds the internationally recognised environmental certificates for the PEFC (Programme for the Endorsement of Forest Certification) scheme and FSC (Forest Stewardship Council).

Buildbase's Sustainable Development Policy ensures that all its products and services are reviewed for their impact on the environment. Buildbase is also working with its utility service providers to introduce AMRs (Automatic Meter Readers) at all branch locations. This will enable the company to accurately monitor usage of both gas and electricity, and set targets for each branch to reduce their future energy consumption. The Merchanting business published 'Go Green with Grafton', a new brochure for trade customers which looks at all aspects of sustainable development from legislation to product performance. Baling machines to recycle paper and cardboard now operate throughout the branch network. This and other recycling measures have helped to reduce waste. Buildbase has joined forces with a national waste management company to work towards 'nil to landfill' targets for paper, cardboard and plastics, and is promoting the sale of a range of energy-saving and eco-friendly products including solar panels, ground and air source heating pumps, a rainwater collection system, heating controls that reduce energy costs and carbon emissions and energy-saving insulation materials. Heiton Buckley branches stock a range of products to reduce the impact of climate change through better building including heat pumps, solar panels and condensing boilers that reduce demand for fossil fuel. Controlled ventilation systems and insulation products designed to conserve heat are also stocked.

In July 2009, the Group acquired Secon Solar Limited, a leading independent distributor of quality branded products to the renewables market in the UK and Ireland.

Health and Safety

The Group is committed to achieving the best practicable standard of health and safety for our employees, customers and visitors to our trading locations. We consider health and safety to be an important element in the overall management of our businesses. Group companies invest significant resources in health and safety management and actively work to identify and minimise health and safety risks. They aim to ensure that all reasonable precautions are taken to provide and maintain conditions for employees, customers and visitors alike which are safe and healthy and in compliance with statutory requirements. Accidents are monitored so that corrective action may be taken where considered necessary and in order to reduce the number of incidents and the cost of claims from employees and customers. The commitment of Buildbase to a high standard of health and safety was recognised by the British Safety Council who awarded the business the International Safety Award.

Corporate Social Responsibility

Human Resources

The success of the Group is dependent on the exceptional contribution and commitment of its management and staff. The Group's decentralised culture, which is well supported at Group level, gives management and staff the autonomy to use their expertise, skills and talents both for their own career development and for the success of the Group.

The Group and its businesses are committed to high standards of employment practice and is recognised as a good employer in both the UK and Ireland. The Group aims to reward management and staff fairly by reference to skills, performance, peers and local market conditions. The Group provides incentives to management and staff through remuneration policies that promote commitment and reward achievement. It is Group policy that all employees receive fair and equal treatment regardless of gender, age, ethnic origin, nationality, religion or disability.

The Group is committed to offering equal opportunities to all individuals in their recruitment, training and career development having regard to their particular aptitudes and abilities. Training and development programmes are important to the growth and prosperity of our business. Significant attention and resources are devoted to this area. Training programmes organised internally by Group businesses and in conjunction with external bodies, such as the Builders Merchant Federation in the UK, cover a range of issues including sales development, customer service, product training, health and safety and leadership skills. These programmes help to ensure that we develop, retain and attract the best individuals at all levels in the business. We aim to fill vacancies through internal promotions and complement internal appointments with recruitment from outside the organisation.

The Group has Revenue approved share schemes in place in the UK and Ireland which enable employees to share in the success and growth of the Group. The majority of our employees in Ireland are members of the Group's Share Participation Scheme which enables them to tax efficiently acquire shares in the Group. The Group operates a Save As You Earn (SAYE) Scheme for UK employees, which enjoys a high level of support.

Community

We recognise our responsibility as a member of the communities where our branches/plants are located and where we do business. We are committed to developing close relationships with those communities through local management supporting a range of initiatives covering health, welfare, sport, education and community projects. The Group also supports a range of charitable causes, mainly at local level, by giving donations.

During 2009, Buildbase staff throughout the UK succeeded in raising over £106,000 for Macmillan Cancer Support. Woodie's DIY continued its sponsorship of the Athletic Association of Ireland track and field, cross country and indoor competitions. Woodie's also donated tools and equipment to Goal Ireland to aid the relief effort in Haiti following the earthquake there in early 2010.

Directors' Statement on Corporate Governance

Compliance with the Combined Code

The Board is committed to maintaining high standards of Corporate Governance. The Board is accountable to the Company's shareholders and this statement describes how it applies the principles of good governance set out in the 2008 FRC Combined Code on Corporate Governance. A copy of the Combined Code can be obtained from the Financial Reporting Council's website, www.frc.org.uk.

The Board

The Board of Directors was made up of nine members at 31 December 2009 comprising the Executive Chairman, three other executive Directors and five non-executive Directors. Mr. Anthony Collins, Deputy Chairman, is Senior Independent Director. Directors' biographical details are set out on page 13. The Board believes that its Directors possess the relevant backgrounds and mix of skills, knowledge and experience required by the scale, geographic spread and complexity of the Group's operations.

The Board routinely meets seven times a year and additionally as required by time critical business needs. There is also contact with the Board between meetings as required in order to progress the Group's business. The Board takes the major decisions while allowing management sufficient scope to run the business within a centralised reporting framework. The Board has a formal schedule of matters specifically reserved for its decision. The matters reserved by the Board for its decision cover all strategic decisions, acquisitions, major items of capital expenditure, financial statements, budgets and material matters currently or prospectively affecting the Group and its performance. The Board's responsibilities also include ensuring that appropriate management, development and succession plans are in place; reviewing the environmental and health and safety performance of the Group; approving the appointment of Directors and the Company Secretary; approving policies relating to Directors' remuneration and severance and ensuring that satisfactory dialogue takes place with shareholders. The Board also delegates some of its responsibilities to committees of the Board.

The Directors have access to the advice and services of the Company Secretary who is responsible for advising the Board through the Chairman on governance matters. The Company's Articles of Association and Schedule of Matters reserved for the Board for decision provide that the appointment or removal of the Company Secretary is a matter for the full Board.

Directors have full and timely access to all relevant information in a form appropriate to enable them to discharge their duties. Reports and papers are circulated to Directors in preparation for Board and committee meetings. The non-executive Directors, together with the executive Directors, receive monthly management accounts, various reports and other information to enable them to review the performance of the Group on an ongoing basis.

All Directors have access to independent professional advice at the Group's expense where they consider that advice is necessary to enable them to discharge their responsibilities as Directors.

The Board periodically holds meetings at Group locations and meets senior management in order to help Directors gain a deeper understanding of the Group's operations and markets.

The Board continues to hold the view that there are compelling commercial benefits to the Group and its shareholders in combining the roles of Chairman and Chief Executive and the holding of the combined roles by Mr. Michael Chadwick. Combining these roles is balanced by the strong input of the five non-executive Directors and the Board's committee structure. It is Board policy that no individual or small group of individuals can dominate its decision making. The Deputy Chairman acts as Chairman in the absence of the Chairman and on other occasions as appropriate. The Deputy Chairman also serves as the Board's Senior Independent Director and is available to shareholders where there are issues that cannot be addressed through normal channels.

Directors' Independence and Board Balance

It is Board policy that the Board should include a balance of executive and non-executive Directors.

Five non-executive Directors, Mr. Anthony E. Collins, Ms. Gillian Bowler, Mr. Richard W. Jewson, Mr. Roderick Ryan and Mr. Charles M. Fisher are considered by the Board to be independent in character and free from any business or other relationship which could materially interfere with the exercise of independent judgement. The Board has determined that each of the non-executive Directors fulfilled this requirement and is independent. In reaching that conclusion, the Board considered the principles relating to independence contained in the Combined Code.

Mr. Collins was appointed to the Board in 1988 and both Ms. Bowler and Mr. Jewson were appointed to the Board in 1995. The length of their service on the Board exceeds nine years and the 2008 FRC Combined Code provides that an explanation be made to shareholders concerning their continued independence. The Board considers that the integrity and independence of these Directors is beyond doubt. All three Directors are financially independent of the Company and have other significant commercial and professional commitments. Each of these non-executive Directors brings her/his own senior level experience gained in their own field of international business and professional practice. Their experience and long-term perspective on the Group's business has provided the Board with stability and continuity during the most challenging trading period in the Group's recent history.

It is Board policy that in any case where a non-executive Director has served on the Board for more than nine years he/she should retire annually and go forward for re-election. In view of this requirement, the Board believes that the tenure of non-executive Directors should not be solely determined by imposing an arbitrary time limit on the length of service but should also have regard to continued evidence of the exercise of independent judgment and effectiveness in the role. It is the Board's view that the independence of the three non-executive Directors has not been compromised by virtue of their period in office exceeding nine years. It is also the Board's view that each of the three directors continues to demonstrate independence and make a valuable contribution to the role of the Board and its Committees.

The Company's Articles of Association provide that one third of the Directors retire by rotation each year and that each Director seek re-election at the Annual General Meeting every three years. New Directors are subject to election by shareholders at the next Annual General Meeting following their appointment. It is Board Policy that non-executive Directors are normally appointed for an initial period of three years, which is then reviewed.

Ms. Bowler and Mr. Jewson retire from the Board and offer themselves for re-election at the AGM on 6 May 2010 in accordance with Board Policy. Mr. Charles Fisher was appointed to the Board since the last AGM and, in accordance with the Articles of Association and being eligible, offers himself for election. Mr. Michael Chadwick, Mr. Colm Ó Nualláin and Mr. Roderick Ryan retire from the Board by rotation and, being eligible, offer themselves for re-election. Mr. Collins will retire from the Board at the Annual General Meeting on 6 May 2010.

The Board is satisfied as to the independence of Ms. Bowler, Mr. Jewson and Mr. Ryan and recommends their re-election. The Board undertakes a formal annual evaluation of its Directors and is satisfied that the three non-executive Directors proposed for re-election continue to discharge their obligations as Directors and contribute effectively to the work of the Board and its committees.

The overall composition and balance of the Board is kept under review.

The Board is managing the orderly succession of non-executive Directors without compromising the effectiveness and continuity of the Board and its committees.

Induction and Training

It is the policy of the Board that formal induction is offered to all Directors appointed to the Board. This includes on-site visits and meetings with Senior Management in the Group's businesses and briefings from executive Directors and the Company Secretary. Induction covers matters such as the operations of the Group, the role of the Board and matters reserved for its decision, powers delegated to Board committees, corporate governance policies and the latest financial information about the Group. Directors are advised on appointment of their legal and other duties and of their obligations as Directors of a listed company.

Evaluation of Board

The Board has put in place procedures which involve the conduct of an annual evaluation process to periodically assess its performance, the performance of Board Committees and the performance of individual Directors. This process also seeks to identify areas in which the effectiveness of the Board may be improved. Evaluation of the Board is achieved through annual discussion between each Director and the Senior Independent Director. The results of the evaluation process are presented to the Board for consideration of issues identified.

Succession Planning

The Board plans for succession with the assistance of the Nomination Committee. The Board believes that it is necessary to have appropriate executive Director and non-executive Director representation to provide Board balance and to provide the Board with the breadth of experience required by the scale, geographic spread and complexity of the Group's operations.

Communication with Shareholders

The Company recognises the importance of communication with shareholders. Presentations are made to both existing and prospective institutional shareholders principally after the release of half-yearly and annual results. Interim Management Statements are issued in compliance with the EU Transparency (Directive 2004/109/EC) Regulations 2007 and the Group issues trading updates in January and July. Conference calls are held following the issue of the half-yearly and annual results. Any major acquisitions are also notified to the market and the Company's website www.graftonplc.com provides the full text of the half-yearly and annual results, investor presentations and all Stock Exchange and other announcements. The Chairman and Finance Director give feedback to the Board on issues raised by investors during the course of presentations following the half-yearly and annual results and Analysts' reports on the Group are circulated to all Directors. Non-executive Directors are offered an opportunity to attend meetings with major shareholders. The Senior Independent Director is available to meet with shareholders if they have concerns which have not been resolved through the normal channels of Chairman or Finance Director or where such contacts are not appropriate.

General Meetings

The Company's Annual General Meeting (AGM), which is held in Ireland, affords individual shareholders the opportunity to question the Chairman and the Board. The Notice of the AGM, which specifies the time, date, place and the business to be transacted, is sent to shareholders at least 20 working days before the meeting. The AGM is normally attended by all Directors. At the meeting, resolutions are voted on by either a show of hands of those shareholders attending, in person or by proxy, or, if validly requested, by way of a poll. In a poll, the votes of shareholders present and voting at the meeting are added to the proxy votes received in advance and the total number of votes for, against and withheld for each resolution are announced. This information is made available on the Company's website following the meeting.

All other general meetings are called Extraordinary General Meetings (EGMs). An EGM called for the passing of a special resolution must be called by at least twenty-one clear days' notice. Provided shareholders have passed a special resolution at the immediately preceding AGM and the Company allows shareholders to vote by electronic means, an EGM to consider an ordinary resolution may, if the Directors deem it appropriate, be called at fourteen clear days' notice.

A quorum for a general meeting of the Company is constituted by four or more shareholders present in person and entitled to vote. The passing of resolutions at a meeting of the Company, other than special resolutions, requires a simple majority. To be passed, a special resolution requires a majority of at least 75 per cent of the votes cast.

Shareholders have the right to attend, speak, ask questions and vote at general meetings. In accordance with Irish company law, the Company specifies record dates for general meetings, by which date shareholders must be registered in the Register of Members of the Company to be entitled to attend. Record dates are specified in the Notice of a general meeting. Shareholders may exercise their right to vote by appointing a proxy/proxies, by electronic means or in writing, to vote some or all of their shares. The requirements for the receipt of valid proxy forms are set out in the Notice convening the meeting. A shareholder, or a group of shareholders, holding at least 5 per cent of the issued share capital of the Company, has the right to requisition a general meeting. A shareholder, or a group of shareholders, holding at least 3 per cent of the issued share capital of the Company, has the right to put an item on the agenda of an AGM or to table a draft resolution for inclusion in the agenda of a general meeting, subject to any contrary provision in Irish company law.

Memorandum and Articles of Association

The Company's Memorandum and Articles of Association set out the objects and purposes of the Company. The Articles detail the rights attaching to each share class; the method by which the Company's shares can be purchased or re-issued; the provisions which apply to the holding of and voting at general meetings; and the rules relating to the Directors, including their appointment, retirement, re-election, duties and powers.

A copy of the Memorandum and Articles of Association can be obtained from the Group's website, www.graftonplc.com.

Board Committees

The number of Board meetings and committee meetings held during the year and attended by each Director was as follows:

	Board		Audit Committee		Finance Committee		Remuneration Committee		Nomination Committee	
Number of Meetings	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**
M. Chadwick	9	9	-	-	51	48	-	-	3	3
A. E. Collins	9	9	5	5	-	-	2	2	3	3
C. Ó Nualláin	9	9	-	-	51	48	-	-	-	-
L. J. Martin	9	9	-	-	51	44	-	-	-	-
J. F. Malone	9	8	-	-	-	-	-	-	-	-
G. Bowler	9	6	5	2	-	-	2	2	3	3
R. W. Jewson	9	9	5	5	-	-	2	2	3	3
R. Ryan	9	9	5	5	-	-	-	-	3	2
C. M. Fisher	6	6	-	-	-	-	-	-	-	-

Column A – refers to the number of meetings held during the period the Director was a member of the Board and/or Committee

Column B – refers to the number of meetings attended during the period the Director was a member of the Board and/or Committee

The Board is assisted by committees of Board members which focus on specific aspects of its responsibilities. The terms of reference of the Audit Committee, Remuneration Committee and Nomination Committee were approved by the Board and comply with the 2008 FRC Combined Code and are available from the Company and can also be found on the Group's website at www.graftonplc.com. Membership of the various committees is shown on page 13. The Company Secretary is secretary of the Audit, Remuneration and Nomination Committees.

Audit Committee

During the year, the Audit Committee comprised Mr. Richard W. Jewson, who chairs the Committee, Ms. Gillian Bowler, Mr. Anthony E. Collins and Mr. Roderick Ryan. All members of the Committee are determined by the Board to be independent non-executive Directors. The Audit Committee met five times during the year.

The Board believes that Mr. Richard W. Jewson brings to the Committee recent and relevant financial experience. It will be seen from the Directors' biographical details appearing on page 13 that members of the Committee bring a wide range of financial, taxation, legal, commercial and business experience to the Committee.

Under its terms of reference, the Audit Committee monitors the integrity of the Group's financial statements and announcements relating to the Group's performance. The Committee is responsible for monitoring the effectiveness of the external audit process and making recommendations to the Board in relation to the appointment, reappointment and remuneration of the external auditor. It is responsible for ensuring that an appropriate relationship between the Group and the external auditor is maintained, including reviewing non-audit services and fees. A new Group Audit Partner is appointed every five years and senior audit staff are rotated. Non-audit tax and secretarial compliance services were provided by KPMG during 2009. The Committee believes that the provision of these services by KPMG does not conflict with its independence as auditor.

The Committee reviews the Group's systems of internal control and the processes in place for monitoring and evaluating the risks facing the Group.

The Committee is satisfied that its role and authority include those matters envisaged by the 2008 FRC Combined Code to fall within its jurisdiction and the Board has delegated authority to the Committee to address those tasks for which it has responsibility. The Chairman of the Committee reports to the Board at each Board meeting.

The KPMG Audit Partner and the Finance Director normally attend Audit Committee meetings. The KPMG Tax Partners attend meetings at the request of the Committee. The Committee also meets in private session and with the external auditor without executive management present. The Committee's terms of reference are available from the Company and are displayed on the Group's website www.graftonplc.com.

In 2009, the Audit Committee discharged its responsibilities by:

- Reviewing the Group's draft Financial Statements and draft half-yearly results before recommending their approval to the Board. The Committee discussed with the Finance Director and KPMG any significant accounting policies, estimates and judgements that had been applied in preparing these reports and received their views in relation to these matters;
- Reviewing the Group's trading updates prior to release;
- The Committee received reports prepared by the Group Internal Audit Manager which summarised the findings of internal audit reports prepared by the Group Internal Audit function. These reports covered the work undertaken, findings made, actions recommended and the response of executive management of the Group's businesses to recommendations made. The Committee met with the Group Internal Audit Manager on two occasions during the year, and also without Executive management present;
- Reviewing the External Auditor's plan for the 2009 audit of the Group. This included an assessment of the scope of the audit work and key risk areas and confirmation of auditor independence;
- Reviewing the External Auditor's Management Letter on internal controls in the Group's individual businesses prepared by KPMG as part of the Group's audit process;
- Reviewing risks associated with the business;
- The Committee continued to monitor compliance with the Group's Whistleblowing Policy ensuring that appropriate arrangements were maintained for employees to raise matters of possible impropriety in confidence with suitable follow up action.

Remuneration Committee

The Committee comprises Ms. Gillian Bowler, who chairs the Committee, Mr. Anthony E. Collins and Mr. Richard W. Jewson all of whom are determined by the Board to be independent. The Committee met twice during the year. The Committee's responsibilities include making recommendations on the terms of engagement and remuneration of the executive Directors. The terms of reference of the Committee are available from the Company and can also be found on the Group's website at www.graftonplc.com. The Chairman of the Remuneration Committee is available at the Annual General Meeting to respond to shareholder questions concerning the Committee's activities. The Committee receives independent advice concerning matters within its remit when considered necessary.

The Committee's principal responsibilities are:

- Setting, reviewing and recommending to the Board for approval the Group's overall remuneration policy and strategy;
- Setting, reviewing and approving individual remuneration packages including salary, bonus, pension allowance and other benefits for executive Directors, the Executive Chairman and Company Secretary including terms and conditions of employment and any changes to their packages. During the year, the Company Secretary ceased to participate in a Group defined benefit pension scheme as detailed in Note 5 to the Financial Statements;

- Reviewing the salary structure and terms, conditions and benefits of employment of any other members of the executive management it is designated to consider;
- Approving the rules of any Group share, share option or other share incentive scheme and approving the grant, award, allocation or issue of shares, share options or other benefits conferred by such schemes;
- Further details of the Committee's remit and work are set out in the Report on Directors' Remuneration on pages 29 to 32.

Nomination Committee

The Nomination Committee comprises Mr. Anthony E. Collins, Chairman of the Committee, Mr. Michael Chadwick, Ms. Gillian Bowler, Mr. Richard W. Jewson and Mr. Roderick Ryan. The Board is actively engaged in orderly succession planning and is assisted in this function by the Nomination Committee. The Committee keeps the composition, skills and diversity of the Board under review to ensure that it has the range of skills required for the Board to meet the demands of the business and fulfil its obligations to shareholders. The Nomination Committee met three times during the year to consider the Board's membership and additional skills and experience which might benefit the Board's performance. During 2009, the Committee identified, and recommended to the Board, a suitable candidate for appointment as a non-executive Director, Mr. Charles M. Fisher. External search consultants were not engaged to identify candidates as Committee members were aware, from their own research and enquiries, of candidates with the appropriate skills and experience. The Committee also reviewed succession planning at Executive Director level.

The Nomination Committee's terms of reference are available from the Company and can also be found on the Group's website at www.graftonplc.com.

Finance Committee

The Finance Committee comprises Mr. Michael Chadwick, Executive Chairman, Mr. Colm Ó Nualláin, Finance Director, Mr. Leo J. Martin, Chief Operating Officer and Mr. Charles Rinn, Secretary and Group Financial Controller. The Committee deals with acquisition opportunities up to Board approval stage, capital expenditure under the limit reserved for the Board, and a range of Group management and finance issues.

Internal Control

The Directors acknowledge that they have overall responsibility for the Group's system of internal control and for reviewing its effectiveness. The Directors recognise that such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

A process for identifying, evaluating and managing significant risks faced by the Group, in accordance with the Guidance for Directors on the 2008 FRC Combined Code, has been in place throughout the accounting period and up to the date the financial statements were approved.

Group management are responsible for implementing strategy and for the continued development of the Group's businesses within parameters set down by the Board. Similarly, day to day management of the Group's businesses is devolved to operational management within clearly defined authority limits and subject to very tight reporting of financial performance. Group and operating company management are responsible for internal control including the identification and evaluation of significant risks and for implementation of appropriate internal controls to manage such risks. Group management report to the Board on key risks and internal control issues including the way in which these issues are managed.

The key features of the Group's system of internal control include:

- A clear focus on implementing the Group's strategy.
- Defined structures and authority limits for the operational and financial management of the Group and its businesses.

- A comprehensive system of reporting on trading, operational issues and financial performance incorporating results and cash flows, working capital management, return on capital employed and other relevant measures of performance.
- Board approval of major capital expenditure proposals and all acquisition proposals.

The internal audit function focuses on areas of greatest risk to the Group, monitors compliance and considers the effectiveness of internal control throughout the Group. The Audit Committee reviews Management Letters from KPMG and Internal Audit Reports and also meets with the KPMG Audit Partner and Group Internal Audit Manager in order to satisfy itself on the adequacy of the Group's internal control system. The Chairman of the Audit Committee reports to the Board on all significant matters considered by the Committee.

In the Board's view, the ongoing information it received was sufficient to enable it to review the effectiveness of the Company's system of internal control.

The Directors confirm that they have reviewed the effectiveness of internal control. In particular, they have during the year considered the significant risks affecting the business and the way in which these risks are managed, controlled and monitored.

Going Concern

The Directors, having made enquiries, believe that the the Company and the Group as a whole has adequate resources to continue in operational existence for the foreseeable future and for this reason they continue to adopt the going concern basis in preparing the financial statements.

Compliance Statement

The Company applied the principles set out in Section 1 of the 2008 FRC Combined Code to the extent applicable for the year under review and has complied with the provisions of the 2008 FRC Combined Code except that the roles of Chairman and Chief Executive are held by the same individual and that the periods of service of three non-executive directors exceed nine years. It has been determined by the Board that the three non-executive directors concerned are independent, as set out on pages 22 and 23.

Report on Directors' Remuneration

The Remuneration Committee comprises Ms. Gillian Bowler, who chairs the Committee, Mr. Anthony E. Collins and Mr. Richard W. Jewson, all of whom are non-executive Directors with no personal financial interest other than as shareholders in the matters to be decided by the Committee, no potential conflicts of interest arising from cross-directorships and no day to day involvement in the running of the business. The Committee is responsible for the formulation of the Group's policy on remuneration in relation to all executive Directors.

The fee payable to non-executive Directors is determined by the Board within the provisions and limits set out in the Articles of Association.

Remuneration Policy

In making its recommendations, the Remuneration Committee has given consideration to the provisions of the 2008 FRC Combined Code and the Irish Stock Exchange's requirements on Directors' remuneration. The remuneration policy adopted by the Group is to reward its executive Directors competitively having regard to comparable companies and the need to attract, retain and motivate executives of appropriate calibre. The Executive Chairman is fully consulted about remuneration proposals and outside advice is sought by the Remuneration Committee when necessary. The elements of the remuneration package for executive Directors are basic salary, other benefits, performance related pay, a pension allowance and the ability to participate in the 1999 Grafton Group Share Scheme and the Grafton Group Employee Share Participation Scheme.

Service Contracts

Mr. L.J. Martin, an executive Director, has a service contract with a period of notice of twelve months.

Basic Salary and Other Benefits

The basic salaries of executive Directors are reviewed annually having regard to personal performance, Company performance and competitive market practice. No basic salary increases have been granted to executive Directors since 1 July 2007.

Performance Related Pay

The level of performance pay is determined for each individual executive Director. No performance related pay was awarded to Directors for 2009.

Retirement Benefits

In 2008, three executive Directors ceased to participate in a Group defined benefit pension scheme as detailed on page 31. Following the transfer of the defined benefit entitlement of the three Directors to schemes external to the Grafton Group, payments are no longer made to the defined benefit scheme on behalf of these Directors. Instead, a taxable allowance is payable to these Directors in lieu of future pension benefits. This allowance, which is calculated based on independent and external actuarial advice, ceases to be payable on the earlier of a Director leaving the service of the Company or on reaching normal retirement age.

Share Schemes

Up to April 2009 key executives could acquire shares in the Group so as to provide an incentive to perform strongly over an extended period and to align their interests with those of shareholders. Under the terms of the 1999 Grafton Group Share Scheme, two types of share were available subject to the conditions set out below:

(i) Basic shares which cannot be converted before the expiration of five years, unless the Remuneration Committee agrees to a shorter period which shall not be less than three years, and may be converted any time after that to the end of their contractual life provided the Company's earnings per share has grown at not less than the rate of growth in the Consumer Price Index plus 5 per cent compounded during that period.

(ii) Second tier shares which cannot be converted before the expiration of five years and at any time thereafter up to the end of their contractual life, only if over a period of at least five years, the growth in the Group's earnings per share would place it in the top 25 per cent of the companies listed on the Irish Stock Exchange Index over the same period and also provided that such shares shall be acquired only if the Company's earnings per share growth over the relevant period is greater, by not less than 10 per cent on an annualised basis, than the increase in the Consumer Price Index over that period.

The share scheme has a ten year life for the award of entitlements and this period has now expired. The percentage of share capital which may be issued under the scheme and individual grant limits comply with Institutional Guidelines. Basic shares granted after 8 May 2008 cannot be converted before the expiration of three years.

Share Participation Scheme

The Grafton Group Employee Share Participation Scheme is open to all Irish based employees who have at least eighteen months continuous service and executive Directors are entitled to participate in the scheme on the same basis as all other employees. Executive Directors waived their 2008 entitlements under the scheme.

Directors' Remuneration and Retirement Benefits

The following table presents the remuneration of the Directors in accordance with the Irish Stock Exchange Listing Rules.

Remuneration for 2009	**Basic salary 2009 (i) €'000**	**Performance related pay 2009 €'000**	**Pension allowance 2009 (ii) €'000**	**Other benefits 2009 €'000**	**Total 2009 €'000**	Total 2008 (iii)-(v) €'000
Executive Directors						
M. Chadwick	635	-	-	26	**661**	987
C.Ó Nualláin	500	-	337	19	**856**	999
L. J. Martin	490	-	294	41	**825**	970
J.F. Malone	250	-	-	15	**265**	340
	1,875	-	631	101	**2,607**	3,296

	Fees 2009 €'000	**Total 2009 €'000**	Total 2008 €'000
Non-Executive Directors			
A.E. Collins	70	**70**	70
G. Bowler	70	**70**	70
R.W. Jewson	70	**70**	70
R. Ryan	70	**70**	70
C.M. Fisher	47	**47**	-
P.S. Wood	23	**23**	70
	350	**350**	350

	2009	2008
Sub-total	**2,957**	3,646
Share-based payments credit	**(172)**	(240)
Pension charge – refer to note on page 31	**-**	4,738
Total Directors' Remuneration	**2,785**	8,144

(i) No basic salary increases have been granted to Directors since 1 July 2007.
(ii) Mr. M. Chadwick waived his entitlement to a pension allowance of €307,000 for 2009.
(iii) Mr. M. Chadwick waived his entitlement to performance related pay of €158,750 for 2008.
(iv) Mr. M. Chadwick, Mr. C.Ó Nualláin and Mr. L.J. Martin waived other benefits of €12,700 each for 2008 and Mr. J.F. Malone waived other benefits of €10,000 for the same year.
(v) The 2008 total remuneration for individual directors includes pension allowances paid to three executive directors.

Directors' Retirement Benefits for 2008

In 2008, the liabilities and risks associated with the defined benefit scheme were reduced following the decision of three directors to transfer their defined pension entitlements from the scheme to revenue approved defined contribution schemes, as set out in the 2008 Annual Report. The three executive directors ceased to be members of the Group's defined benefit scheme on 1 January 2008 and were paid a taxable allowance, determined on the basis of independent and external actuarial advice, with effect from that date in lieu of future pension benefits.

Arrangements for the transfers from the defined benefit pension schemes were negotiated with these Directors by the Remuneration Committee based on independent professional advice. The relevant pensions showed a deficit of €4.74 million in the defined benefit scheme and the 2008 Group Income Statement reflected a charge for this amount to fund the deficit related to the new arrangements. Obligations under the Pensions Act to have sufficient funds to purchase annuities for these Directors on retirement have ceased as a result of these transfers. The purchase of annuities is currently more expensive than transfer payments. The transfers also eliminate related liabilities and risks from the Group's balance sheet that could include additional funding costs associated with shortfalls in investment returns and longevity. The solvency of the pension schemes was not changed as a result of the transfers and the removal of significant obligations in respect of these pensions introduces greater stability for the remaining active members. Each of these Directors has long service with the Group and their pension benefits have been built up over the duration of their employment. The final transfer values from the defined benefit pension scheme in respect of their accrued entitlements and benefits were M. Chadwick €11.7 million, C. Ó Nualláin €7.9 million and L.J. Martin €6.7 million.

Directors' and Secretary's Interests

The beneficial interests of the Directors in the share capital of the Company were as follows:

Director	**31 December 2009** Grafton Units *	31 December 2008 Grafton Units *
M. Chadwick	**19,656,921**	19,656,921
A.E. Collins	**450,000**	450,000
C. Ó Nualláin	**1,141,759**	1,141,759
L.J. Martin	**204,605**	204,605
J.F. Malone	**853,155**	693,963
G. Bowler	**132,000**	132,000
R.W. Jewson	**42,204**	42,204
R. Ryan	**25,000**	25,000
C. M. Fisher	**10,000**	-

Mr. Chadwick holds a non-beneficial interest in 2,986,560 (2008: 2,986,560) Grafton Units in his capacity as a Trustee of a family trust. He also holds a non-beneficial interest as nominee in 178,640 (2008: 178,640) Grafton Units. Mr. M. Chadwick and Mr. C. Ó Nualláin have a non-beneficial interest in 1,582,537 (2008: 1,126,645) Grafton Units as Trustees of the Grafton Group plc Employee Share Participation Scheme.

Mr. J. F. Malone acquired 159,192 Grafton Units on 15 June 2009 at €1.81 per Unit in accordance with the rules of the Grafton Group Share Schemes. The market value of a Grafton Unit on 15 June 2009 was €3.00.

Mr. C. M. Fisher acquired 10,000 Grafton Units on 2 September 2009 at a market price of €3.64 per Unit.

There have been no changes in the interests of the Directors between 31 December 2009 and the date of this report.

Mr. C. Rinn, Secretary, had a beneficial interest in 263,396 Grafton Units at 31 December 2009 (31 December 2008: 263,396).

*At 31 December 2009, a Grafton Unit comprised one ordinary share of 5 cent each and seventeen 'A' ordinary shares of 0.001 cent each in Grafton Group plc and one 'C' ordinary share of Stg0.0001p in Grafton Group (UK) plc.

Directors' and Secretary's Interests under the Grafton Group Share Schemes

The interests of the Directors and the Secretary to acquire Grafton Units in accordance with the Grafton Group Share Schemes are shown below:

	Number of Units						
	1 January 2009	31 December 2009	Basic	Second Tier	Price €	Period over which Grafton Units may be acquired	
L. J. Martin	120,000	120,000	60,000	60,000	8.11	Oct 2010	Oct 2015
	120,000	120,000	60,000	60,000	11.50	Oct 2011	Oct 2016
	120,000	120,000	60,000	60,000	8.48	Sept 2012	Sept 2017
	-	120,000#	60,000	60,000	1.66	Apr 2012	March 2019
	360,000	480,000	240,000	240,000			
C.Ó Nualláin	160,000	160,000	80,000	80,000	5.45	Nov 2008	Oct 2013
	160,000	160,000	87,500	72,500	6.20	May 2009	April 2014
	120,000	120,000	60,000	60,000	8.11	Oct 2010	Oct 2015
	120,000	120,000	60,000	60,000	11.50	Oct 2011	Oct 2016
	120,000	120,000	60,000	60,000	8.48	Sept 2012	Sept 2017
	-	120,000#	60,000	60,000	1.66	Apr 2012	March 2019
	680,000	800,000	407,500	392,500			
J. F. Malone	159,192*	-	-	-	1.81	July 2004	July 2009
	159,192	159,192	84,902	74,290	2.07	May 2005	April 2010
	318,384	159,192	84,902	74,290			

Mr. C. Rinn had an interest to acquire 540,177 (31 December 2008: 440,177) Grafton Units at 31 December 2009 at prices ranging between €1.66 and €11.50 in accordance with the 1999 Grafton Group Share Scheme including an interest to acquire 100,000 Grafton Units granted on 3 April 2009 at €1.66 per unit.

The closing price of a Grafton Unit on 31 December 2009 was €2.94 (31 December 2008: €2.30) and the price range during the year was between €1.26 and €3.96 (2008: €2.07 and €6.27).

There has not been any contract or arrangement with the Company or any subsidiary undertaking during the year in which an Officer of the Company was materially interested and which was significant in relation to the Company's business except for the pension arrangements outlined in note 5 on page 57.

* Mr. J. F. Malone acquired 159,192 Grafton Units on 15 June 2009 at €1.81 per Unit in accordance with the rules of the Grafton Group Share Scheme. The market value of a Grafton Unit on 15 June 2009 was €3.00.

Entitlements to convert to Grafton units issued on 3 April 2009 subject to the rules of the 1999 Grafton Group Share Scheme.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the Group and Company Financial Statements, in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and Company Financial Statements for each financial year. Under that law, the Directors are required to prepare the Group Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and have elected to prepare the Company Financial Statements in accordance with IFRSs as adopted by the EU and as applied in accordance with the Companies Acts, 1963 to 2009.

The Group and Company Financial Statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and performance of the Group and Company. The Companies Acts, 1963 to 2009 provide in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the Group and Company Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRSs as adopted by the EU and in the case of the Company as applied in accordance with the Companies Acts, 1963 to 2009; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

Under applicable law and the requirements of the Listing Rules issued by the Irish Stock Exchange, the Directors are also responsible for preparing a Directors' Report and reports relating to Directors' remuneration and Corporate Governance that comply with that law and those Rules. In particular, in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007 (the Transparency Regulations), the Directors are required to include in their report a fair review of the business and a description of the principal risks and uncertainties facing the Group and the Company and a responsibility statement relating to these and other matters, included below.

The Directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Acts, 1963 to 2009 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation. They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the Republic of Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

For the purpose of Transparency (Directive 2004/109/EC) Regulations 2007 (SI 277/2007) and European Communities (Directive 2006/46/EC) Regulations 2009 (SI 450/2009), pages 16 to 32 of this Annual Report shall be read as a single report of the Directors.

Responsibility Statement, in accordance with the Transparency Regulations

Each of the Directors, whose names and functions are listed on page 13 confirm that, to the best of each person's knowledge and belief:

- the Group Financial Statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities and financial position of the Group at 31 December 2009 and its profit for the year then ended;
- the Company Financial Statements, prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the Companies Acts, 1963 to 2009, give a true and fair view of the assets, liabilities and financial position of the Company at 31 December 2009; and
- the Report of the Directors contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that they face.

On behalf of the Board

M. Chadwick **C. Ó Nualláin**

Independent Auditor's Report

To the Members of Grafton Group plc

We have audited the Group and Company Financial Statements (the ''financial statements'') of Grafton Group plc for the year ended 31 December 2009 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group and Company Balance Sheets, the Group and Company Cash Flow Statements, the Group and Company Statement of Changes in Equity and the related notes on pages 36 to 113. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 193 of the Companies Act 1990. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditor

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 33.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with IFRSs as adopted by the EU, and have been properly prepared in accordance with the Companies Acts, 1963 to 2009 and, in the case of the Group Financial Statements, Article 4 of the IAS Regulation. We also report to you, in our opinion whether proper books of account have been kept by the Company; whether at the balance sheet date, there exists a financial situation requiring the convening of an extraordinary general meeting of the Company; and whether the information given in the Report of the Directors is consistent with the financial statements. In addition, we state whether we have obtained all the information and explanations necessary for the purposes of our audit, and whether the Company balance sheet is in agreement with the books of account.

We also report to you if, in our opinion, any information specified by law or the Listing Rules of the Irish Stock Exchange regarding Directors' remuneration and Directors' transactions is not disclosed and, where practicable, include such information in our report.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2008 FRC Combined Code specified for our review by the Listing Rules of the Irish Stock Exchange, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Report of the Directors, the Chairman's Statement and the Group Finance Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent Auditor's Report

To the Members of Grafton Group plc

Opinion

In our opinion:

- the Group Financial Statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2009 and of its profit for the year then ended;
- the Company Financial Statements give a true and fair view, in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Acts,1963 to 2009, of the state of the Company's affairs as at 31 December 2009;
- the Group Financial Statements have been properly prepared in accordance with the Companies Acts, 1963 to 2009 and Article 4 of the IAS Regulation; and
- the Company Financial Statements have been properly prepared in accordance with the Companies Acts, 1963 to 2009.

Other matters

We have obtained all the information and explanations which we consider necessary for the purposes of our audit. In our opinion, proper books of account have been kept by the Company. The Company balance sheet is in agreement with the books of account.

In our opinion, the information given in the Report of the Directors is consistent with the financial statements.

The net assets of the Company, as stated in the Company balance sheet are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2009 a financial situation which under Section 40 (1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the Company.

KPMG
Chartered Accountants
Registered Auditor
Dublin

3 March 2010

Group Income Statement

For the year ended 31 December 2009

	Notes	2009 €'000	2008 €'000
Revenue	1	**1,979,796**	2,672,984
Operating costs and income	3	**(1,974,912)**	(2,573,759)
Operating profit		**4,884**	99,225
Finance expense	6	**(29,419)**	(59,944)
Finance income	6	**38,115**	24,835
Profit before tax		**13,580**	64,116
Income tax expense	8	**(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	10	**5.81c**	25.09c
Diluted earnings per share	10	**5.79c**	25.00c

On behalf of the Board

M Chadwick
C Ó Nualláin

Directors

3 March 2010

Group Balance Sheet

As at 31 December 2009

	Notes	2009 €'000	2008 €'000
ASSETS			
Non-current assets			
Goodwill	11	**544,286**	532,807
Intangible assets	11	**6,665**	8,877
Property, plant and equipment	12	**604,838**	633,336
Deferred tax assets	24	**22,459**	24,904
Retirement benefit assets	30	**-**	7
Derivative financial instruments	20	**12,524**	27,810
Investment in associate	13	**3,690**	-
Financial assets	13	**211**	227
Total non-current assets		**1,194,673**	1,227,968
Current assets			
Inventories	14	**265,748**	331,124
Trade and other receivables	15	**306,863**	353,581
Derivative financial instruments	20	**4,405**	10,943
Cash and cash equivalents	18	**301,985**	224,834
Properties held for resale	12	**12,363**	-
Total current assets		**891,364**	920,482
Total assets		**2,086,037**	2,148,450
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Equity share capital	16	**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	16	**(5,746)**	(5,746)
Total equity		**911,749**	868,865
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	18	**536,789**	579,333
Provisions	21	**16,800**	16,634
Retirement benefit obligations	30	**25,259**	40,899
Derivative financial instruments	20	**682**	-
Deferred tax liabilities	24	**43,965**	40,732
Total non-current liabilities		**623,495**	677,598
Current liabilities			
Interest-bearing loans and borrowings	18	**103,174**	119,874
Trade and other payables	22	**387,331**	416,498
Current income tax liabilities		**51,571**	55,950
Derivative financial instruments	20	**737**	-
Provisions	21	**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

On behalf of the Board

M Chadwick
C Ó Nualláin

Directors

3 March 2010

Group Cash Flow Statement

For the year ended 31 December 2009

	Notes	2009 €'000	2008 €'000
Profit before taxation		**13,580**	64,116
Finance income	6	**(38,115)**	(24,835)
Finance expense	6	**29,419**	59,944
Operating profit		**4,884**	99,225
Depreciation		**47,939**	54,287
Intangible amortisation	11	**2,212**	2,218
Goodwill write-off on termination	11	**135**	-
Goodwill impairment loss	11	**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	25	**93,719**	108,463
Cash generated from operations		**138,620**	254,759
Interest paid		**(21,241)**	(45,593)
Income taxes paid		**(1,069)**	(1,579)
Cash flows from operating activities		**116,310**	207,587
Investing activities			
Inflows			
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		**35**	433
		40,545	20,167
Outflows			
Acquisition of subsidiary undertakings and businesses	26	**(2,255)**	(24,460)
Net cash acquired with subsidiary undertakings	26	**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		**(3,690)**	-
		(21,220)	(108,620)
Cash flows from investing activities		**19,325**	(88,453)
Financing activities			
Inflows			
Proceeds from the issue of share capital		**873**	1,528
Proceeds from borrowings		**73,679**	91,944
		74,552	93,472
Outflows			
Repayments of borrowings		**(78,007)**	(74,031)
Purchase of 'A' ordinary shares	9	**(17,276)**	(50,585)
Payment of finance lease liabilities		**(383)**	(1,209)
Redemption of loan notes payable net of derivatives		**(49,370)**	(29,842)
		(145,036)	(155,667)
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 31 December		**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		**(1)**	(7)
		301,984	224,827

Group Statement of Comprehensive Income

For the year ended 31 December 2009

	Notes	2009 €'000	2008 €'000
Profit after tax for the financial year		**13,392**	57,698
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	30	**4,778**	(37,414)
Deferred tax credit on Group defined benefit pension schemes	24	**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 on 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		**47,259**	(205,495)
Total comprehensive income for the financial year		**60,651**	(147,797)
Attributable to:			
Equity holders of the Company		**60,651**	(147,797)

On behalf of the Board

M Chadwick
C Ó Nualláin

Directors

3 March 2010

Group Statement of Changes in Equity

	Equity share capital €'000	Share premium account €'000	Capital redemption reserve €'000	Revaluation reserve €'000	Shares to be issued reserve €'000	Cash flow hedge reserve €'000	Foreign currency translation reserve €'000	Retained earnings €'000	Treasury shares €'000	Total equity €'000
Year to 31 December 2009										
At 1 January 2009	**11,579**	**288,951**	**900**	**32,157**	**6,041**	**-**	**(202,834)**	**737,817**	**(5,746)**	**868,865**
Profit after tax for the financial year	-	-	-	-	-	-	-	13,392	-	13,392
Actuarial gain on pensions (net of tax)	-	-	-	-	-	-	-	5,230	-	5,230
Deferred tax – capital gains tax rate increase	-	-	-	-	-	-	-	(1,012)	-	(1,012)
Movement in cash flow hedge reserve (net of tax)	-	-	-	-	-	(1,182)	-	-	-	(1,182)
Currency translation effect on foreign currency net investments	-	-	-	-	-	-	60,576	-	-	60,576
Currency translation effect on foreign currency borrowings and derivatives	-	-	-	-	-	-	(16,353)	-	-	(16,353)
Purchase of 'A' ordinary shares	(5)	-	5	-	-	-	-	(17,276)	-	(17,276)
Issue of Grafton Units (net of issue expenses)	24	849	-	-	-	-	-	-	-	873
Adjustment for share-based payments credit	-	-	-	-	(1,364)	-	-	-	-	(1,364)
Transfer from revaluation reserve	-	-	-	(205)	-	-	-	205	-	-
At 31 December 2009	**11,598**	**289,800**	**905**	**31,952**	**4,677**	**(1,182)**	**(158,611)**	**738,356**	**(5,746)**	**911,749**
Year to 31 December 2008										
At 1 January 2008	**11,569**	**287,458**	**875**	**32,768**	**10,920**	**511**	**(30,534)**	**759,864**	**(5,746)**	**1,067,685**
Profit after tax for the financial year	-	-	-	-	-	-	-	57,698	-	57,698
Actuarial loss on pensions (net of tax)	-	-	-	-	-	-	-	(32,684)	-	(32,684)
Movement in cash flow hedge reserve (net of tax)	-	-	-	-	-	(511)	-	-	-	(511)
Currency translation effect on foreign currency net investments	-	-	-	-	-	-	(243,869)	-	-	(243,869)
Currency translation effect on foreign currency borrowings and derivatives	-	-	-	-	-	-	71,569	-	-	71,569
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**

Accounting Policies

Statement of Compliance

The consolidated and Company Financial Statements of Grafton Group plc have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), which comprise standards and interpretations approved by the International Accounting Standards Board (IASB) and International Accounting Standards and Standing Interpretations Committee and subsequently adopted by the EU.

The Company Financial Statements have been prepared in accordance with IFRSs as adopted by the European Union (EU) and as applied in accordance with the Companies Acts, 1963 to 2009. The Company has taken advantage of the exemption in Section 148(8) of the Companies Act 1963 from presenting to its members the Company Statement of Comprehensive Income and related notes which forms part of the approved financial statements of the Company as the Company publishes Company and Group Financial Statements together.

The standards and interpretations applied in these financial statements were those effective for accounting periods beginning on or after 1 January 2009.

The accounting policies adopted are consistent with those of the previous year except for the following new and amended IFRS and IFRIC interpretations adopted by the Group as of 1 January 2009:

IFRS 8 Operating Segments: As of 1 January 2009, the Group determines and presents operating segments based on the information provided internally to the Chief Operating Decision Maker ("CODM"). Previously operating segments were determined and presented in accordance with IAS 14 *Segment Reporting*. Comparative segment information has been re-presented in conformity with IFRS 8. This impact of the change in accounting policy is limited to matters of presentation and the comparative numbers have been restated to reflect the new basis of segmentation.

IAS 1 Presentation of Financial Statements (Amended): The revised standard introduces presentational changes to the Group's primary statements. The standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements. In addition, a statement of changes in equity is now required as an additional primary statement.

IAS 23 Borrowing Costs (Amended): The revised IAS 23 requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The Group's previous policy was to expense all borrowing costs. However, notwithstanding the prospective change in policy, there has been no impact on the financial position or performance of the Group as a result of adoption of the revised standard as there are currently no qualifying assets under construction.

IFRS 2 Share-based payment (Amended): The IASB issued an amendment to IFRS 2 which clarifies the definition of vesting and non-vesting conditions and prescribes the treatment for an award that is cancelled. The Group adopted this amendment as of 1 January 2009 with no impact on the financial position or performance of the Group.

IFRS 7 Financial Instruments: Disclosures (Amended): The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value.

The Group has also adopted the following new and amended IFRS and IFRIC interpretations, which have not had an impact on the financial statements or performance of the Group:

- IAS 32 *Financial Instruments: Presentation* and IAS 1 *Puttable Financial Instruments and Obligations Arising on Liquidation* (Amended)
- IFRIC 9 *Remeasurement of Embedded Derivatives* (Amended) and IAS 39 *Financial Instruments: Recognition and Measurement* (Amended)
- IFRIC 13 *Customer Loyalty Programmes*
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*
- Improvements to IFRSs (May 2008)

The Group has not applied the following standards and interpretations that have been issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee but are not yet effective: IFRS 3 *Business Combinations* (Revised) and IAS 27 *Consolidated and Separate Financial Statements* (Revised) – effective for the Group from 1 January 2010. The revised IFRS 3 introduces a number of changes to the accounting for business combinations that are likely to impact the treatment applied to future business combinations occurring after this date including the amount of goodwill recognised on future acquisitions, the reported results in the period when the acquisition occurs and future reported results. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of contingent consideration and business combinations achieved in stages.

The application of the other forthcoming standards and interpretations which have been endorsed by the EU is not expected to have a material impact on the Group or Company Financial Statements.

Basis of Preparation

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

The preparation of financial statements in conformity with IFRS as adopted by the EU requires management to exercise judgement in the process of applying the Company's accounting policies. The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant in relation to the consolidated financial statements, relate primarily to accounting for defined benefit pension schemes, financial instruments, share-based payments, impairment provisions, leases, intangible assets, goodwill impairment and taxation.

The financial year-ends of the Group's subsidiaries are coterminous.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company, all subsidiaries drawn up to 31 December each year together with the Group's interest in associates and jointly controlled entities.

Subsidiaries

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control over the operating and financial decisions is obtained and cease to be consolidated from the date on which control is transferred out of the Group. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain economic benefits from its activities.

Joint ventures

In line with the benchmark accounting methodology in IAS 31 Interests in Joint Ventures, the Group's share of results and net assets of joint ventures, which are entities in which the Group holds an interest on a long-term basis and which are jointly controlled by the Group and one or more other venturers, are accounted for on the basis of proportionate consolidation from the date on which joint control is finalised and are derecognised when joint control ceases. The Group combines its share of the joint ventures individual income and expenses, assets and liabilities and cash flows on a line by line basis with similar items in the Group's financial statements.

Investment in Associates

Associates are those entities in which the Group has significant influence, but not control of the financial and operating policies. In accordance with IAS 28 Investments in associates, the equity method is used to account for associates. The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the net assets of the investee. The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains and income and expenses arising from such transactions, are eliminated in preparing the consolidated financial statements. Transactions with joint ventures and associates are similarly eliminated to the extent of the Group's interest in the equity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that they are not evidence of impairment.

Revenue Recognition

Revenue comprises the fair value of goods and services supplied to external customers in the ordinary course of the group's activities and excludes inter-company sales and value added tax.

In general, revenue is recognised to the extent that it is subject to reliable measurement, that it is probable that economic benefits will flow to the Group and that the significant risks and rewards of ownership have passed to the buyer. In the case of sales of goods, this generally arises when products have either been delivered to or collected by a customer and there is no unfulfilled obligation that could affect the acceptance of the products. Sales are recorded based on the price specified in the sales invoices/contracts net of actual and estimated returns and any discounts granted. Revenue on long-term contracts is recognised in accordance with the percentage-of-completion method with the completion percentage being computed on an input cost basis.

Segment Reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's Chief Operating Decision Maker being the Board to make decisions about resources to be allocated to segments and to assess performance, and for which discrete financial information is available.

Foreign Currency Translation

Functional and presentation currency

The consolidated financial statements are presented in euro which is the Company's functional currency. Items included in the financial statements of each of the Group's entities are measured using its functional currency, the currency of the primary economic environment in which the entity operates which is primarily euro and sterling.

Transaction and balances

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated to the relevant functional currency at the rate of exchange ruling at the balance sheet date. All currency translation differences on monetary assets and liabilities are taken to the income statement except for differences on foreign currency borrowings designated as a hedge of a net investment which are taken directly to other comprehensive income together with the exchange difference on the carrying amount of the related investment.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and any fair value adjustments arising on consolidation, are translated to euro at the foreign exchange rates ruling at the balance sheet date. Results and cash flows of subsidiaries which do not have the euro as their functional currency are translated into euro at average exchange rates for the year and the related balance sheets are translated at the rates of exchange ruling at the balance sheet date. Foreign exchange movements arising on translation of the net investment in a foreign operation, including those arising on long term intra-Group loans deemed to be quasi equity in nature, are recognised directly in equity, in the currency translation reserve. The portion of exchange gains or losses on foreign currency borrowings or derivatives used to provide a hedge against a net investment in a foreign operation that is designated as a hedge of those investments is recognised directly in other comprehensive income (reserves) to the extent that they are determined to be effective. The ineffective portion is recognised immediately in the income statement.

Any movements that have arisen since 1 January 2004, the date of transition to IFRS, are recognised in the currency translation reserve and are recycled through the income statement on disposal of the related business. Translation differences that arose before the date of transition to IFRS in respect of all non-euro denominated operations are not presented separately.

Exceptional Items

The Group has adopted a policy in relation to its income statement which seeks to highlight any significant items within the Group results. Such items may include significant restructuring, profit and loss on disposal or termination of operations, litigation costs and settlements and impairment of assets. Judgement is used by the Group in assessing the particular items which, by virtue of their scale and nature, should be disclosed in the income statement or related notes.

In accordance with accounting standards, property profit is not disclosed as a separate line item on the face of the Income Statement. Where a material profit arises on the disposal of property, the Board will bring this to shareholders' attention.

Finance Expense

Finance expense comprises interest payable on borrowings calculated using the effective interest rate method, foreign exchange gains and losses on borrowings and gains and losses on hedging instruments that are recognised in the income statement. The finance cost on pension scheme liabilities is recognised as finance expense in the income statement as permitted by IAS 19. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method. Where appropriate the fair value adjustment to hedged items that are the subject of a fair value hedge is also included as finance expense or finance income. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in the income statement using the effective interest method.

Finance Income

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, and gains on hedging instruments that are recognised in profit or loss. The expected return on plan assets is recognised as finance income in the income statement as permitted by IAS 19. Interest income is recognised in the income statement as it accrues using the effective interest method.

Business Combinations

The purchase method of accounting is employed in accounting for the acquisition of subsidiaries by the Group. The Group availed of the exemption under IFRS 1, "First-time Adoption of International Financial Reporting Standards", whereby business combinations prior to the transition date of 1 January 2004 are not restated. IFRS 3, "Business Combinations", has been applied with effect from the transition date of 1 January 2004 and goodwill amortisation ceased from that date.

The cost of a business combination is measured as the aggregate of the fair value at the date of exchange of assets given, liabilities incurred or assumed and equity instruments issued in exchange for control together with any directly attributable expenses. Where a business combination agreement provides for an adjustment to the cost of the combination contingent on future events, the amount of the estimated adjustment is included in the cost at the acquisition date if the adjustment can be reliably measured. Any changes to this estimate in subsequent periods are reflected in goodwill. Deferred consideration is included in provisions. In the case of a business combination the identifiable assets and liabilities acquired are measured at their provisional fair values at the date of acquisition. Adjustments to provisional values allocated to assets and liabilities are made within twelve months of the acquisition date and reflected as a restatement of the acquisition balance sheet.

Goodwill

Goodwill is the excess of the consideration paid over the fair value of the identifiable assets, liabilities and contingent liabilities in a business combination and relates to assets which are not capable of being individually identified and separately recognised.

Goodwill is subject to impairment testing on an annual basis and throughout the year if an indicator of impairment exists.

Goodwill arising on acquisitions between 1 January 1998 and 1 January 2004 was capitalised and the related amortisation, which was based on a presumed maximum useful life of 20 years, was charged against operating income in the income statement on a straight-line basis from the date of initial recognition. Goodwill was stated at cost less accumulated amortisation and any impairment in value. Goodwill arising on acquisitions made prior to 1 January 1998 was written-off immediately against reserves and was not reinstated on implementation of IFRS as adopted by the EU. In accordance with IFRS 1, this goodwill was not recognised as goodwill in the IFRS transition Balance Sheet and remains eliminated against reserves.

Goodwill arising in respect of acquisitions completed prior to 1 January 2004 (being the transition date to IFRS as adopted by the EU) is included at its net book value recorded under previous GAAP. In line with IFRS 3, goodwill amortisation ceased with effect from the transition date being 1 January 2004.

Where a subsidiary is sold, any goodwill arising on acquisition, net of any impairments, which has not been amortised through the income statement is included in determining the profit or loss arising on disposal.

Intangible Assets (Other than Goodwill)

An intangible asset, which is a non-monetary asset without a physical substance, is recognised to the extent that it is probable that the expected future economic benefits attributable to the asset will flow to the Group and that its fair value can be measured. The asset is deemed to be identifiable when it is separable (i.e. capable of being divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability) or when it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the Group or from other rights and obligations.

Intangible assets acquired as part of a business combination are capitalised separately from goodwill if the intangible asset meets the definition of an asset and the fair value can be reliably measured on initial recognition.

Intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The carrying values of intangible assets are reviewed for indicators of impairment at each reporting date and are subject to impairment testing when events or changes in circumstances indicate that the carrying values may not be recoverable.

The amortisation of intangible assets is calculated to write-off the book value of intangible assets over their useful lives which is currently eight years on a straight-line basis on the assumption of zero residual value.

Property, Plant and Equipment

Property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses. The Group's Irish properties were revalued to fair value in 1998 and are measured on the basis of deemed cost being the revalued amount at the date of that revaluation less accumulated depreciation.

Property, plant and equipment are depreciated over their useful economic life on a straight line basis at the following rates:

Freehold buildings	50-100 years
Freehold land	Not depreciated
Leasehold buildings	Lease term or up to 100 years
Plant and machinery	5-20 years
Motor vehicles	5 years
Plant hire equipment	4-8 years

The residual value and useful lives of property, plant and equipment are reviewed and adjusted if appropriate at each balance sheet date.

On disposal of property, plant and equipment, the cost and related accumulated depreciation and impairments are removed from the balance sheet and the net amount, less any proceeds, is taken to the income statement.

The carrying amounts of the Group's property, plant and equipment are reviewed at each balance sheet date to determine whether there is any indication of impairment. An impairment loss is recognised whenever the carrying amount of an asset or its cash generation unit exceeds its recoverable amount. Impairment losses are recognised in the income statement unless the asset is recorded at a revalued amount in which case it is firstly dealt with through the revaluation reserve relating to that asset with any residual amount being transferred to the income statement.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Subsequent costs are included in an asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the replaced item can be measured reliably. All other repair and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Assets held for 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.

Investments

Investments, other than investments in joint ventures and associates, are stated in the balance sheet at fair value. All other investments are classified as available for sale with changes in fair value recognised directly in other comprehensive income until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is brought into the net profit or loss for the period. All items recognised in the income statement relating to investments, other than investments in joint ventures and associates, are reported as non operating items.

Where investments are actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date. Where it is impracticable to determine fair value in accordance with IAS 39, unquoted equity investments are recorded at historical cost and are included within financial assets on this basis in the Group Balance Sheet. They are assessed for impairment annually.

Leases

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have transferred to the Group and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives with any impairment being recognised in accumulated depreciation. The asset is recorded at an amount equal to the lower of its fair value and the present value of the minimum lease payments at the inception of the finance lease. The capital elements of future obligations under leases and hire purchase contracts are included in liabilities in the balance sheet and analysed between current and non-current amounts. The interest elements of the rental obligations are charged to the income statement over the periods of the leases and hire purchase contracts so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Operating lease rentals are charged to the income statement on a straight-line basis over the lease term. Lease incentives are recognised over the lease term on a straight line basis.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the first-in, first-out principle and includes all expenditure incurred in acquiring the inventories and bringing them to their present location and condition. Raw materials are valued on the basis of purchase cost on a first-in, first-out basis. In the case of finished goods and work-in-progress, cost includes direct materials, direct labour and attributable overheads based on normal operating capacity and excludes borrowing costs. Net realisable value is the estimated proceeds of sale less all further costs to completion and less all costs to be incurred in marketing, selling and distribution.

Trade and Other Receivables and Payables

Trade and other receivables and payables are stated at cost, which approximates to fair value given the short-term nature of these assets and liabilities.

Trade receivables are carried at original invoice amount less an allowance for potentially uncollectable debts. Provision is made when there is objective evidence that the Group will not be in a position to collect all of its receivables when they fall due. Bad debts are written-off against the provision or in the income statement.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances held for the purposes of meeting short-term cash commitments and money market instruments which are readily convertible to a known amount of cash. Where money market instruments are categorised as cash equivalents, the related balances have a maturity of three months or less. In addition, for the purposes of the Group Cash Flow Statement, bank overdrafts are netted against cash and cash equivalents where the overdrafts are repayable on demand and form an integral part of cash management. Overdrafts are included within current interest-bearing loans and borrowings in the Group Balance Sheet.

Derivative Financial Instruments and Hedging Activities

The Group uses derivative financial instruments (principally interest rate and currency swaps) to hedge its exposure to foreign exchange and interest rate risks arising from its financing activities.

Derivative financial instruments are recognised initially at fair value and thereafter are subsequently re-measured at their fair value. Fair value is the amount which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arms length transaction. The fair value of interest rate and currency swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest and currency exchange rates and the current creditworthiness of the swap counterparties.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument. Where derivatives are not designated or do not fulfil the criteria for hedge accounting, changes in fair values are reported in the income statement. Where derivatives qualify for hedge accounting, recognition of the resulting gains or loss depends on the nature of the item being hedged. The Group designates certain derivatives for various purposes in hedge relationships in one or more of the following types of relationships:

(a) Fair value hedge: Hedges of the fair value of recognised liabilities;

(b) Cash flow hedge: Hedges of a particular risk associated with a highly probable forecast transaction; or

(c) Net investment hedge: Hedges of a net investment in a foreign operation.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items

(i) Fair Value Hedge

Any gain or loss stemming from the re-measurement of the hedging instrument to fair value is reported in the income statement. In addition, any gain or loss on the hedged item which is attributable to the fair value movement in the hedged risk is adjusted against the carrying amount of the hedged item and reflected in the income statement.

Where a derivative financial instrument is used to economically hedge the foreign exchange exposure of a recognised monetary asset or liability, hedge accounting is not applied and any gain or loss accruing on the hedging instrument is recognised as finance income or expense in the income statement.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

(ii) Cash Flow Hedges

The effective part of any gain or loss on the derivative financial instrument is recognised as a separate component of equity with the ineffective portion being reported as finance expense or income in the income statement. If a hedge of a forecasted transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised directly in other comprehensive income are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss. For cash flow hedges, other than those covered by the preceding statements, the associated cumulative gain or loss is removed from other comprehensive income and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss. The ineffective part of any gain or loss is recognised immediately in the income statement.

Hedge accounting is discontinued when a hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. The cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is transferred to the income statement in the period.

(iii) Hedge of Net Investment in Foreign Operation

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within 'other gains/(losses) – net'. Cumulative gains and losses remain in equity until disposal or partial disposal of the net investment in the foreign operation at which point the related differences are transferred to the income statement as part of the overall gain or loss on sale.

Interest Bearing Loans and Borrowings

All loans and borrowings are initially recorded at fair value, net of related transaction costs. After initial recognition, current and non-current interest-bearing loans and borrowings are measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method. Amortised cost includes any issue costs and any discount or premium on settlement. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Provisions

A provision is recognised on a discounted basis when the Group has a present (either legal or constructive) obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligations and a reliable estimate can be made of the amount required to settle the obligation. A provision for restructuring is recognised when the Group has approved a restructuring plan and the restructuring has commenced. A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable costs of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Provisions are not recognised in respect of future operating losses.

Retirement Benefit Obligations

Obligations to the defined contribution pension plans are recognised as an expense in the income statement as service is received from the relevant employees. The Group has no obligations to make further contributions to these schemes.

The Group operates a number of defined benefit pension schemes which require contributions to be made to separately administered funds. The Group's net obligation in respect of defined benefit pension schemes is calculated separately for each plan by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan asset is deducted. The discount rate employed in determining the present value of the schemes' liabilities is determined by reference to market yields at the balance sheet date on high quality corporate bonds for a term consistent with the currency and term of the associated post-employment benefit obligations.

The net surplus or deficit arising in the Group's defined benefit pension schemes are shown within either non-current assets or liabilities on the face of the Group Balance Sheet. The deferred tax impact of pension scheme surpluses and deficits is disclosed separately within deferred tax assets or liabilities as appropriate. The Group recognises post transition date actuarial gains and losses immediately in the statement of comprehensive income.

Any increase in the present value of the plans' liabilities expected to arise from employee service during the period is charged to operating profit. The expected return on the plans' assets and the expected increase during the period in the present value of the plans' liabilities arising are included in finance income and expense respectively. Differences between the expected and the actual return on plan assets, together with the effect of changes in the current or prior assumptions underlying the liabilities are recognised in other comprehensive income. When the benefits of a defined benefit plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement over the remaining average period until the benefits vest. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

Share-Based Payment Transactions

Two Group share schemes allow employees to acquire shares in the Company. New shares in the Company are issued to satisfy obligations under both schemes. The fair value of share entitlements granted is recognised as an employee expense in the income statement with a corresponding increase in equity. The fair value is determined by an external valuer using a binomial model. Share entitlements granted by the Company are subject to certain non-market based vesting conditions. Non-market vesting conditions are not taken into account when estimating the fair value of entitlements as at the grant date. The expense for share entitlements shown in the income statement is based on the fair value of the total number of entitlements expected to vest and is allocated to accounting periods on a straight line basis over the vesting period. The cumulative charge to the income statement is reversed where entitlements do not vest because all non-market performance conditions have not been met or where an employee in receipt of share entitlements leaves the Group before the end of the vesting period.

The proceeds received by the Company on the vesting of share entitlements are credited to share capital and share premium when the share entitlements are converted. In line with the transitional arrangements set out in IFRS 2, "Share-Based Payment", the recognition and measurement principles of this standard have been applied in respect of share entitlements granted after 7 November 2002.

Income Tax

The income tax expense in the income statement represents the sum of current tax and deferred tax.

Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income or items for which there is no corresponding income statement charge, in which case it is recognised in other comprehensive income.

Current tax is based on taxable profit. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or deductible. The Group's liability for current tax is calculated using rates that have been enacted or substantially enacted at the balance sheet date.

Deferred tax is provided, using the liability method, on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled based on rates that have been enacted or substantially enacted at the balance sheet date.

Deferred tax assets and liabilities are not recognised for the following temporary differences;

- Goodwill not deductible for tax purposes;
- Temporary difference arising from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or taxable profit or loss; and
- Temporary differences associated with investments in subsidiaries in which case deferred tax is only recognised to the extent that it is probable the temporary differences will reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit would be available to allow all or part of the deferred tax asset to be utilised.

Share Capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Repurchase of share capital

When share capital recognised as equity is purchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity.

Dividends

Dividends on ordinary shares are recognised as a liability in the Group's financial statements in the period in which they are declared by the Company. In the case of interim dividends, these are considered to be declared when they are paid and in the case of final dividends these are declared when authorised by the shareholders in General Meeting.

Earnings per Share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding, adjusted for own shares held and for the effects of all dilutive potential ordinary shares, arising from share entitlements exercisable by employees.

1. Segment Information

IFRS 8 Operating Segments requires operating segments to be identified on the basis of internal reports that are regularly reviewed by the chief operating decision maker (CODM) 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 Builders Merchanting segment is engaged in the distribution of building materials primarily to professional trades people engaged in residential repair, maintenance and improvement projects and also in residential and other new build construction from a network of 522 branches in Britain and Ireland.

The Retailing segment operates Ireland's largest DIY and home improvement business from a network of 41 stores that supply mainly retail customers with a wide range of products for the home and garden, and a kitchens retail business that trades from seven stores.

The Manufacturing segment includes the largest manufacturer of dry mortar in Britain and mortar, plastics and windows manufacturing businesses in Ireland.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment operating profit/(loss) as included in the internal management reports that are reviewed by the Group's CODM, being the Board. Segment operating profit is used to measure performance, as such information is the most relevant in evaluating the results of the Group's segments.

Segment results, assets and liabilities include all items directly attributable to a segment.

Segment capital expenditure is the total amount incurred during the period to acquire segment assets that are expected to be used for more than one accounting period.

Group Income Statement

	Continuing operations – year ended 31 December							
	Merchanting		Retailing		Manufacturing		Group	
	2009 €'000	2008 €'000	**2009 €'000**	2008 €'000	**2009 €'000**	2008 €'000	**2009 €'000**	2008 €'000
Segment revenue	**1,686,933**	2,284,484	**247,784**	303,071	**50,985**	95,621	**1,985,702**	2,683,176
Less: Inter-segment revenue-manufacturing	**-**	-	**-**	-	**(5,906)**	(10,192)	**(5,906)**	(10,192)
	1,686,933	2,284,484	**247,784**	303,071	**45,079**	85,429	**1,979,796**	2,672,984
Segment operating profit/(loss)	**39,305**	121,921	**3,274**	11,790	**(5,060)**	(3,159)	**37,519**	130,552
Restructuring costs	**(17,014)**	(14,498)	**(508)**	(885)	**(1,398)**	(1,765)	**(18,920)**	(17,148)
Segment operating profit/(loss) after restructuring costs	**22,291**	107,423	**2,766**	10,905	**(6,458)**	(4,924)	**18,599**	113,404

1. Segment Information (continued)

	Group 2009 €'000	Group 2008 €'000
Reconciliation to consolidated operating profit		
Segment operating profit after restructuring costs	**18,599**	113,404
Central activities	**(11,351)**	(11,961)
Intangible amortisation	**(2,212)**	(2,218)
Goodwill impairment - manufacturing segment	**(5,469)**	-
Past service credit on pension schemes	**5,317**	-
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 for the financial year	**13,392**	57,698

The Merchanting Segment result for 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.

Group Balance Sheet

	Continuing operations – year ended 31 December							
	Merchanting		Retailing		Manufacturing		Group	
	2009 €'000	2008 €'000	2009 €'000	2008 €'000	2009 €'000	2008 €'000	2009 €'000	2008 €'000
Segment assets								
Assets	**1,559,158**	1,660,199	**115,013**	130,422	**66,592**	69,104	**1,740,763**	1,859,725

	2009 €'000	2008 €'000
Reconciliation to total assets per Group balance sheet		
Deferred tax assets	**22,459**	24,904
Retirement benefit assets	**-**	7
Investment in associate	**3,690**	-
Financial assets	**211**	227
Derivatives financial instruments	**16,929**	38,753
Cash and cash equivalents	**301,985**	224,834
Total assets per Group balance sheet	**2,086,037**	2,148,450

1. Segment Information (continued)

	Continuing operations – year ended 31 December							
	Merchanting		Retailing		Manufacturing		Group	
	2009 €'000	2008 €'000	**2009 €'000**	2008 €'000	**2009 €'000**	2008 €'000	**2009 €'000**	2008 €'000
Segment liabilities								
Liabilities	**352,763**	371,569	**51,887**	58,329	**7,461**	12,899	**412,111**	442,797

	2009 €'000	2008 €'000
Reconciliation to total liabilities per Group balance sheet		
Interest bearing loans and borrowings (current and non-current)	**639,963**	699,207
Retirement benefit obligations	**25,259**	40,899
Deferred tax liabilities	**43,965**	40,732
Current tax liabilities	**51,571**	55,950
Derivatives financial instruments (current and non-current)	**1,419**	-
Total liabilities per Group balance sheet	**1,174,288**	1,279,585

Other segment information

	Continuing operations – year ended 31 December							
	Merchanting		Retailing		Manufacturing		Total Group	
	2009 €'000	2008 €'000	**2009 €'000**	2008 €'000	**2009 €'000**	2008 €'000	**2009 €'000**	2008 €'000
Capital expenditure	**11,825**	69,353	**526**	6,735	**69**	2,504	**12,420**	78,592
Depreciation	**36,562**	41,929	**6,367**	6,485	**5,010**	5,873	**47,939**	54,287

Geographic analysis

The following is a geographic analysis of the information presented above. The analysis of geographic revenue below is the same whether it is based on location of assets or customers.

	Ireland		UK		Group	
	2009 €'000	2008 €'000	**2009 €'000**	2008 €'000	**2009 €'000**	2008 €'000
Segment revenue (continuing operations)	**637,842**	985,651	**1,341,954**	1,687,333	**1,979,796**	2,672,984
Capital expenditure	**1,736**	14,879	**10,684**	63,713	**12,420**	78,592
Segment assets	**452,865**	580,965	**743,612**	745,953	**1,196,477**	1,326,918
Goodwill					**544,286**	532,807
					1,740,763	1,859,725

2. Comparative Figures

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

3. Operating Costs and Income

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

	2009 €'000	2008 €'000
Exceptional items:		
Restructuring costs	**18,920**	17,148
Pension-past service gain	**(5,317)**	-
Goodwill impairment	**5,469**	-
Profit on disposal of property	**(6,055)**	-
Total exceptional items	**13,017**	17,148
Decrease in inventories	**65,839**	58,064
Purchases and consumables	**1,297,142**	1,747,953
Staff costs (note 5)	**313,755**	394,320
Auditor's remuneration	**746**	775
Depreciation	**47,939**	54,287
Lease rentals and other hire charges	**59,491**	61,209
Intangible amortisation	**2,212**	2,218
Write-off of goodwill on termination	**135**	-
Profit on sale of scaffolding	**(129)**	(1,021)
Profit on disposal of other property, plant and equipment	**(635)**	(3,634)
Selling, distribution and administrative expenses	**175,400**	242,440
	1,974,912	2,573,759

During the year, the Group (including its overseas subsidiaries) obtained the following services from KPMG, the Group's Auditor:

	2009 €'000	2008 €'000
Audit Services:		
Statutory audit	**746**	775
Further assurance services	**200**	199
Procurement consultancy	**-**	1,203
Tax compliance and advisory services	**1,039**	1,162
	1,985	3,339

4. Directors' Remuneration, Pension Entitlements and Interests

Directors' remuneration, pension entitlements and interests in shares and share entitlements are presented in the Report on Directors' Remuneration on pages 29 to 32.

5. Employment

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

	2009	2008
Merchanting	**8,365**	9,428
Retailing	**1,177**	1,391
Manufacturing	**226**	323
Holding company	**18**	20
	9,786	11,162

The aggregate remuneration costs of employees were:	**€'000**	€'000
Wages and salaries	**279,434**	347,240
Social welfare	**27,147**	34,316
Share-based payments credit	**(1,364)**	(1,966)
Defined benefit pension (note 30)	**1,794**	3,987
Pension settlement cost	**1,110**	4,738
Defined contribution and pension related costs	**5,634**	6,005
Staff costs before exceptional items	**313,755**	394,320
Pension-past service gain	**(5,317)**	-
Termination payments	**17,089**	11,177
Charged to operating profit	**325,527**	405,497
Actuarial (gain)/loss on pension schemes	**(4,778)**	37,414
Finance cost on pension scheme liabilities	**10,826**	12,868
Expected return on pension scheme assets	**(9,721)**	(15,820)
Total employee benefit cost	**321,854**	439,959

The credit in the share-based payments charge was derived on the basis of the Group's expectation of the number of shares likely to vest having regard to the vesting conditions, the historic performance of the Group over the period since share entitlements were granted and projected future performance over the remaining life of share entitlements.

5. Employment (continued)

Key Management

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

	2009	2008
Number of Individuals	**10**	13

	2009 €'000	2008 €'000
Short-term employee benefits	**2,664**	4,158
Share-based payment credit	**(234)**	(522)
Retirement benefits expense	**716**	1,072
Pension settlement cost	**756**	4,738
Charged to operating profit	**3,902**	9,446

The liabilities and risks associated with the defined benefit pension scheme have been reduced following the transfer of the defined benefit pension scheme entitlements of the Group Financial Controller/Secretary 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 Income Statement for the year reflects a charge for this amount to fund the deficit related to the new arrangements. The transfer of 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. The transfer value of €1.8 million covers accrued entitlements and benefits under the defined benefit scheme for the period 1991 to 2008, including personal contributions to the scheme.

6. Finance Expense and Finance Income

	2009 €'000	2008 €'000
Finance expense:		
Bank overdrafts and loans	**12,412**	32,636
Net change in fair value of cash flow hedges transferred from equity	**994**	(529)
Interest on finance leases	**488**	644
Finance cost on pension scheme liabilities	**10,826**	12,868
Interest on loan notes	**7,091**	14,953
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 foreign exchange loss on net investment hedge	**918**	-
	29,419	59,944
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)
	(38,115)	(24,835)
Net finance (income)/expense recognised in income statement	**(8,696)**	35,109
Analysed as follows:		
Amounts relating to items not at fair value through income statement	**(8,696)**	35,109
Recognised directly in equity		
Currency translation effects on foreign currency net investments	**60,576**	(243,869)
Currency translation effects on foreign currency borrowings and derivatives designated as net investment hedges	**(16,353)**	71,569
Effective portion of changes in fair value of cash flow hedges	**(2,353)**	(55)
Net change in fair value of cash flow hedges transferred to income statement	**994**	(529)
	42,864	(172,884)

7. Foreign Currencies

The results and cash flows of the Group's United Kingdom subsidiaries have been translated into euro using the average exchange rate for the year. The related balance sheets of the Group's United Kingdom subsidiaries at 31 December 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 (2008: Stg79.63p). The euro/sterling exchange rate at 31 December 2009 was Stg88.81p (2008: Stg95.25p).

8. Income tax expense

(a) Income tax expense recognised in the income statement

	2009 €'000	2008 €'000
Current tax (credit)/expense		
Irish corporation tax	**(1,875)**	5,640
UK corporation tax	**(2,562)**	777
	(4,437)	6,417
Deferred tax expense		
Irish deferred tax expense relating to the origination and reversal of temporary differences	**(164)**	(2,565)
Irish deferred tax expense resulting from increase in capital gains tax rate	**1,173**	782
UK deferred tax expense relating to the origination and reversal of temporary differences	**3,616**	1,784
Total deferred tax	**4,625**	1
Total income tax expense in income statement	**188**	6,418

(b) Reconciliation of effective tax rate

	2009 €'000	2008 €'000
Profit before tax	**13,580**	64,116
Profit before tax multiplied by the standard rate of tax of 12.5% (2008: 12.5%)	**1,698**	8,014
Effects of:		
Expenses not deductible for tax purposes	**2,874**	3,396
Differences in effective tax rates on overseas earnings	**(2,788)**	(4,291)
Effect of increase in Irish capital gains tax rate	**1,173**	782
Other differences	**(2,769)**	(1,483)
Total income tax expense in income statement	**188**	6,418

(c) Deferred tax liability/(asset) recognised directly in equity

	2009 €'000	2008 €'000
Property, plant and equipment	**1,012**	-
Actuarial movement on pension schemes	**(452)**	(4,730)
Financing – cash flow hedge	**(177)**	(73)
	383	(4,803)

9. Dividend and Purchase of 'A' ordinary shares

	2009 €'000	2008 €'000
Group and Company		
Purchase of one 'A' ordinary share for 5.0 cent–paid 8 April 2009	**11,510**	-
Purchase of one 'A' ordinary share for 2.5 cent–paid 9 October 2009	**5,766**	-
Purchase of one 'A' ordinary share for 12.0 cent–paid 11 April 2008	**-**	27,566
Purchase of one 'A' ordinary share for 10.0 cent–paid 3 October 2008	**-**	23,019
	17,276	50,585

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. This follows the purchase of one 'A' ordinary share per Grafton Unit for a cash consideration of 2.5 cent which was paid on 9 October 2009. The dividend payable on 31 March 2010 is chargeable to reserves in 2010. The share purchase of 5.0 cent paid on 8 April 2009 was charged to reserves in 2009.

10. Earnings per Share - Group

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

	2009 €'000	2008 €'000
Numerator for basic, adjusted and diluted earnings per share:		
Profit after tax for the financial year	**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

Denominator for basic and adjusted earnings per share:	Number of Grafton Units	Number of Grafton Units
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

Weighted average share entitlements of 13,135,978 Grafton Units (2008: 9,420,500) which are currently anti-dilutive are not included in the above calculations, for diluted earnings per share and adjusted diluted earnings per share.

11. Goodwill

	2009 €'000	2008 €'000
Cost		
At 1 January	**532,807**	600,793
Acquired during the year (note 26)	**972**	10,804
Goodwill written off	**(135)**	-
Deferred consideration on acquisitions written back (note 21)	**(3,098)**	-
Goodwill impairment	**(5,469)**	-
Translation adjustment	**19,209**	(78,790)
At 31 December	**544,286**	532,807

Goodwill acquired during the year
Goodwill acquired during the year in the amount of €972,000, was allocated to the Merchanting cash generating unit (group of units).

Cash-generating units
The Board has concluded, for the purposes of IFRS 8 Operating Segments, that three operating segments exist, Merchanting, Retailing and Manufacturing. As a result of a significant restructuring of the Merchanting segment and in accordance with IAS 36.87, the Board has reassessed the level at which goodwill is reviewed for impairment. With respect to the Merchanting business, goodwill is reviewed at the segment level for internal management purposes.

	2009 €'000	2008 €'000
Merchanting	**539,986**	523,038
Retailing	**4,300**	4,300
Manufacturing	**-**	5,469
	544,286	532,807

Impairment testing
Goodwill is subject to impairment testing on an annual basis and during the year if an indicator of impairment is considered to exist.

An impairment loss of €5,469,000 (2008: €nil) was recognised by the Group in 2009 in relation to the goodwill attributable to a cash generating unit in the Manufacturing segment.

11. Goodwill (continued)

Impairment testing methodology
The recoverable amount of each cash generating unit is determined based on value in use calculations. The carrying value of each cash generating unit (group of units) was compared to its estimated value in use. Value in use is the recoverable amount calculated on the basis of estimated future cash flows discounted to present value.

Estimated future cashflows were determined by reference to the budget for 2010 and management considered forecasts for each of the following years from 2011 to 2014 inclusive. A long-term perpetuity growth rate was applied in respect of the years after 2014. The estimates of future cash flows were based on consideration of past experience together with an assessment of the future prospects for the Group's Merchanting, Retailing and Manufacturing businesses. This involved making assumptions concerning turnover trends, gross profit margins, overheads and operating profit margins.

The key assumptions used in the value in use calculations are the turnover growth rate, the discount rate and the perpetuity growth rate. The discount rate used was based on the Group's weighted average cost of capital adjusted to reflect a risk premium. The weighted average cost of capital reflects an assumed equity return, based on the risk free rate for ten year Government bonds adjusted for an equity risk premium and the after-tax cost of debt. The discount rate applied was 8.5 per cent (2008: 8.0 per cent).

In determining a terminal value, it was assumed that cash flows after the first five years will increase at a nominal growth rate in perpetuity. The rate assumed was based on an assessment of the likely long term growth prospects for the sectors in which the Group's three segments operate. A nominal growth rate of 3 per cent (2008: 3 per cent) in perpetuity was used for each cash generating unit (group of units).

Significant goodwill amounts
The most significant cash generating unit (group of units) accounting for the majority of the carrying amount of goodwill is Merchanting. The additional disclosures required under IAS 36: Impairment of Assets concerning the Merchanting segment are as follows:

	2009 €'000	2008 €'000
Carrying amount of goodwill	**539,986**	523,038
Carrying amount of intangibles with indefinite lives	**Nil**	Nil
Basis on which recoverable amount assessed	**Value in use**	Value in use
Discount rate	**8.5%**	8.0%

Sensitivity analysis
The value in use calculations are sensitive to changes in assumptions, particularly relating to turnover, the discount rate and the nominal growth rate in perpetuity. Sensitivity analysis was performed based on changes in each of these factors. A reduction in the turnover growth rate by 2 percentage points would not give rise to impairment. Similarly, an increase in the discount rate from 8.5 per cent to 10 per cent did not give rise to impairment. A reduction in the nominal growth rate in perpetuity from 3 per cent to 2 per cent reduced the headroom but did not indicate impairment.

Expected future cash flows are subject to known and unknown risks, uncertainties and other factors and are not a guarantee of future performance. Actual cash flows may therefore differ materially from estimated future cash flows. Similarly, if different estimates of projected future cash flows were made, a higher discount rate was used, or a lower nominal growth rate in perpetuity was used, then these changes could materially alter the present value of future cash flows.

11. (a) Intangible Assets

	Brands €'000	Customer Relationships €'000	Total €'000
Cost			
At 1 January 2009	5,658	12,037	17,695
At 31 December 2009	**5,658**	**12,037**	**17,695**
Amortisation			
At 1 January 2008	2,110	4,490	6,600
Amortised during the year	709	1,509	2,218
At 1 January 2009	2,819	5,999	8,818
Amortised during the year	707	1,505	2,212
At 31 December 2009	**3,526**	**7,504**	**11,030**
Net book amount at 31 December 2009	**2,132**	**4,533**	**6,665**
Net book amount at 31 December 2008	2,839	6,038	8,877

The amortisation charge for the year has been charged to operating expenses in the income statement. Brands and customer relationships are amortised over their estimated useful lives of eight years. Brands relate to the acquisition of Heiton Group plc in 2005.

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

12. Property, Plant and Equipment

	Freehold Land and Buildings €'000	Leasehold Buildings €'000	Plant Machinery and Motor Vehicles €'000	Total €'000
Cost				
At 1 January 2008	**463,707**	**83,193**	**351,014**	**897,914**
Additions	18,569	18,785	41,238	78,592
Acquisitions	5,914	444	1,671	8,029
Disposals	(910)	(1,306)	(23,412)	(25,628)
Exchange adjustment	(68,931)	(13,643)	(64,684)	(147,258)
At 1 January 2009	**418,349**	**87,473**	**305,827**	**811,649**
Additions	1,293	1,764	9,363	12,420
Acquisitions	-	-	20	20
Disposals	(3,115)	(2,204)	(24,971)	(30,290)
Reclassification to properties held for sale	(13,020)	-	-	(13,020)
Exchange adjustment	18,790	3,621	16,811	39,222
At 31 December 2009	**422,297**	**90,654**	**307,050**	**820,001**
Depreciation				
At 1 January 2008	**23,656**	**16,380**	**154,141**	**194,177**
Charge for year	5,716	4,309	44,262	54,287
Disposals	(138)	(329)	(18,863)	(19,330)
Exchange adjustment	(6,256)	(2,566)	(41,999)	(50,821)
At 1 January 2009	**22,978**	**17,794**	**137,541**	**178,313**
Charge for year	5,964	3,864	38,111	47,939
Disposals	(274)	(499)	(21,941)	(22,714)
Reclassification to properties held for sale	(657)	-	-	(657)
Exchange adjustment	828	873	10,581	12,282
At 31 December 2009	**28,839**	**22,032**	**164,292**	**215,163**
Net book amount				
At 31 December 2009	**393,458**	**68,622**	**142,758**	**604,838**
At 31 December 2008	395,371	69,679	168,286	633,336
At 31 December 2007	440,051	66,813	196,873	703,737

12. Property, Plant and Equipment (continued)

The Group's freehold and long leasehold properties located in the Republic of Ireland were professionally valued as at December 1998 by professional valuers in accordance with the Appraisal and Valuation Manual of the Society of Chartered Surveyors. Property acquired/purchased after December 1998 is stated at cost. The valuations which were made on an open market for existing use basis were deemed to be cost for the purpose of the transition to IFRS as adopted by the EU. The remaining properties, which are located in the United Kingdom, are included at cost less depreciation.

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

	Plant, Machinery & Motor Vehicles		**Leasehold Properties**	
	2009 €'000	2008 €'000	**2009 €'000**	2008 €'000
Cost	**3,837**	4,295	**9,215**	10,281
Accumulated depreciation	**(2,894)**	(2,777)	**(2,116)**	(1,944)
Net book amount	**943**	1,518	**7,099**	8,337
Depreciation charge for year	**420**	568	**374**	437

During the year, the Group repaid finance leases amounting to €0.4 million (2008: €1.2 million).

12. (a) Properties held for sale

The Group identified seventeen properties held for sale of which fifteen are located in the United Kingdom and two in Ireland. The net book value of the properties held for sale is €12.36 million being the original cost or fair value of €13.02 million and depreciation of €0.66 million. These properties are shown in the balance sheet at the lower of their carrying amount and fair value less any disposal costs.

13. Financial Assets

	Other Investments €'000
At 1 January 2008	**850**
Additions	-
Acquisitions	3
Disposals	(433)
Translation adjustment	(193)
At 31 December 2008	**227**
Additions	-
Acquisitions	1
Disposal	(35)
Translation adjustment	18
At 31 December 2009	**211**

13. Financial Assets (continued)

Other investments represent sundry equity investments at fair value.

Interest in Joint Venture The Group has a fifty per cent interest in Navan Retail Developments Limited, a joint venture company, whose principal activity is the development of a retail park in Navan, Co. Meath. The joint venture has been accounted for using proportionate accounting. Assets and liabilities included for Navan Retail Developments Limited in the consolidated financial statements are work-in-progress of €0.8 million (2008: €0.9 million); other net current assets of €2.5 million (2008: €2.4 million) and reserves of €3.3 million (2008: €3.3 million) which reflects the net profit the Group has recognised in the income statement in respect of this development.

The registered office of Navan Retail Developments Limited is 1 Stokes Place, St Stephen's Green, Dublin 2.

Investment in Associate

The Group owns 49 per cent of the issued share capital of its associate (which was acquired at a cost of €3.69 million).

The Group's share of the associate's profit after tax is equity accounted for and is presented as a single-line item in the Group Income Statement. No profit or loss was recognised in 2009.

The principal activity of the associate is builders merchanting.

The Group's share of the associate is as follows:

	€'000
Revenue	6,807
Profit before finance costs	37
Finance costs	(37)
Profit before taxation	-
Taxation	-
Profit after taxation	-

There were no material capital commitments nor contingencies outstanding as at 31 December 2009.

14. Inventories

	2009 €'000	2008 €'000
Raw materials	**1,326**	1,601
Work in progress	**760**	850
Finished goods	**6,364**	8,504
Goods purchased for resale	**257,298**	320,169
	265,748	331,124

The inventory provision at 31 December 2009 was €20.2 million (31 December 2008: €21.2 million).

15. Trade and Other Receivables

	2009 €'000	2008 €'000
Amounts falling due within one year:		
Trade receivables	**225,652**	273,885
Other receivables	**81,211**	79,696
	306,863	353,581

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

	Carrying Amount	
	2009 €'000	2008 €'000
Ireland	**98,857**	153,442
United Kingdom	**208,006**	200,139
	306,863	353,581

There is no material concentration of credit risk with regard to individual customers included in Group trade debtors and other receivables.

Group

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

	Gross Value 2009 €'000	Impairment 2009 €'000	Gross Value 2008 €'000	Impairment 2008 €'000
Not Past Due	**268,353**	**-**	320,779	-
Past Due				
0-30 days	**23,027**	**(1,332)**	23,470	(5,075)
30-60 days	**33,152**	**(17,037)**	25,880	(11,663)
+60 days	**4,651**	**(3,951)**	10,761	(10,571)
	60,830	**(22,320)**	60,111	(27,309)
	329,183	**(22,320)**	380,890	(27,309)

15. Trade and Other Receivables (continued)

Movement in Impairment Provision

	2009 €'000	2008 €'000
At 1 January	**27,309**	19,141
Written off	**(17,717)**	(9,088)
Additional provision	**11,930**	20,260
Translation adjustment	**798**	(3,004)
At 31 December	**22,320**	27,309

16. Share Capital

Group and Company	**2009 €'000**	2008 €'000
Authorised:		
Equity shares		
300 million ordinary shares of 5c each	**15,000**	15,000
30 billion 'A' ordinary shares of 0.001c each	**300**	300
	15,300	15,300

16. Share Capital (continued)

	Issue Price €	Number of Shares	2009 Nominal Value €'000	2008 Nominal Value €'000
Issued and fully paid:				
Ordinary shares				
At 1 January		**230,694,135**	**11,535**	11,500
Shares bought back and cancelled		**-**	**-**	-
Issued under UK SAYE scheme		**2,399**	**-**	-
Grafton Group Share Schemes				
Date options and entitlements to acquire shares granted				
June 1998	2.21	**-**	**-**	19
July 1999	1.81	**448,391**	**22**	6
May 2000	2.07	**31,838**	**2**	6
May 2001	2.83	**-**	**-**	3
June 2002	4.08	-	-	1
		480,229	**24**	35
At 31 December		**231,176,763**	**11,559**	11,535
'A' ordinary shares				
At 1 January		**4,383,188,565**	**44**	69
'A' ordinary shares issued in year		**8,663,680**	**-**	-
Purchase of 1 'A' ordinary share per Grafton Unit		**(230,694,135)**	**(2)**	(23)
Purchase of 1 'A' ordinary share per Grafton Unit		**(231,153,139)**	**(3)**	(2)
At 31 December		**3,930,004,971**	**39**	44
Total nominal share capital issued			**11,598**	11,579

Grafton Units Issued During 2009
The number of Grafton Units issued during the year under the Group's Executive Share Schemes was 482,628 (2008: 687,618) and the total consideration received amounted to €886,000 (2008: €1,540,000).

Grafton Units
At 31 December 2009, a Grafton Unit comprised one ordinary share of 5 cent and seventeen 'A' ordinary shares of 0.001 cent each in Grafton Group plc and one 'C' ordinary share of Stg0.0001p in Grafton Group (UK) plc. At 31 December 2008, a Grafton Unit comprised one ordinary share of 5 cent and nineteen 'A' ordinary shares of 0.001 cent each in Grafton Group plc and one 'C' ordinary share of Stg0.0001p in Grafton Group (UK) plc.

16. Share Capital (continued)

Ordinary shares
The holders of ordinary shares are entitled to attend, speak and vote at all General Meetings of the Company.

'A' ordinary shares
The authorised share capital of the Company was increased by the creation of 3 billion 'A' ordinary shares on 11 May 2004. On 14 June 2004, the Company issued 10 'A' ordinary shares per Grafton Unit. A special dividend of 0.125c paid on 14 June 2004 was used as subscription proceeds for the issue of the 10 'A' ordinary shares. The Company purchased one of the 10 'A' ordinary shares on 1 October 2004 for a cash consideration of 1 cent, to leave nine 'A' ordinary shares attaching to a Grafton Unit at 31 December 2004. On 18 March 2005, the Company purchased one 'A' ordinary share for a cash consideration of 7.00 cent each and on 14 October 2005 purchased one 'A' ordinary share for a cash consideration of 7.25 cent each, leaving seven 'A' ordinary shares per Grafton Unit at 31 December 2005. On 24 March 2006 the Company purchased one 'A' ordinary share for a cash consideration of 8.50 cent each and on 6 October 2006 purchased one 'A' ordinary share for a cash consideration of 8.25 cent each leaving five 'A' ordinary shares per Grafton Unit at 31 December 2006. In 2007 a further two 'A' ordinary shares were purchased on 9 March 2007 and 24 August 2007 for a cash consideration of 10.50 cent and 10.00 cent respectively leaving three 'A' ordinary shares per Grafton Unit at 31 December 2007. On 25 March 2008 a further one 'A' ordinary share was purchased for 12.00 cent leaving two 'A' ordinary share per Grafton Unit. At the Group's AGM in May 2008, a ten for one 'A' ordinary share split was approved dividing the remaining two 'A' ordinary shares of 0.01 cent each into twenty 'A' ordinary shares of 0.001 cent each. On 12 September 2008, one of these 'A' ordinary shares was purchased for 10.00 cent leaving nineteen 'A' ordinary shares per Grafton Unit at 31 December 2008. In 2009, a further two 'A' ordinary shares were purchased on 13 March 2009 and 11 September 2009 for a cash consideration of 5.00 cent and 2.50 cent respectively leaving seventeen 'A' ordinary shares per Grafton Unit at 31 December 2009.

All 'A' ordinary shares purchased were cancelled.

The 'A' ordinary shares rank pari passu with ordinary shares regarding any dividends declared. On a return of capital on a winding up or otherwise (other than on conversion, redemption or purchase of shares), the holders of 'A' ordinary shares are entitled, pari passu with the holders of the ordinary shares, to the repayment of their nominal value of 0.001 cent per share, with no right to participate any further. The holders of the 'A' ordinary shares are not entitled to receive notice of any general meeting of Grafton or to attend, speak or vote at any such general meeting, unless the business of the meeting includes a resolution varying or abrogating any of the special rights attaching to such shares.

'C' ordinary shares
The 'C' ordinary shares do not entitle their holders to receive notice of, attend or vote at any general meeting of Grafton Group (UK) plc unless the business of the meeting includes a resolution varying or abrogating any of the special rights attaching to such shares. If dividends are declared, the holder of a Grafton Unit who has given an appropriate dividend election shall be entitled to be paid dividends in respect of the 'C' ordinary shares comprised in such Grafton Unit. On a return of capital on a winding up or otherwise (other than on conversion, redemption or purchase of shares) the holders of 'C' ordinary shares are entitled, pari passu with the holders of the 'A' ordinary shares and 'B' ordinary shares in Grafton Group (UK) plc, to the repayment of their nominal value of Stg0.0001p per share, with no right to participate any further. Any holder of a 'C' ordinary share, with the prior approval of an extraordinary resolution of the holders of the 'C' ordinary shares or with the prior consent in writing of the holders of at least three quarters in nominal value of the issued 'C' ordinary shares, is entitled to call for all the holders of the 'A' ordinary shares and/or 'B' ordinary shares to acquire all the 'C' ordinary shares at their nominal value.

Treasury Shares
The Group holds 500,000 Grafton Units (cost: €5,746,000) as treasury shares.

17. Group Statement of Changes in Equity

The capital redemption reserve is a legal reserve which arose from the purchase of the 'A' ordinary shares, the redemption of redeemable shares in prior years and from shares bought back and cancelled in 2007.

The shares to be issued reserve comprises amounts expensed in the income statement in connection with share-based payments, net of transfers to retained earnings on the exercise of share-based payments.

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

The foreign currency translation reserve arises from the currency effect of the investment in the UK group as adjusted for foreign currency borrowings and derivatives designated as net investment hedges.

The Group holds 500,000 Grafton Units as treasury shares.

18. Interest Bearing Loans and Borrowings

	2009 €'000	2008 €'000
Non-Current Liabilities		
Sterling bank loans	**71,613**	35,506
Euro bank loans	**341,357**	381,373
2005 unsecured senior US dollar loan notes	**83,819**	117,006
2005 unsecured senior US dollar loan notes (Stg)	**33,098**	37,032
Finance leases	**6,902**	8,416
	536,789	579,333

	2009 €'000	2008 €'000
Current Liabilities		
Bank overdrafts	**1**	7
Sterling bank loans	**36,534**	35,464
Euro bank loans	**29,497**	28,142
2005 unsecured senior US dollar loan notes	**29,649**	48,935
2005 unsecured senior US dollar loan notes (Stg)	**6,620**	6,172
Vendor loan notes	**311**	574
Finance leases	**562**	580
	103,174	119,874

On 23 June 2005, the Group completed a US$325 million debt financing at fixed interest rates ranging from 4.68 per cent to 4.88 per cent in the US Private Placement Market and issued unsecured senior loan notes maturing between 2008 and 2015. US$250 million of the US dollar proceeds were swapped into sterling using a cross currency interest rate derivative which also changed the interest rate payable on the loan notes to sterling variable by reference to six month LIBOR rates plus a margin. The balance of US$75 million was received in sterling and the interest rate payable on the loan notes is currently variable by reference to three month LIBOR rates.

Loan notes were issued to vendors of businesses acquired and are redeemable at the option of the note holders on specified dates during 2010. The interest rates payable on these loan notes are set at fixed rates or on terms directly related to LIBOR.

18. Interest Bearing Loans and Borrowings (continued)

Maturity of Financial Liabilities

The maturity profile of the Group's interest bearing financial liabilities (bank debt, loan notes and finance leases) can be summarised as follows:

	Bank Loans and Overdrafts 2009 €'000	**Loan Notes 2009 €'000**	**Finance Leases 2009 €'000**	**Total 2009 €'000**	Bank Loans and Overdrafts 2008 €'000	Loan Notes 2008 €'000	Finance Leases 2008 €'000	Total 2008 €'000
Due within one year	**66,032**	**36,580**	**562**	**103,174**	63,613	55,681	580	119,874
Between one and two years	**297,248**	**36,539**	**471**	**334,258**	12,870	36,925	66	49,861
Between two and three years	**115,722**	**36,539**	**471**	**152,732**	288,286	36,924	-	325,210
Between three and four years	**-**	**14,613**	**471**	**15,084**	115,723	36,924	-	152,647
Between four and five years	**-**	**14,613**	**471**	**15,084**	-	14,422	-	14,422
After five years	**-**	**14,613**	**5,018**	**19,631**	-	28,843	8,350	37,193
	479,002	**153,497**	**7,464**	**639,963**	480,492	209,719	8,996	699,207
Derivatives				**(15,510)**				(38,753)
Gross debt				**624,453**				660,454
Cash and short-term deposits				**(301,985)**				(224,834)
Net debt				**322,468**				435,620
Shareholders' funds				**911,749**				868,865
Gearing				**35%**				50%

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.

18. Interest Bearing Loans and Borrowings (continued)

The following table indicates the effective interest rates at 31 December 2009 in respect of interest bearing financial assets and financial liabilities and the periods in which they re-price. The effective interest rate and timing of re-pricing were both adjusted for the effect of derivatives.

	Effective Interest Rate	Total €'000	6 months or less €'000	6 to 12 months €'000	1-2 Years €'000	2-5 years €'000	More than 5 years €'000
Sterling deposits	2.74%	152,655	124,505	28,150	-	-	-
Euro deposits	2.32%	106,185	96,185	10,000	-	-	-
Cash at bank	1.00%	43,145	43,145	-	-	-	-
Cash and cash equivalents		301,985	263,835	38,150	-	-	-
Sterling bank overdrafts	2.00%	(1)	(1)	-	-	-	-
Deposits and cash less overdrafts		301,984	263,834	38,150	-	-	-
Floating rate debt:							
Euro loans	1.22%	(234,854)	(234,854)	-	-	-	-
Sterling loans	1.44%	(108,147)	(108,147)	-	-	-	-
Total floating rate debt		(343,001)	(343,001)	-	-	-	-
Fixed rate debt:							
Euro loans	2.70%	(136,000)	-	-	(136,000)	-	-
Finance leases	6.00%	(7,464)	(562)	-	(471)	(1,413)	(5,018)
Total fixed rate debt		(143,464)	(562)	-	(136,471)	(1,413)	(5,018)
Floating rate loan notes:							
US dollar loan notes 2005	1.40%	(113,468)	(113,468)	-	-	-	-
US dollar loan notes 2005 (Stg)	1.13%	(39,718)	(39,718)	-	-	-	-
Vendor loan notes	1.48%	(311)	(311)	-	-	-	-
Total loan notes		(153,497)	(153,497)	-	-	-	-
Derivatives		15,510	16,929	-	(1,419)	-	-
Total Net Debt		**(322,468)**	**(216,297)**	**38,150**	**(137,890)**	**(1,413)**	**(5,018)**

Borrowing Facilities

The Group had an undrawn committed borrowing facility at 31 December 2009 of €2.8 million (2008: €67.4 million) in respect of which all conditions precedent were met and which expires in 2011.

18. Interest Bearing Loans and Borrowings (continued)

The following table indicates the effective interest rates at 31 December 2008 in respect of interest bearing financial assets and financial liabilities and the periods in which they re-price. The effective interest rate and timing of re-pricing were both adjusted for the effect of derivatives.

	Effective Interest Rate	Total €'000	6 months or less €'000	6 to 12 months €'000	1-2 Years €'000	More than 5 years €'000
Sterling deposits	2.65%	22,290	22,290	-	-	-
Euro deposits	3.93%	114,357	114,357	-	-	-
Cash at bank	1.50%	88,187	88,187	-	-	-
Cash and cash equivalents		224,834	224,834	-	-	-
Sterling bank overdrafts	2.50%	(7)	(7)	-	-	-
Deposits and cash less overdrafts		224,827	224,827	-	-	-
Floating rate debt:						
Euro loans	4.60%	(409,515)	(383,629)	(25,886)	-	-
Sterling loans	4.26%	(70,970)	(70,970)	-	-	-
Total floating rate debt		(480,485)	(454,599)	(25,886)	-	-
Fixed rate debt:						
Finance leases	6.00%	(8,996)	-	(580)	(66)	(8,350)
Total fixed rate debt		(8,996)	-	(580)	(66)	(8,350)
Floating rate loan notes:						
US dollar loan notes	3.59%	(209,145)	(209,145)	-	-	-
Vendor loan notes	2.50%	(574)	(574)	-	-	-
Total loan notes		(209,719)	(209,719)	-	-	-
Derivatives		38,753	38,753	-	-	-
Total net debt		(435,620)	(400,738)	(26,466)	(66)	(8,350)

19. Financial Instruments and Financial Risk

The fair values of financial assets and liabilities together with the carrying amounts shown in the balance sheet are as follows:

At 31 December 2009	**Cashflow & Net Investment Hedges €'000**	**Fair Value Hedges €'000**	**Receivables €'000**	**Liabilities at amortised cost €'000**	**Total Carrying value €'000**	**Fair Value €'000**
Other investments	-	-	211	-	211	211
Trade and other receivables	-	-	306,863	-	306,863	306,863
Cash and cash equivalents	-	-	301,985	-	301,985	301,985
Cross-currency interest rate swaps	32,912	(15,983)	-	-	16,929	16,929
	32,912	(15,983)	609,059	-	625,988	625,988
Interest rate swaps	(1,419)	-	-	-	(1,419)	(1,419)
Euro bank loans	-	-	-	(370,854)	(370,854)	(349,944)
Sterling bank loans	-	-	-	(108,147)	(108,147)	(91,418)
Bank overdrafts	-	-	-	(1)	(1)	(1)
Finance leases	-	-	-	(7,464)	(7,464)	(7,464)
2005 unsecured Senior US Dollar Loan notes	-	(113,468)	-	(39,718)	(153,186)	(135,290)
Vendor loan notes	-	-	-	(311)	(311)	(311)
	(1,419)	(113,468)	-	(526,495)	(641,382)	(585,847)

At 31 December 2008	Cashflow & Net Investment Hedges €'000	Fair Value Hedges €'000	Receivables €'000	Liabilities at amortised cost €'000	Total Carrying value €'000	Fair Value €'000
Other investments	-	-	227	-	227	227
Trade and other receivables	-	-	353,581	-	353,581	353,581
Cash and cash equivalents	-	-	224,834	-	224,834	224,834
Cross-currency interest rate swaps	55,405	(16,652)	-	-	38,753	38,753
	55,405	(16,652)	578,642	-	617,395	617,395
Euro bank loans	-	-	-	(409,515)	(409,515)	(385,441)
Sterling bank loans	-	-	-	(70,970)	(70,970)	(63,913)
Bank overdrafts	-	-	-	(7)	(7)	(7)
Finance leases	-	-	-	(8,996)	(8,996)	(8,996)
2005 unsecured Senior US Dollar Loan notes	-	(165,941)	-	(43,204)	(209,145)	(178,734)
Vendor loan notes	-	-	-	(574)	(574)	(574)
	-	(165,941)	-	(533,266)	(699,207)	(637,665)

19. Financial Instruments and Financial Risk (continued)

Fair Value

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Effective from 1 January 2009, the Group adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value; this requires disclosure which is set out below of fair value measurements by level of the following fair value measurement hierarchy:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Fair values have been determined for measurement and/or disclosure purposes based on the following methods.

Trade and other receivables/trade and other payables

For receivables and payables with a remaining life of less than six months or demand balances, the carrying value less impairment provision, where appropriate, is deemed to reflect fair value. All other receivables and payables are discounted to fair value on initial recognition and in relation to subsequent fair value.

Cash and cash equivalents, including short-term bank deposits

For short term bank deposits and cash and cash equivalents, all of which have a remaining maturity of less than three months, the nominal amount is deemed to reflect fair value.

Derivative instruments (Cross currency interest rate swaps and interest rate swaps)

The fair values of cross currency interest rate swaps and interest rate swaps is calculated as the present value of the estimated future cash flows based on the terms and maturity of each contract and using forward currency rates and market interest rates as applicable for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

Interest bearing loans and borrowings

In the case of fixed rate borrowings which are designated in a fair value hedge relationship, the carrying value of the instruments is adjusted for measurement purposes for changes in the fair value attributable to the hedged risk. This is calculated by reference to the present value of the contracted future cash flows based on the terms and maturity of each loan instrument to which prevailing market interest rates applicable for a similar instrument at the measurement date are applied to adjust the carrying value to fair value following which it is translated to the euro at appropriate foreign currency rates. The total amount of fair value changes that were recognised in the income statement for the year is shown in note 6 to the Group Financial Statements. For disclosure purposes, further adjustment is made to take account of the credit risk of the Group entity and counterparty when appropriate.

The fair value calculated for disclosure purposes of other interest-bearing loans and borrowings which are carried at amortised cost is based on the fair value of the expected future principal and interest cash flows discounted at interest rates effective at the balance sheet date and adjusted for movements in credit spreads.

Finance lease liabilities

Fair value is based on the present value of future cash flows discounted at market rates.

19. Financial Instruments and Financial Risk (continued)

At 31 December 2009 and 31 December 2008, the Group held the following financial instruments at fair value:

	2009 Total €'000	**2009 Level 1 €'000**	**2009 Level 2 €'000**	**2009 Level 3 €'000**
Assets measured at fair value				
Cross-currency interest rate swaps	**16,929**	**–**	**16,929**	**–**
Liabilities measured at fair value				
2005 unsecured Senior US Dollar loan notes	**(113,468)**	**–**	**(113,468)**	**-**
Interest rate swaps	**(1,419)**	**–**	**(1,419)**	**-**

	2008 Total €'000	2008 Level 1 €'000	2008 Level 2 €'000	2008 Level 3 €'000
Assets measured at fair value				
Cross-currency interest rate swaps	38,753	-	38,753	-
Liabilities measured at fair value				
2005 unsecured Senior US Dollar loan notes	(165,941)	-	(165,941)	-

Risk exposures and Group Treasury Policy
The Group's operations expose it to various financial risks that include credit risk, liquidity risk, currency risk and interest rate risk. The Group's treasury policies and management programme, which are regularly reviewed, are designed to reduce financial risk in a cost efficient way. A limited number of foreign exchange swaps, spot foreign currency contracts and interest rate swaps are undertaken periodically to hedge underlying interest rate, fair value and currency exposures and it is the policy to manage these risks in a non-speculative manner.

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- currency risk
- interest rate risk

The manner in which the Group is exposed to each of these risks and the risk management policies applied are discussed below.

The Board of Directors has the overall responsibility for the establishment and oversight of the Group's risk management framework. The Board is responsible for developing and monitoring the Group's risk management policies.

The Board and the Audit Committee have reviewed the process for identifying and evaluating the significant risks affecting the business and the policies and procedures by which these risks will be managed effectively.

19. Financial Instruments and Financial Risk (continued)

Credit Risk
Credit risk arises from credit to customers, joint ventures and associates arising on outstanding receivables and outstanding transactions as well as cash and cash equivalents, derivative financial instruments and cash and deposits with banks and financial institutions.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on an ongoing basis. New customers are subject to initial credit checks including trade and bank references. New customers may also be subject to restricted credit limits prior to a credit history being established. Due to the established nature of the businesses and customer relationships, the majority of the customers have long-standing trading histories with the Group companies.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified.

Cash and short term bank deposits are invested with a range of Irish and UK banks.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet. The maximum exposure to credit risk at 31 December 2009 was:

	2009 **€'000**	2008 €'000
Other financial assets	**211**	227
Investment in associate	**3,690**	-
Trade debtors and other receivables	**306,863**	353,581
Cash and cash equivalents	**301,985**	224,834
Cross currency interest rate swaps	**16,929**	38,753
	629,678	617,395

Additional disclosures in relation to the Group's exposure to credit risk arising from trade and other receivables is set out in note 15.

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

	Carrying Amount	
	2009 **€'000**	2008 €'000
Domestic financial institutions	**262,175**	163,598
United Kingdom financial institutions	**39,810**	61,236
	301,985	224,834

The domestic cash on deposit is primarily held with Bank of Ireland, Ulster Bank and Allied Irish Bank.

19. Financial Instruments and Financial Risk (continued)

Foreign Currency Risk Management
Transactional foreign exchange risk arises from foreign currency transactions, assets and liabilities. Management requires all Group operations to manage their foreign exchange trading risk against their functional currency. The majority of trade conducted by the Group's Irish businesses is in euro. Sterling is the principal currency for the Group's UK businesses. Therefore the level of transactional foreign exchange exposure is not significant. These currency risks are regularly monitored and managed by utilising spot and forward foreign currency contracts as appropriate for settling liabilities arising form the purchase of goods for resale in non-functional currencies. However, as the vast majority of transactions entered into by Group entities are denominated in their functional currencies, no significant level of hedging is undertaken.

As a significant part of the Group's net worth is denominated in sterling, reflecting ongoing profit after tax reserves retained in sterling in the UK business, the Group is subject to a structural foreign exchange exposure. This is addressed in the sensitivity analysis below.

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

Sensitivity Analysis
A ten per cent strengthening of the euro exchange rate against the sterling exchange rate during the year would have decreased equity and profit after tax by the amount shown below. This assumes that all variables, in particular the results and financial position of each sterling functional currency entity and interest rates, remained constant. A ten per cent weakening of the euro exchange rate against the sterling exchange rate would have an equal and opposite effect on the amounts shown below on the basis that all variables remain constant.

	Equity €'000	**Profit after tax €'000**
31 December 2009		
10% strengthening of euro currency against sterling	**(65,000)**	**(3,900)**
31 December 2008		
10% strengthening of euro currency against sterling	(56,000)	(1,500)

Hedging
The Group has exposure to changes in interest rates on certain debt instruments and took the decision to eliminate an element of this risk by entering into interest rate swaps. The value of contracts outstanding is €136,000,000 and the period hedged is from January 2009 to January 2014.

The Group classified its interest rate swaps as cash flow hedges and stated them at their fair value. The fair value of these swaps at 31 December 2009 was €1.419 million. A corresponding entry of €1.359 million was recorded in the cash flow hedge reserve in equity with the balance of €60,000 being the ineffective portion of the hedge which was taken to the Group Income Statement (see Note 6).

The Group has exposure to fair value risk and US dollar fluctuations through certain fixed rate US dollar Private Placements. The Group's policy is to hedge this exposure to currency and fair value movements. This is achieved by matching the funding with the currency in which the finance raised will be used. In order to achieve this objective the Group entered into a number of cross currency interest rate swaps to swap the debt into floating rate sterling.

The Group has designated its cross currency interest rate swaps (CCIRS) as both a hedge of its fair value exposure to interest rate fair value and currency risk associated with its fixed rate firm commitment in its US$ Senior Notes and a hedge of the Group's exposure to foreign currency risk arising on its net investment hedge in operations in the UK. The fair value of these swaps at 31 December 2009 was an asset of €16,929,000 and was included in current assets (€12,524,000) and non-current assets (€4,405,000). The fair value of these swaps at 31 December 2008 was an asset of €38,753,000.

19. Financial Instruments and Financial Risk (continued)

To the extent that the CCIRS are designated in a fair value hedging relationship, movements in fair value have been recognised in the income statement as set out in Note 6. The effective portion of fair value movements attributable to the hedge of net investments in foreign operations are recorded in other comprehensive income.

Interest Rate Risk
The majority of the Group's ongoing operations are financed from a mixture of cash generated from operations and borrowings. Other than the US dollar borrowings which were secured at fixed interest rates, borrowings are initially secured at floating interest rates and interest rate risk is monitored on an ongoing basis. Interest rate swaps are used to manage interest rate risk when considered appropriate having regard to the interest rate environment.

Cash Flow Sensitivity Analysis for Variable Rate Instruments
A reduction of 100 basis points in interest rates at the reporting date would have increased profit before tax by €3.2 million (2008: €4.3 million) on the basis of the Group's net debt of €322 million remaining unchanged and assuming that the Group's cash deposits earn a rate of interest equivalent to the interest rate payable on gross debt. This also assumes that all other variables including foreign currency rates remain constant. An increase of 100 basis points on the same basis would have an equal and opposite effect.

Capital Management
The Group considers that its capital comprises of share capital, share premium and other reserves.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and in order to finance the future development of the business. The Board also seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a capital position with lower financial risk.

There were no changes in the Group's approach to capital management during the year and neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

The Directors monitor the Company's share price on an ongoing basis and may from time to time exercise their powers to make market purchases of the Company's own shares, at price levels which they consider to be in the best interests of the shareholders generally, after taking account of the Company's overall financial position.

Details of bank covenants are outlined in the Group Finance Review on page 12.

Funding and Liquidity
The Group has cash resources at its disposal which together with undrawn bank facilities and cashflow from operations should provide flexibility in financing its operations.

19. Financial Instruments and Financial Risk (continued)

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

31 December 2009	Carrying Amount €'000	Contractual Cash Flow €'000	Within 1 Year €'000	Between 1 and 2 Years €'000	Between 2 and 5 Years €'000	Greater Than 5 years €'000
Non-Derivative Financial Instruments						
Bank Loans	**479,001**	**493,517**	**73,129**	**302,775**	**117,613**	**-**
US dollar loan notes	**153,186**	**159,172**	**39,778**	**38,344**	**66,775**	**14,275**
Vendor loan notes	**311**	**311**	**311**	**-**	**-**	**-**
Finance lease liabilities	**7,464**	**20,376**	**1,207**	**1,207**	**2,507**	**15,455**
Trade and other payables	**387,331**	**387,331**	**387,331**	**-**	**-**	**-**
Provisions	**24,780**	**24,780**	**7,980**	**16,800**	**-**	**-**
Bank overdraft	**1**	**1**	**1**	**-**	**-**	**-**
Derivative Financial Instruments						
Cross currency swaps used for hedging						
- Outflow	**-**	**101,929**	**26,614**	**27,151**	**41,346**	**6,818**
- Inflow	**(16,929)**	**(118,111)**	**(32,747)**	**(31,388)**	**(46,357)**	**(7,619)**
Interest rate swaps used for hedging	**1,419**	**1,562**	**1,318**	**375**	**(131)**	**-**
	1,036,564	**1,070,868**	**504,922**	**355,264**	**181,753**	**28,929**

31 December 2008	Carrying Amount €'000	Contractual Cash Flow €'000	Within 1 Year €'000	Between 1 and 2 Years €'000	Between 2 and 5 Years €'000	Greater Than 5 years €'000
Non-Derivative Financial Instruments						
Bank Loans	480,485	534,631	83,807	30,238	420,586	-
US dollar loan notes	209,145	224,325	61,234	41,232	92,948	28,911
Vendor loan notes	574	574	574	-	-	-
Finance lease liabilities	8,996	23,156	1,306	1,176	3,331	17,343
Trade and other payables	416,498	416,498	416,498	-	-	-
Provisions	26,299	26,299	9,665	16,634	-	-
Bank overdraft	7	7	7	-	-	-
Derivative Financial Instruments						
Cross currency swaps used for hedging						
- Outflow	-	138,738	41,746	25,716	58,354	12,922
- Inflow	(38,753)	(175,948)	(53,687)	(33,897)	(72,214)	(16,150)
	1,103,251	1,188,280	561,150	81,099	503,005	43,026

19. Financial Instruments and Financial Risk (continued)

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

31 December 2009	Carrying Amount €'000	Expected Cash Flow €'000	6 Months or Less €'000	6 to 12 Months €'000	1 to 2 Years €'000	2 to 3 Years €'000	3 to 4 Years €'000	4 to 5 Years €'000
Interest rate swaps	**(1,419)**	**(1,562)**	**(1,083)**	**(235)**	**(375)**	**(1)**	**99**	**33**

20. Derivatives

	2009 €'000	2008 €'000
Included in non-current liabilities:		
Fair value of interest rate swaps	**(682)**	-
Included in current liabilities:		
Fair value of interest rate swaps	**(737)**	-
	(1,419)	-
Included in non-current asset:		
Fair value of cross currency swaps	**12,524**	27,810
Included in current assets:		
Fair value of cross currency swaps	**4,405**	10,943
	16,929	38,753

20. Derivatives (continued)

Nature of Derivative Instruments as at 31 December 2009

	Hedge Period	Nature of hedging instrument	Notional payable amount of contracts outstanding	Notional receivable amount of contracts outstanding	Fair value asset €'000	Fair value liability €'000
Cross Currency Swap	June 2005 to June 2015	Fixed Rate USD $ to floating Stg £	USD $154,285,713	Stg £84,959,094	16,929	-

	Hedge Period	Nature of hedging instrument	Notional payable amount of contracts outstanding	Notional receivable amount of contracts outstanding	Fair value asset €'000	Fair value liability €'000
Interest Rate Swap	Jan 2009 to Jan 2014	Floating interest rate to fixed interest rate	€136,000,000	€136,000,000	-	(1,419)

Nature of Derivative Instruments as at 31 December 2008

	Hedge Period	Nature of hedging instrument	Notional payable amount of contracts outstanding	Notional receivable amount of contracts outstanding	Fair value asset €'000	Fair value liability €'000
Cross Currency Swap	June 2005 to June 2015	Fixed Rate USD $ to floating Stg £	USD $220,000,000	Stg £121,145,421	38,753	-

21. Provisions

	2009 €'000	2008 €'000
Non-Current Liabilities		
Insurance provision	**13,747**	14,141
Deferred acquisition consideration	**-**	1,680
Onerous leases	**1,309**	-
Dilapidation provision	**1,744**	813
	16,800	16,634
Current Liabilities:		
Insurance provision	**3,255**	2,589
Deferred acquisition consideration	**4,475**	6,831
WEEE provision	**250**	245
	7,980	9,665

	Non-Current		Current		Total	
Insurance Provision	**2009 €'000**	2008 €'000	**2009 €'000**	2008 €'000	**2009 €'000**	2008 €'000
At 1 January	**-**	-	**-**	-	**-**	-
Reclassification from accruals	**14,141**	11,167	**2,589**	3,203	**16,730**	14,370
Charged/(utilised)	**1,128**	4,624	**1,047**	(201)	**2,175**	4,423
Paid during the year	**(1,522)**	(1,650)	**(381)**	(413)	**(1,903)**	(2,063)
At 31 December	**13,747**	14,141	**3,255**	2,589	**17,002**	16,730

	Non-Current		Current		Total	
Deferred Acquisition Consideration	**2009 €'000**	2008 €'000	**2009 €'000**	2008 €'000	**2009 €'000**	2008 €'000
At 1 January	**1,680**	10,228	**6,831**	11,764	**8,511**	21,992
Reclassification to short term	**(1,680)**	(6,194)	**1,680**	6,194	**-**	-
Deferred consideration written back (note 11)	**-**	-	**(3,098)**	-	**(3,098)**	-
Paid during the year	**-**	-	**(1,556)**	(8,420)	**(1,556)**	(8,420)
Foreign exchange	**-**	(2,354)	**618**	(2,707)	**618**	(5,061)
At 31 December	**-**	1,680	**4,475**	6,831	**4,475**	8,511

The deferred acquisition consideration is payable over the period from January to December 2010 subject to certain conditions.

21. Provisions (continued)

Other Provisions	Onerous Leases Non-Current		WEEE Provision Current	
	2009 €'000	2008 €'000	**2009 €'000**	2008 €'000
At 1 January	**-**	-	**245**	200
Charged/(utilised)	**1,309**	-	**5**	45
At 31 December	**1,309**	-	**250**	245

	Dilapidation provision Non-Current	
	2009 €'000	2008 €'000
At 1 January	**-**	-
Reclassification from accruals	**813**	-
Charged/(utilised)	**931**	813
At 31 December	**1,744**	813

22. Trade and Other Payables

	2009 €'000	2008 €'000
Trade payables	**282,761**	290,980
Accruals	**80,989**	99,772
Social welfare	**3,145**	3,631
Income tax deducted under PAYE	**3,706**	4,618
Value added tax	**16,730**	17,497
	387,331	416,498

23. Obligations under Finance Leases

	2009			2008		
	Minimum Lease Payments €'000	**Interest €'000**	**Principal €'000**	Minimum Lease Payments €'000	Interest €'000	Principal €'000
Committed finance lease obligations:						
Within one year	**1,207**	**645**	**562**	1,306	726	580
Between one and five years	**3,714**	**1,830**	**1,884**	4,507	2,216	2,291
Later than five years	**15,455**	**10,437**	**5,018**	17,343	11,218	6,125
	20,376	**12,912**	**7,464**	23,156	14,160	8,996

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

24. Deferred Taxation

Recognised deferred tax assets and liabilities	**Assets 2009 €'000**	**Liabilities 2009 €'000**	**Net (Assets)/ Liabilities 2009 €'000**	Assets 2008 €'000	Liabilities 2008 €'000	Net (Assets)/ Liabilities 2009 €'000
Property, plant and equipment	**(6,692)**	**42,559**	**35,867**	(4,984)	38,262	33,278
Intangible assets	**-**	**833**	**833**	-	1,109	1,109
Financing	**(8,847)**	**-**	**(8,847)**	(10,920)	1,150	(9,770)
Other items	**(3,002)**	**573**	**(2,429)**	(3,890)	211	(3,679)
Pension	**(3,918)**	**-**	**(3,918)**	(5,110)	-	(5,110)
(Assets)/liabilities	**(22,459)**	**43,965**	**21,506**	(24,904)	40,732	15,828

Analysis of net deferred tax (asset)/liability

	Balance 1 Jan 09 €'000	**Recognised in Income €'000**	**Recognised in Equity €'000**	**Foreign Exchange Retranslation €'000**	**Arising on Acquisitions €'000**	**Balance 31 Dec 09 €'000**
Property, plant and equipment	**33,278**	**605**	**1,012**	**971**	**1**	**35,867**
Intangible assets	**1,109**	**(276)**	**-**	**-**	**-**	**833**
Financing	**(9,770)**	**1,882**	**(177)**	**(782)**	**-**	**(8,847)**
Other items	**(3,679)**	**766**	**-**	**484**	**-**	**(2,429)**
Pension	**(5,110)**	**1,648**	**(452)**	**(4)**	**-**	**(3,918)**
	15,828	**4,625**	**383**	**669**	**1**	**21,506**

24. Deferred Taxation (continued)

Analysis of net deferred tax (asset)/liability (continued)

	Balance 1 Jan 08 €'000	Recognised in Income €'000	Recognised in Equity €'000	Foreign Exchange Retranslation €'000	Arising on Acquisitions €'000	Balance 31 Dec 08 €'000
Property, plant and equipment	33,718	2,922	-	(4,163)	801	33,278
Intangible assets	1,386	(277)	-	-	-	1,109
Financing	(8,185)	(5,542)	(73)	4,030	-	(9,770)
Other items	(1,112)	709	-	(3,276)	-	(3,679)
Pension	(2,677)	2,189	(4,730)	108	-	(5,110)
	23,130	1	(4,803)	(3,301)	801	15,828

25. Movement in Working Capital

Group	Inventory €'000	Trade and Other Receivables €'000	Trade and Other Payables €'000	Total €'000
At 1 January 2008	386,179	535,695	(489,833)	432,041
Translation adjustment	(51,093)	(146,203)	141,218	(56,078)
Interest accrual and other movements	-	204	(1,458)	(1,254)
Acquisitions	3,009	8,514	(9,562)	1,961
Movement in 2008	(6,971)	(44,629)	(56,863)	(108,463)
At 1 January 2009	**331,124**	**353,581**	**(416,498)**	**268,207**
Translation adjustment	**12,383**	**24,188**	**(29,949)**	**6,622**
Interest accruals 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**

26. Acquisition of Subsidiary Undertakings and Businesses

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

In the twelve months to 31 December 2008, the Group made six UK acquisitions in the merchanting sector adding ten builders and two plumbers merchanting branches. These included, Lloyd Worrall, a seven branch merchanting business based in Milton Keynes (Acquired: 1 April 2008) and five single branch merchants located at Selsey, West Sussex (Acquired: 17 March 2008); Neath, West Glamorgan (Acquired: 28 March 2008); Belfast, Co. Antrim (Acquired: 4 April 2008); Wellingborough, Northants (Acquired: 31 January 2008) and in Brighouse, West Yorkshire (Acquired: 31 December 2008).

26. Acquisition of Subsidiary Undertakings and Businesses (continued)

Acquisitions would have contributed €4.2 million and €39 million to turnover in the years ended 31 December 2009 and 2008 respectively assuming that they had been acquired on 1 January of each year.

Acquisitions in each year would have contributed €0.6 million and €2.4 million to operating profit in the years ended 31 December 2009 and 2008 respectively assuming that they had been acquired on 1 January of each year.

The 2009 acquisition contributed €1.6 million (2008 acquisitions: €29.0 million) to turnover and €0.3 million (2008 acquisitions: €1.9 million) to operating profit since acquisition.

	2009 €'000	2008 €'000
The fair values of assets and liabilities acquired are set out below;		
Property, plant and equipment	**20**	8,029
Financial assets	**1**	3
Inventories	**463**	3,009
Trade and other receivables	**660**	8,514
Trade and other payables	**(267)**	(9,562)
Corporation tax	**(197)**	(272)
Deferred tax liability	**(1)**	(801)
Bank debt acquired	**-**	(179)
Net assets acquired excluding cash and overdrafts	**679**	8,741
Goodwill	**972**	10,804
Consideration	**1,651**	19,545
Satisfied by:		
Cash paid	**2,255**	24,460
Cash acquired	**(604)**	(4,983)
Bank overdrafts assumed on acquisition	**-**	68
Net cash outflow	**1,651**	19,545

26. Acquisition of Subsidiary Undertakings and Businesses (continued)

The fair value of net assets acquired was €679,000.

	Fair Values €'000	Consideration €'000	Goodwill €'000
Total acquisitions	679	1,651	972

The fair values were calculated as follows:

	Book Values €'000	Fair Value Adjustment €'000	Fair Values €'000
Financial assets	1	-	1
Property, plant and equipment	20	-	20
Working capital	852	4	856
Corporation tax	(197)	-	(197)
Deferred tax liability	-	(1)	(1)
	676	3	679

The provisional fair value adjustments noted above have arisen under IFRS 3 *Business Combinations*. Stocks have been valued at selling price adjusted for the cost of disposal and a reasonable profit allowance for selling effort.

Goodwill on these acquisitions reflects the anticipated purchasing and operational synergies for the businesses acquired as part of the enlarged Group. No intangibles formed part of the acquisition consideration.

The fair value of net assets acquired in 2008 was €8,741,000

	Fair Values €'000	Consideration €'000	Goodwill €'000
Total acquisitions	8,741	19,545	10,804

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

	2009 €'000	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 increase in debt and lease financing	**54,081**	13,138
Change in net debt resulting from cash flows	**117,813**	69,493
Non-cash movement on finance lease extinguished	**1,185**	-
Bank loans and loan notes acquired with subsidiary undertakings	**-**	(179)
Translation adjustment	**(5,846)**	45,455
Movement in net debt in the year	**113,152**	114,769
Net debt at 1 January	**(435,620)**	(550,389)
Net debt at 31 December	**(322,468)**	(435,620)

28. Capital Expenditure Commitments

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

	2009 €'000	2008 €'000
Contracted for	**815**	5,047
Not contracted for	**6,587**	30,252
	7,402	35,299

Capital commitments in the UK and Ireland amounted to €6.5 million (2008: €32.0 million) and €0.9 million (2008: €3.3 million) respectively.

29. Operating Leases

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

	Land and Buildings 2009 €'000	**Other 2009 €'000**	Land and Buildings 2008 €'000	Other 2008 €'000
Operating lease payments due:				
Within one year	**57,756**	**695**	54,078	1,202
Between two and five years	**221,111**	**575**	208,040	1,109
Over five years	**662,334**	**-**	676,693	-
	941,201	**1,270**	938,811	2,311

The Group leases a number of properties under operating leases. The leases typically run for a period of 15 to 25 years. Rents are generally reviewed every five years.

During the year ended 31 December 2009 €59.5 million (2008: €61.2 million) was recognised as an expense in the income statement in respect of operating leases.

30. Pension Commitments

A number of defined benefit and defined contribution pension schemes are operated by the Group and the assets of the schemes are held in separate trustee administered funds.

The actuarial reports are not available for public inspection.

IAS 19 – Employee Benefits
The Group operates five defined benefit schemes in Ireland and two in the UK. All actuarial valuations were updated to 31 December 2009 by a qualified independent actuary. All schemes except one are closed to new entrants and as a result the current service cost will increase as members of the schemes approach retirement.

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

	At 31 Dec 2009	**At 31 Dec 2009**	At 31 Dec 2008	At 31 Dec 2008
	Irish Schemes	**UK Schemes**	Irish Schemes	UK Schemes
Valuation Method	**Projected Unit**	**Projected Unit**	Projected Unit	Projected Unit
Rate of increase in salaries	**3.00%***	**2.75%**	3.00%	2.50%
Rate of increase of pensions in payment	**-**	**3.45%**	-	2.75%
Discount rate	**5.60%**	**5.85%**	5.60%	6.50%
Inflation rate increase	**2.25%**	**3.45%**	1.75%	2.75%

* 3% applies from 2 January 2014

30. Pension Commitments (continued)

The future life expectancy at age 65 for males and females (currently age 55 and 65), inherent in the mortality tables used for the 2009 and 2008 year end IAS19 disclosures are as follows:

2009 Mortality		**Years**	2008 Mortality		Years
Future pensioner aged 65:	**Male**	**21.7**	Future pensioner aged 65:	Male	21.1
	Female	**23.9**		Female	23.6
Current pensioner aged 65:	**Male**	**21.0**	Current pensioner aged 65:	Male	20.6
	Female	**23.7**		Female	23.2

Scheme Assets

The assets in these schemes and the long-term rates of return expected at 31 December 2009 and 31 December 2008 are set out below:

	2009 Irish Schemes	**2009 UK Schemes**	2008 Irish Schemes	2008 UK Schemes
Equities	**8.0%**	**8.0%**	8.0%	8.0%
Bonds	**4.0%**	**5.0%**	4.0%	5.0%
Property	**6.5%**	**7.0%**	6.5%	7.0%
Cash	**3.5%**	**2.0%**	3.5%	2.0%

		2009		2008
	%	**€'000**	%	€'000
Equities	**75**	**124,777**	69	91,825
Bonds	**14**	**22,837**	16	22,086
Property	**6**	**9,498**	6	8,299
Cash	**5**	**8,652**	9	11,645
	100	**165,764**	100	133,855
Actuarial value of liabilities		**(191,023)**		(174,747)
Deficit in the schemes		**(25,259)**		(40,892)

History of scheme assets, liabilities and deficit in the schemes

Historical information	**2009 €'000**	2008 €'000	2007 €'000	2006 €'000	2005 €'000
Assets at bid value	**165,764**	133,855	223,700	223,125	173,912
Actuarial value of liabilities	**(191,023)**	(174,747)	(239,023)	(257,288)	(232,944)
Deficit in the schemes	**(25,259)**	(40,892)	(15,323)	(34,163)	(59,032)

30. Pension Commitments (continued)

Historical information	**2009**	2008	2007	2006	2005
Experience adjustment on scheme liabilities	**4,156**	3,905	(4,430)	(5,815)	(3,450)
As % of scheme liabilities	**2.2%**	2.2%	1.9%	2.3%	1.5%
Experience adjustment on scheme assets	**15,331**	(72,585)	(13,792)	10,717	19,531
As % of scheme assets	**9.2%**	54.2%	6.2%	4.8%	11.2%

The expected rates of return for each of the categories of the schemes' assets are based on current long term expectations for such rates. The rates of return for equities and property are based on current long term government bond yields plus an appropriate risk premium. The long term rates of return on bonds and cash investments are set in line with market yields at the balance sheet date. The overall expected rate of return is based on the weighted average of the assumed returns on the major asset classes as outlined. The expected long term rate of return on the total assets as at 31 December 2009 of the Group's schemes is 7.2% (31 December 2008: 6.8%).

The actual return on plan assets is set out below:

	2009 €'000	2008 €'000
Actual return on plan assets	**25,052**	(56,765)

30. Pension Commitments (continued)

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

	Year ended 31 December					
	Assets		Liabilities		Net asset/(deficit)	
	2009 €'000	2008 €'000	**2009 €'000**	2008 €'000	**2009 €'000**	2008 €'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*/(cost)	**-**	-	**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 (net)					**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.

30. Pension Commitments (continued)

Expense recognised in operating costs

	2009 €'000	2008 €'000
Past service (credit)/cost (i)	**(5,317)**	734
Settlement loss (ii)	**1,110**	3,104
Curtailment gain (iii)	**(1,275)**	(338)
Current service cost	**3,069**	4,325
Total operating (credit)/charge	**(2,413)**	7,825

(i) The past service credit of €5.317 million in 2009 arose from a benefit change under the Group's Irish defined benefit pension schemes. Pensionable salaries for members of Irish defined benefit pension schemes are to remain at 2009 levels for the period to 2014.

(ii) The settlement loss arose due to members leaving the scheme which gave rise to transfer payments out of the scheme.

(iii) The curtailment gain arose in respect of redundancies in 2009.

Recognised directly in other comprehensive income

	2009 €'000	2008 €'000
Actuarial gain/(loss) on pensions	**4,778**	(37,414)
Deferred tax on pensions	**452**	4,730
	5,230	(32,684)

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

	2009 €'000	2008 €'000
Operating costs	**(2,413)**	7,825
Finance income (expected return on scheme assets)	**(9,721)**	(15,820)
Finance expense (interest on scheme liabilities)	**10,826**	12,868
Total operating (credit)/charge	**(1,308)**	4,873

Cumulative net actuarial losses reported in the Group Statement of Comprehensive Income since 1 January 2004, the transition date, to 31 December 2009 is €35.8 million (2008: €40.6 million). The contributions expected to be paid to the Group's defined benefit schemes in 2010 is approximately €5.0 million (2009: €9.6 million).

31. Share-Based Payments

Up to April 2009 key executives could acquire shares in the Group so as to provide an incentive to perform strongly over an extended period and to align their interests with those of shareholders. Under the terms of the 1999 Grafton Group Share Scheme, two types of share were available subject to the conditions set out below:

(i) Basic shares which cannot be converted before the expiration of five years, unless the Remuneration Committee agrees to a shorter period which shall not be less than three years, and may be converted any time after that to the end of their contractual life provided the Company's earnings per share has grown at not less than the rate of growth in the Consumer Price Index plus 5 per cent compounded during that period.

(ii) Second tier shares which cannot be converted before the expiration of five years and at any time thereafter up to the end of their contractual life, only if over a period of at least five years the growth in the Group's earnings per share would place it in the top 25 per cent of the companies listed on the Irish Stock Exchange Index over the same period and provided that such shares shall be acquired only if the Company's earnings per share growth over the relevant period is greater, by not less than 10 per cent on an annualised basis, than the increase in the Consumer Price Index over that period.

The share scheme has a ten year life for the award of entitlements and this period has now expired. The percentage of share capital which may be issued under the scheme and individual grant limits comply with Institutional Guidelines. Basic shares granted after 8 May 2008 cannot be converted before the expiration of three years.

Share Schemes
The number of Grafton Units issued during the year under the Company's Executive Share Schemes was 480,229 (2008: 687,618) and the total consideration received amounted to €879,000 (2008: €1,540,000). Costs relating to the issues were €13,000. In accordance with the terms of the 1999 Grafton Group Share Scheme entitlements to acquire 3,155,000 Grafton Units were granted during the year (2008: Nil). Entitlements outstanding at 31 December 2009 amounted to 14,345,263 (2008: 11,875,801). Grafton Units may be acquired, in accordance with the terms of the schemes, at prices ranging between €1.66 and €11.50 during the period to 2019.

UK SAYE Scheme
Options over 2,540,033 (2008: 2,957,240) Grafton Units were outstanding at 31 December 2009, pursuant to a 2008 three year saving contract under Grafton Group (UK) plc Savings Related Share Option Scheme at a price of €2.96. These options are normally exercisable within a period of six months after the third anniversary of the savings contract, being May 2011. The number of Grafton Units issued during the year under the Company's 2008 SAYE Scheme for good leavers was 2,399 and the total consideration received amounted to €7,000.

31. Share-Based Payments (continued)

A summary of the share entitlements granted in 2009 and 2008 are set out below:

	1999 Grafton Group Share Scheme 2009	UK SAYE Scheme 2008
Grant Date	**3 April 2009**	4 November 2008
Share price at grant date	**€1.66**	€2.96
Exercise price	**€1.66**	€2.96
Number of employees	**161**	1,628
Shares under option	**3,155,000**	2,957,240
Vesting period	**3-5 years**	3 years
Expected volatility	**40%**	40%
Option life	**10 years**	3.5 years
Expected life	**7 years**	3.5 years
Risk free rate	**4.16%**	3.31%
Expected dividends expressed as dividend yield	**5.03%**	4.63%
Possibility of ceasing employment before vesting	**0%**	10%
Valuation model	**Binominal model**	Binominal model
Fair value per option	**€0.39**	€0.48

This expected volatility is based on historic volatility over the last 5 years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero coupon government bonds of a term consistent with the assumed option life. Reconciliation of share entitlements under the Grafton Group Share Option Scheme and the 1999 Grafton Group Share Scheme is as follows:

	2009		2008	
	Number	**Weighted average exercise price €**	Number	Weighted average exercise price €
Outstanding at 1 January	**11,875,801**	**7.06**	12,952,626	6.82
Granted	**3,155,000**	**1.66**	-	-
Forfeited	**(205,309)**	**5.52**	(389,207)	7.50
Exercised	**(480,229)**	**1.83**	(687,618)	2.24
Outstanding at 31 December	**14,345,263**	**6.07**	11,875,801	7.06
Exercisable at 31 December	**5,005,862**	**4.77**	3,252,150	3.47

Share entitlements under both schemes are exercisable within six months upon a change of control of the Company.

32. Accounting Estimates and Judgements

The Group's main accounting policies affecting its results and financial condition are set out on pages 41 to 51. Judgements and assumptions have been made by management by applying the Group's accounting policies in certain areas. Actual results may differ from estimates calculated using these judgements and assumptions. Key sources of estimation uncertainty and critical accounting judgements are as follows:

Goodwill
The Group has capitalised goodwill of €544.3 million at 31 December 2009 (2008: €532.8 million). Goodwill is required to be tested for impairment at least annually or more frequently if changes in circumstances or the occurrence of events indicate potential impairment exists. The Group uses the present value of future cash flows to determine value in use. In calculating value in use, management judgement is required in forecasting cash flows of the segments and in selecting an appropriate discount rate and nominal growth rate in perpetuity. An impairment charge of €5,469,000 was recognised by the Group in 2009 in relation to the goodwill attributable to the manufacturing cash generating unit (2008: nil).

Post-retirement benefits
The Group operates a number of defined benefit retirement plans. The Group's total obligation in respect of defined benefit plans is calculated by independent, qualified actuaries and updated at least annually and totals €191.1 million at 31 December 2009 (2008: €174.8 million). Plan assets at 31 December 2009 amounted to €165.8 million (2008: €133.9 million) giving a net scheme deficit of €25.3 million (2008: €40.9 million). The size of the obligation is sensitive to actuarial assumptions. The key assumptions are the discount rate, the rate of inflation, life expectancy, pension benefits and rate of salary increases. Plan assets are sensitive to asset returns and the level of contributions made by the Group.

Insurance provisions
Insurance provisions of €17.0 million shown in note 21 were based on a review of self-insured claims undertaken by an independent firm of actuaries and consultants. Claims beyond specified limits are covered by external insurers.

33. Related Party Transactions

The principal related party transactions that require disclosure under IAS 24: Related Party Disclosures relate to subsidiaries, a joint venture, an associate, key management personnel and past employment benefit plans.

Subsidiaries
The consolidated accounts of the Company and its subsidiaries include the following transactions that have been eliminated on consolidation:

- Management charges made by the Company to the subsidiaries of €13.5 million (2008: €18.9 million) for the year ended 31 December 2009;
- No dividend income was received by the Company from subsidiaries during the year (2008: €63.0 million);
- Loans were granted to and by the Company to its subsidiaries.

Joint Venture
During the year there were no sales or purchases or other transactions conducted with the joint venture. The joint venture company Navan Retail Developments Limited is owed €2.44 million by the Company (2008: €2.5 million).

Associates
During the year there were no sales or purchases or other transactions conducted with the associate in the ordinary course of business. At the year end, there were no outstanding balances included in payables or receivables with the associate. Details of the investment made in the associate are disclosed in note 13 to the financial statements.

33. Related Party Transactions (continued)

Key Management Personnel
The term key management personnel for 2009 comprise the Board of Grafton Group plc and the Company Secretary/Group Financial Controller. The cost of key management personnel is analysed in note 5 to the Group Financial Statements. The Report on Directors' Remuneration on pages 29 to 32 provides detailed disclosure for 2009 and 2008 salaries, fees, performance-related pay, pension allowance, other benefits and entitlements to acquire Grafton Units in accordance with the rules of the Grafton Group Share Schemes.

Past Employment Benefit Plans
Pension commitments to existing and former employees under defined benefit pension scheme arrangements are disclosed in note 30 to the Group Financial Statements.

34. Approval of Financial Statements

The Board of Directors approved the Group Financial Statements on pages 36 to 99 on 3 March 2010.

Company Balance Sheet

As at 31 December 2009

	Notes	**2009 €'000**	2008 €'000
ASSETS			
Non-current assets			
Property, plant and equipment	3	**392**	484
Deferred tax asset	10	**8**	130
Investments in subsidiary undertakings	4	**359,017**	359,197
Financial assets	4	**13**	13
Receivables from Group companies	5	**23,519**	24,681
Total non-current assets		**382,949**	384,505
Current assets			
Receivables from Group companies	5	**672,633**	673,112
Other receivables	5	**6,705**	7,016
Cash and cash equivalents		**31,598**	8,198
Total current assets		**710,936**	688,326
Total assets		**1,093,885**	1,072,831
EQUITY			
Capital and reserves attributable to the equity holders			
Equity share capital	6	**11,598**	11,579
Share premium account		**289,800**	288,951
Capital redemption reserve		**905**	900
Other reserve		**4,677**	6,041
Retained earnings		**319,151**	331,837
Treasury shares held	6	**(5,746)**	(5,746)
Total equity		**620,385**	633,562
LIABILITIES			
Non-current liabilities			
Retirement benefit obligations	14	**-**	925
Total non-current liabilities		**-**	925
Current liabilities			
Interest-bearing loans and borrowings	7	**1**	4
Payables to Group companies	9	**462,990**	423,961
Other payables	9	**10,495**	14,365
Current income tax liabilities		**14**	14
Total current liabilities		**473,500**	438,344
Total liabilities		**473,500**	439,269
Total equity and liabilities		**1,093,885**	1,072,831

On behalf of the Board

M. Chadwick
C Ó Nualláin

Directors

3 March 2010

Company Cash Flow Statement

For the year ended 31 December 2009

	Notes	2009 €'000	2008 €'000
Profit before tax		**5,986**	49,095
Finance income		**(666)**	(1,456)
Finance expense		**134**	869
Dividends received		**-**	(63,000)
Operating profit/(loss)		**5,454**	(14,492)
Depreciation		**102**	123
Share-based payments credit		**(304)**	(393)
Contributions to pension schemes in excess of IAS 19 charge		**(2,197)**	(3,992)
Increase in working capital	11	**(3,222)**	(10,494)
Cash used in operations		**(167)**	(29,248)
Interest paid		**(134)**	(295)
Income taxes paid		**(2)**	(3)
Cash flows from operating activities		**(303)**	(29,546)
Investing activities			
Inflows			
Interest received		**329**	548
Dividends received		**-**	63,000
		329	63,548
Outflows			
Investment in subsidiary undertakings		**(880)**	(596)
Purchase of property, plant and equipment		**(10)**	(355)
		(890)	(951)
Cash flows from investing activities		**(561)**	62,597
Financing activities			
Inflows			
Proceeds from the issue of share capital		**873**	1,528
Movement on Group payables		**39,029**	37,218
		39,902	38,746
Outflows			
Purchase of 'A' ordinary shares	16	**(17,276)**	(50,585)
Redemption of loan notes payable		**-**	(8,593)
Movement on Group receivables		**1,641**	(27,278)
		(15,635)	(86,456)
Cash flows from financing activities		**24,267**	(47,710)
Net increase/(decrease) in cash and cash equivalents		**23,403**	(14,659)
Cash and cash equivalents at 1 January		**8,194**	23,532
Effect of exchange rate fluctuations on cash held		**-**	(679)
Cash and cash equivalents at 31 December		**31,597**	8,194
Cash and cash equivalents are broken down as follows:			
Cash at bank and short-term deposits		**31,598**	8,198
Overdrafts		**(1)**	(4)
		31,597	8,194

Company Statement of Changes in Equity

	Equity share capital €'000	Share premium account €'000	Capital redemption reserve €'000	Shares to be issued reserve €'000	Retained earnings €'000	Treasury shares €'000	Total equity €'000
Year to 31 December 2009							
At 1 January 2009	**11,579**	**288,951**	**900**	**6,041**	**331,837**	**(5,746)**	**633,562**
Profit after tax for the financial year	-	-	-	-	5,703	-	**5,703**
Actuarial loss on pensions (net of tax)	-	-	-	-	(1,113)	-	**(1,113)**
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)**
At 31 December 2009	**11,598**	**289,800**	**905**	**4,677**	**319,151**	**(5,746)**	**620,385**
Year to 31 December 2008							
At 1 January 2008	**11,569**	**287,458**	**875**	**10,920**	**333,930**	**(5,746)**	**639,006**
Profit after tax for the financial year	-	-	-	-	48,558	-	**48,558**
Actuarial loss on pensions (net of tax)	-	-	-	-	(2,979)	-	**(2,979)**
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	-	**-**
At 31 December 2008	**11,579**	**288,951**	**900**	**6,041**	**331,837**	**(5,746)**	**633,562**

Notes to the Company Financial Statements

1. Income Statement

In accordance with Section 148(8) of the Companies Act, 1963, the income statement and related notes of the parent undertaking have not been presented separately in these financial statements. There was a profit after tax of €5.7 million (2008: €48.6 million) attributable to the parent undertaking for the financial year.

2. Statutory and Other Information

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

	2009 €'000	2008 €'000
Statutory audit	**65**	70
Depreciation	**102**	123
Operating lease costs	**515**	429
Directors' remuneration	**2,785**	8,144

The Directors' remuneration is set out in detail in the Report on Directors' Remuneration on pages 29 to 32.

The average number of persons employed by the Company during the year was 18 (2008: 20).

The aggregate remuneration costs of employees were:	**2009 €'000**	2008 €'000
Wages and salaries	**4,116**	4,697
Social welfare	**429**	538
Share-based payments credit	**(304)**	(393)
Defined benefit pension	**13**	83
Pension settlement cost	**756**	4,738
Defined contribution and pension related costs	**1,284**	1,297
Staff costs before exceptional items	**6,294**	10,960
Termination payments	**220**	-
Charged to operating profit	**6,514**	10,960
Actuarial loss on pension schemes	**1,272**	3,405
Finance cost on pension scheme liabilities	**126**	574
Expected return on pension scheme assets	**(92)**	(918)
Total employee benefit cost	**7,820**	14,021

Key Management

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

	2009	2008
Number of Individuals	**10**	10

	2009 €'000	2008 €'000
Short-term employee benefits	**2,664**	3,141
Share-based payment credit	**(234)**	(295)
Retirement benefits expense	**716**	969
Pension settlement cost – refer to note 5 of Group Financial Statements	**756**	4,738
Charged to operating profit	**3,902**	8,553

3. Plant and Equipment

Plant and equipment in the Company is stated as follows:

	Plant and Equipment	
	2009	2008
Company	**€'000**	€'000
Cost		
At 1 January	**1,751**	1,396
Additions	**10**	355
At 31 December	**1,761**	1,751
Depreciation		
At 1 January	**1,267**	1,144
Charge for year	**102**	123
At 31 December	**1,369**	1,267
Net book amount		
At 31 December	**392**	484
At 1 January	**484**	252

4. Financial Assets

	Other Investments €'000	Shares in Subsidiary Undertakings €'000	Total €'000
At 1 January 2008	**13**	**360,174**	**360,187**
Acquisitions	-	596	596
Capital contribution – share-based payments	-	(1,573)	(1,573)
At 31 December 2008	**13**	**359,197**	**359,210**
Acquisitions	-	880	880
Capital contribution – share-based payments	-	(1,060)	(1,060)
At 31 December 2009	**13**	**359,017**	**359,030**

Other investments represent sundry equity investments at fair value.

5. Trade and Other Receivables

	2009 €'000	2008 €'000
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	**672,633**	673,112
Other receivables	**6,705**	7,016
	679,338	680,128
Amounts falling due after one year:		
Amounts owed by subsidiary undertakings	**23,519**	24,681

None of the amounts owed by subsidiary undertakings of €696.2 million (2008: €697.8 million) is considered overdue for payment or is believed not to be recoverable.

6. Share Capital

Details of equity share capital are set out in note 16 to the Group Financial Statements.

7. Interest Bearing Loans and Borrowings

	2009 €'000	2008 €'000
Current Liabilities		
Bank overdrafts	**1**	4

8. Financial Instruments and Financial Risk

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

The maximum credit risk is represented by the carrying amount of the asset. The cash on deposit at the year end is primarily held with Bank of Ireland.

The majority of foreign exchange exposure in the Company relates to inter-group balances and transactions.

There is no significant cashflow sensitivity for variable rate instruments in the Company.

31 December 2009	**Carrying Amount €'000**	**Contractual Cash Flow €'000**	**Within 1 Year €'000**
Non-Derivative Financial Instruments			
Payable to group companies	**462,990**	**462,990**	**462,990**
Bank overdraft	**1**	**1**	**1**
	462,991	**462,991**	**462,991**

31 December 2008	Carrying Amount €'000	Contractual Cash Flow €'000	Within 1 Year €'000
Non-Derivative Financial Instruments			
Payable to group companies	423,961	423,961	423,961
Bank overdraft	4	4	4
	423,965	423,965	423,965

9. Trade and Other Payables

	2009 €'000	2008 €'000
Trade and other payables		
Accruals	**10,495**	14,365
Amounts owed to subsidiary undertakings	**462,990**	423,961
	473,485	438,326

10. Deferred Taxation

Recognised deferred tax assets and liabilities	**Assets 2009 €'000**	**Liabilities 2009 €'000**	**Net (Assets)/ Liabilities 2009 €'000**	Assets 2008 €'000	Liabilities 2008 €'000	Net (Assets)/ Liabilities 2008 €'000
Other items	**(8)**	**-**	**(8)**	(14)	-	(14)
Pension	**-**	**-**	**-**	(116)	-	(116)
Assets	**(8)**	**-**	**(8)**	(130)	-	(130)

2009	**Balance 1 Jan 09 €'000**	**Recognised in Income €'000**	**Recognised in Equity €'000**	**Foreign Exchange Retranslation €'000**	**Arising on Acquisitions €'000**	**Balance 31 Dec 09 €'000**
Other items	**(14)**	**6**	**-**	**-**	**-**	**(8)**
Pension	**(116)**	**275**	**(159)**	**-**	**-**	**-**
	(130)	**281**	**(159)**	**-**	**-**	**(8)**

2008	Balance 1 Jan 08 €'000	Recognised in Income €'000	Recognised in Equity €'000	Foreign Exchange Retranslation €'000	Arising on Acquisitions €'000	Balance 31 Dec 08 €'000
Other items	(2)	(12)	-	-	-	(14)
Pension	(232)	542	(426)	-	-	(116)
	(234)	530	(426)	-	-	(130)

11. Movement in Working Capital

	Trade and Other Receivables €'000	**Trade and Other Payables €'000**	**Total €'000**
At 1 January 2008	8,821	(26,654)	(17,833)
Interest accrual and other movements	(10)	-	(10)
Movement in 2008	(1,795)	12,289	10,494
At 1 January 2009	**7,016**	**(14,365)**	**(7,349)**
Interest accrual and other movements	**337**	**-**	**337**
Movement in 2009	**(648)**	**3,870**	**3,222**
At 31 December 2009	**6,705**	**(10,495)**	**(3,790)**

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

	2009 €'000	2008 €'000
Net increase/(decrease) in cash and cash equivalents	23,403	(14,659)
Cash flow from increase in debt and lease financing	-	8,593
Change in net debt resulting from cash flows	23,403	(6,066)
Net debt at 1 January	8,194	14,260
Net debt at 31 December	31,597	8,194

13. Operating Leases

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

	Land and Buildings 2009 €'000	Land and Buildings 2008 €'000
Operating lease payments due:		
Within one year	515	429
Between two and five years	2,060	1,715
Over five years	4,635	4,285
	7,210	6,429

14. Pension Commitments

A defined benefit scheme and defined contribution pension schemes are operated by the Company and the assets of the schemes are held in separate trustee administered funds.

The actuarial reports are not available for public inspection.

IAS 19 – Employee Benefits
An actuarial valuation was updated to 31 December 2009 by a qualified independent actuary.

14. Pension Commitments (continued)

Financial Assumptions

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

	At 31 Dec 2009 Company Scheme	At 31 Dec 2008 Company Scheme
Valuation Method	**Projected Unit**	Projected Unit
Rate of increase of pensions in payment	**-**	3.00%
Discount rate	**5.60%**	5.60%
Inflation rate increase	**2.25%**	1.75%

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

	Year ended 31 December					
	Assets		**Liabilities**		**Net asset/(deficit)**	
	2009 €'000	2008 €'000	**2009 €'000**	2008 €'000	**2009 €'000**	2008 €'000
At 1 January	**1,310**	21,673	**(2,235)**	(23,529)	**(925)**	(1,856)
Expected return on plan assets	**92**	918	**-**	-	**92**	918
Contributions by employer	**3,000**	7,913	**-**	-	**3,000**	7,913
Contributions by members	**3**	29	**(3)**	(29)	**-**	-
Benefit payments	**(151)**	(900)	**151**	900	**-**	-
Current service cost	**-**	-	**(13)**	(83)	**(13)**	(83)
Past service cost	**-**	-	**-**	(734)	**-**	(734)
Settlement loss	**(1,800)**	(25,400)	**1,044**	22,296	**(756)**	(3,104)
Interest cost on scheme liabilities	**-**	-	**(126)**	(574)	**(126)**	(574)
Actuarial gains/(losses)	**(1,363)**	(2,923)	**91**	(482)	**(1,272)**	(3,405)
At 31 December	**1,091**	1,310	**(1,091)**	(2,235)	**-**	(925)
Related deferred tax asset (net)					**-**	116
Net pension liability					**-**	(809)

14. Pension Commitments (continued)

Expense recognised in operating costs

	2009 €'000	2008 €'000
Past service cost	**-**	734
Settlement loss (i)	**756**	3,104
Current service cost	**13**	83
Total operating charge	**769**	3,921

(i) The settlement loss arose due to a member leaving the scheme as described in Note 5 to the Group Financial Statements.

Recognised directly in other comprehensive income

	2009 €'000	2008 €'000
Actuarial loss on pensions	**(1,272)**	(3,405)
Deferred tax on pensions	**159**	426
	(1,113)	(2,979)

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

	2009 €'000	2008 €'000
Operating costs	**769**	3,921
Finance income (expected return on scheme assets)	**(92)**	(918)
Finance expense (interest on scheme liabilities)	**126**	574
Total operating charge	**803**	3,577

The contributions expected to be paid to the Company's defined benefit scheme in 2010 are €nil (2009: €3.0 million).

15. Share-Based Payments

Please refer to the Group Share-Based Payments note (note 31) set out on pages 96 and 97.

16. Dividend and Purchase of 'A' Ordinary Shares

	2009 €'000	2008 €'000
Group and Company		
Purchase of one 'A' ordinary share for 5.0 cent–paid 8 April 2009	**11,510**	-
Purchase of one 'A' ordinary share for 2.5 cent–paid 9 October 2009	**5,766**	-
Purchase of one 'A' ordinary share for 12.0 cent–paid 11 April 2008	**-**	27,566
Purchase of one 'A' ordinary share for 10.0 cent–paid 3 October 2008	**-**	23,019
	17,276	50,585

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. This follows the purchase of one 'A' ordinary share per Grafton Unit for a cash consideration of 2.5 cent which was paid on 9 October 2009. The dividend payable on 31 March 2010 is chargeable to reserves in 2010. The share purchase of 5.0 cent paid on 8 April 2009 was charged to reserves in 2009.

17. Related Party Transactions

The principal related party transactions that require disclosure under IAS 24: Related Party Disclosures relate to subsidiaries, a joint venture, an associate, key management personnel and past employment benefit plans.

Subsidiaries
The consolidated accounts of the Company and its subsidiaries include the following transactions that have been eliminated on consolidation:

- Management charges made by the Company to the subsidiaries of €13.5 million (2008: €18.9 million) for the year ended 31 December 2009;
- No dividend income was received by the Company from subsidiaries during the year (2008: €63.0 million);
- Loans were granted to and by the Company to its subsidiaries.

Joint Venture
During the year there were no sales or purchases or other transactions conducted with the joint venture. The joint venture company Navan Retail Developments Limited is owed €2.44 million by the Company (2008: €2.5 million).

Key Management Personnel
The term key management personnel comprise the Board of Grafton Group plc and the Company Secretary/ Group Financial Controller. The cost of key management personnel is analysed in note 2 to the Company Financial Statements and in note 5 to the Group Financial Statements. The Report on Directors' Remuneration on pages 29 to 32 provides detailed disclosure for 2009 and 2008 salaries, fees, performance-related pay, pension allowance, other benefits and entitlements to acquire Grafton Units in accordance with the rules of the Grafton Group Share Scheme.

Past Employment Benefit Plans
Pension commitments to existing and former employees under defined benefit pension scheme arrangements are disclosed in note 14 to the Company Financial Statements.

18. Guarantees and Principal Operating Subsidiaries

The Company has given guarantees in respect of the bank borrowings of subsidiary undertakings which amounted to €632.5 million at the balance sheet date. The Company has also guaranteed certain property lease obligations of subsidiary undertakings. Pursuant to the provisions of Section 17, Companies (Amendment) Act, 1986, the Company has guaranteed the liabilities of its Irish subsidiaries the result of which is to exempt them from the provisions of Section 7, Companies (Amendment) Act, 1986.

18. Guarantees and Principal Operating Subsidiaries (continued)

The principal operating subsidiaries operating in Ireland as set out below are covered by this guarantee.

Name of Company	Nature of Business
Grafton Merchanting ROI Limited	Builders merchants
Chadwicks Limited	Builders merchants
Woodie's DIY Limited	DIY superstores
Atlantic Home Care Limited	DIY superstores
Panelling Centre Limited	Kitchen/Bedroom Panel Products

This guarantee also applies to all other wholly owned subsidiaries, whose Registered Office is 1 Stokes Place, St. Stephen's Green, Dublin 2: Absolute Bathrooms Limited, Athina Limited, Atlantic DIY Limited, Atlantic Home Care and Garden Centre Limited, Barretts of Ballinasloe Limited, Beralt Developments Limited, Bluebell Sawmills Limited, Cardston Properties Limited, Chadwicks Holdings Limited, Cheshunt Limited, Cork Builders Providers Limited, CPI Limited, Davies Limited, Denningco Limited, Doorplan Ireland Limited, Drainage Systems Dublin Limited, Dunmore Holdings Limited, Eddie's Hardware Limited, F&T Buckley (Holdings) Limited, F & T Buckley Limited, Frank Barrett & Sons Limited, Garvey Builders Providers Limited, Gillespie Building Supplies (Carlow) Limited, Grafton Financial Services Limited, Grafton Group Holdings Limited, Grafton Group Investments Limited, Grafton Group Management Services Limited, Grafton Group Secretarial Services Limited, Grafton NPI 2005 plc, Heatovent Ireland Limited, Heiton Buckley Limited, Heiton Group plc, Heiton McCowen Limited, Heiton McFerran Limited, House of Woods Limited, J.E. Telford Limited, Jarkin Properties Limited, Karindell Property Limited, Kenn Truss Limited, Knottingley Limited, Lacombe Properties Limited, Leeway Properties Limited, Leo Wright Holdings Limited, Market Hardware Limited, MB Doorplan Limited, MFP Plastics Limited, MFP Sales Limited, Mooney & O'Dea Limited, Morgan McMahon & Co. Limited, Multy Products (Ireland) Limited, Paddy Power (Kilbarry) Limited, Payless D.I.Y. Limited, Pechura Limited, Plumbing Distributors Limited, Plumbland Limited, Pouladuff Developments Limited, Pouladuff Manufacturing Limited, Powlett Properties Limited, Pulsar Direct Limited, Raftor Limited, Resadale Properties Limited, Sam Hire Holdings Limited, Sam Hire Limited, Sandtex Ireland Limited, Stettler Properties Limited, Telford Group Limited, Telfords (Athy) Limited, Telfords (Portlaoise) Limited, Timber Frame Limited, Tiska Limited, Titanium Limited, Topez Limited, Tribiani Limited, Tullamore Hardware Limited, Universal Providers Limited, W&S Timber Components Limited, Weeksbury Limited.

The Company owns 100 per cent of the ordinary shares, the only class of shares in issue, of its principal operating subsidiary undertakings. The registered office of principal subsidiary undertakings operating in Ireland is 1 Stokes Place, St. Stephen's Green, Dublin 2.

As explained above, where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements and accounts for them as such. The Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make such a payment under the guarantee contracts with third parties.

The principal operating subsidiaries operating in the United Kingdom are:

Name of Company	Nature of Business
Grafton Merchanting GB Limited	Builders merchants
Macnaughton Blair Limited	Builders merchants
Selco Trade Centres Limited	Builders merchants
CPI Mortars Limited	Mortar manufacturers

The registered office of Grafton Merchanting GB Limited, CPI Mortars Limited and Selco Trade Centres Limited is Aquis Court, 31 Fishpool Street, St. Albans, Hertfordshire. The registered office of Macnaughton Blair Limited is Stokes House, College Square East, Belfast BT1 6DH, Northern Ireland.

19. Comparative Figures

A proportion of receivables from Group undertakings has been classified as a non-current asset in 2009 and for consistency the corresponding amount at 31 December 2008 has been reclassified.

20. Approval of Financial Statements

The Board of Directors approved the Company Financial Statements in respect of the year ended 31 December 2009 on 3 March 2010.

Corporate Information

Auditor	KPMG
Bankers	Bank of Ireland Ulster Bank Lloyds Banking Group AIB Bank Société Generale Danske Bank (t/a National Irish Bank)
Solicitors	Arthur Cox, Dublin A&L Goodbody, Dublin Lyons Davidson, Bristol
Stockbrokers	Goodbody Stockbrokers, Dublin
Corporate & Registered Office	Heron House Corrig Road Sandyford Industrial Estate Dublin 18 Phone: 00-353-1-216 0600 Fax: 00-353-1-295 4470 Email: email@graftonplc.com
Registrars	Capita Registrars (Ireland) Ltd. Unit 5, Manor Street Business Park, Manor Street, Dublin 7. Phone; 00-353-1-8102400 Email: enquiries@capitacorporateregistrars.ie www.capitacorporateregistrars.ie

Financial Calendar

Results	
Half-yearly results	28 August 2009
Full year results	4 March 2010
Annual general meeting	6 May 2010
Purchase of 'A' ordinary share	
Record Date	11 September 2009
Interim Dividend	
Record Date	12 March 2010

Location of Annual General Meeting

The Annual General Meeting of the Company will be held on 6 May 2010 at 10.30am in the

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

BY CAR

From the North, West and South

Using the M50 going south, take Exit 13 (Sandyford/Dundrum/R113), then take the Green Route to Sandyford Industrial Estate. Turn left onto Blackthorn Drive at Beacon Court.

At the next T-junction, turn right onto Sandyford Road. IMI is the next turn left, 100 yards away.

From the East and South East

Travelling north on the N11, take the M50 at Loughlinstown. Take Exit 13 to Sandyford Industrial Estate.

Turn left onto Blackthorn Drive at Beacon Court.

At the next T-junction, turn right onto Sandyford Road. IMI is the next turn left, 100 yards away.

Should you require assistance regarding your transport to the IMI Conference Centre, or have any queries on the day of the AGM, please call 087 971 0851.

Notes

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