



**Grafton Group plc
2011 Preliminary Statement**

7 March 2012



GRAFTON GROUP PLC

RESULTS FOR THE YEAR ENDED 31 DECEMBER 2011

HIGHLIGHTS

- Revenue up 3% to €2.05 billion
- Underlying operating profit up 13% to €54.7 million and €56.9 million excluding amortisation
- Underlying profit before taxation up 3% to €42.3 million
- Underlying adjusted basic earnings per share of 15.4 cent
- Strong cash flow from operations of €96.9 million
- Dividend per unit up by 7% to 7.5 cent including second interim dividend of 4.75 cent
- Like for like turnover growth of 4.3% in the UK merchanting business
- UK revenue and profits increase
- Significant action taken on restructuring

	2011	2010
	€m	€m
Revenue	2,054	2,004
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Underlying (before exceptional items):		
Operating profit*	54.7	48.4
Profit before tax*	42.3	40.9
Profit after tax*	33.7	79.4
Adjusted basic earnings per share	15.4c	18.5
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Statutory:		
Operating profit	22.7	33.0
Profit before tax	10.3	25.6
Profit after tax	2.5	64.0
Earnings per share – basic	1.1c	27.7c
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Dividend for year	7.5c	7.0c

* Includes an intangible amortisation charge of €2.2 million (2010: €2.2 million)

Gavin Slark, Chief Executive Officer commented:

“The turnaround in performance that commenced in 2010 continued in 2011 in challenging markets with savings realised from cost reduction programmes. The Group is well positioned to make further progress in what we believe will be subdued markets in 2012. We will continue to focus on margin enhancement, cost management and cash generation and evaluate value adding expansion opportunities.”



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Conference Call

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

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Results for the Year Ended 31 December 2011

Overview

2011 was a year of further progress for the Group against the background of challenging trading conditions in its principal markets, particularly Ireland. The turnaround in performance that commenced in 2010 continued, leading to increased revenue and adjusted profits (before exceptional items and intangible amortisation).

- Group revenue stabilised at over €2 billion
- Group adjusted operating profit doubled over the past two years
- Dividend increase of 50% over last two years
- Recurring savings from cost reduction programme being realised
- Adjusted operating profit of UK merchanting business ahead on lower volumes
- Adjusted operating profit increased in Irish business despite turnover decline
- Progress made implementing self-help measures including branch consolidations and closure of concrete products manufacturing division in Ireland
- Management succession and development provides renewed capacity to improve performance in difficult markets
- Strong cash generation and debt reduction

Revenue stabilised at over €2 billion over the past three years and adjusted operating profit doubled between 2009 to 2011 due to a reduction in overheads in response to a prolonged period of challenging trading conditions in the Group's markets.

Group revenues increased to €2.05 billion in 2011 from €2.00 billion in 2010. Adjusted operating profit (before exceptional items and intangible amortisation) increased by 12.5 per cent to €56.9 million (2010: €50.6 million). The UK business, which accounted for over 70 per cent of Group revenue, increased revenue and operating profit in a reasonably resilient housing repair, maintenance and improvement (RMI) market. The rate of decline in turnover in the Irish business moderated and operating profit increased due to the benefits of cost reductions implemented in 2011 and prior years.

The net finance charge increased to €12.4 million (2010: €7.5 million) due to the higher bank margin on debt refinanced during 2010, compared to the favourable arrangements put in place prior to the credit crisis. Adjusted profit before taxation (before exceptional items and intangible amortisation) increased by 3.2 per cent to €44.5 million (2010: €43.1 million).

The statutory result for 2011 was influenced by measures taken to mitigate the impact of adverse market conditions. As previously announced, the charge for restructuring costs and the onerous lease provision amounted to €32.1 million. The Group continued to implement restructuring and cost saving initiatives principally in response to the decline in turnover and excess capacity in the merchanting branch network and manufacturing business in Ireland. The cost of implementing these measures was €12.7 million and there will be an incremental benefit of circa €6.0 million in 2012 from the lower cost base. A charge of €19.4 million was recognised in respect of a small number of onerous leases and related asset impairment primarily in the Irish retailing businesses.

The Group generated cashflow of €96.9 million (2010: €95.7 million) from operations and ended the year in a strong financial position with modest gearing and net debt refinanced out to 2016.



The Belgian builders merchanting business, in which the Group has a 53 per cent interest, traded successfully and completed three acquisitions during the year increasing its annualised turnover to circa €55 million. The business now trades from nine locations.

Management

The senior executive management team in the merchanting business continued to evolve over recent months with a number of appointments. Mark Kelly joined the Group in February 2012 with responsibility for Buildbase, Plumbase, Jackson Building Centres and the specialist merchanting brands. Chris Cunliffe was appointed Managing Director of Selco Builders Warehouse having previously served as Chief Operating Officer. Andrew Gribble joined the Group as Managing Director of Plumbase and Jonathon Jennings was appointed to the newly created role of Group Property Director. These individuals have strong track records and bring extensive business and industry experience to their new roles and are well placed to make a significant contribution to the operational and strategic development of the business. As previously announced Leo Martin, Executive Director and Chief Operating Officer, retired at the end of the year following a long period of distinguished service with the Group.

Dividend

In view of the Group's strong cash flows and increase in underlying profit, the second interim dividend has been increased to 4.75 cent (2010: 4.5 cent) per Grafton Unit. The payment will be made on 13 April 2012. This will result in a total dividend for the year of 7.5 cent (2010: 7.0 cent), an increase of 7.1 per cent on the dividend paid for 2010.

Operations Review

Merchanting

Turnover in the merchanting business increased by 3.2 per cent to €1.79 billion (2010: €1.73 billion). Operating profit for the segment was €64.9 million (2010: €61.5 million), an increase of 6 per cent.

UK merchanting branches increased turnover by 4.0 per cent to €1.46 billion (2010: €1.40 billion). Sterling turnover increased by 5.2 per cent and average daily like for like turnover increased by 4.3 per cent. UK operating profit before restructuring costs increased by 3.5 per cent to €59.9 million (2010: €57.9 million). The operating profit margin was unchanged at 4.1 per cent.

Trading in the UK merchanting market was influenced by weak economic growth as a decline in real incomes (due to above trend inflation and subdued consumer confidence) reduced spending. Lower volumes in the UK merchanting market, for the fourth consecutive year, were also influenced by tight credit conditions and the focus of households on paying down debt. Equity withdrawal, traditionally an important source of funding for investment in housing RMI, was lower as households preferred to increase the equity in their homes. Housing transactions, a forward indicator of demand in the merchanting market, remained relatively flat for the third consecutive year, at almost half the pre-downturn level.

Following average daily like for like growth of 4.7 per cent in the first half, average daily like for like turnover increased by 4.0 per cent in the second half. This increase reflected a recovery of commodity-based price increases and a small gain in market share.

Buildbase traded in a relatively stable market with mainly price-driven turnover growth in its general merchanting branches where demand was primarily influenced by housing RMI



activity. The specialist branches performed strongly, increasing volumes supplied to the new housing market. Two single branch acquisitions were completed. Trading conditions in the East Midlands market moved towards stabilisation and the performance of Jacksons' business benefitted from operating efficiencies and a lower cost base. A new branch in Worksop is scheduled to open in May 2012 and redevelopment of the Grimsby branch is due for completion at the end of March 2012. Plumbase increased turnover in its like for like business and improved geographic coverage with the acquisition of 16 plumbing and heating branches in England and Wales and the opening of two heating spares branches.

Selco Builders Warehouse, the trade-only builders' merchant, reported strong growth in turnover and operating profit. Development of the business continued with the successful opening of the fourteenth London store at Catford and a store in Slough, Berkshire. The Swansea and Minworth, Birmingham stores were relocated to larger properties in October 2011. The business now trades from 30 stores and a further three stores are scheduled to open in London in the second half of 2012.

In Northern Ireland, turnover stabilised in the Macnaughton Blair business against the backdrop of a fragile economic recovery. The new housing market continued to weaken but the housing RMI market returned to growth and the business also benefitted from a number of public sector new build and RMI projects. With an increased gross margin and a lower cost base due to the restructuring measures taken in recent years, operating profit advanced strongly from a low base. The Derry branch was successfully relocated to a larger property.

Turnover in the Irish merchanting branches declined by 6.4 per cent to €306.8 million (2010: €327.8 million). Operating profit increased by 12.5 per cent to €4.1 million (2010: €3.7 million).

The Irish economy stabilised in 2011 following three years of decline. The domestic economy remained weak due to a fall in disposable incomes and weak consumer confidence which contributed to lower spending on housing RMI projects. All indicators of housing market activity remained very weak. House completions fell further and are believed to be at or close to a cycle floor. Individual properties, which are mainly built to demand, accounted for a high proportion of residential construction and the supply of apartments and scheme houses fell to historically low levels. A sharp fall in mortgage lending and reduced access to credit contributed to lower house building and RMI activity.

The Chadwicks and Heiton Buckley branch network responded well to the challenging business conditions and continued to outperform the market. The decline in turnover moderated in the second half of 2010 and there was a continuation of this trend through 2011. Turnover was underpinned by housing RMI activity and benefitted from promotional activity and marketing nationally to trade customers and households. The decline in turnover in the like for like business was lower than the headline rate of decline due to branch consolidations in 2010 and 2011. Gross margins were maintained in a competitive market with the benefit of procurement gains. A significant reduction in overheads more than offset the impact on profit of lower turnover. Operating profit was marginally higher for the year.

The restructuring measures adopted in 2010 and 2011 including consolidation of branches and a reduction in employment levels in response to the decline in volumes, contributed to the fall in overheads. Tight management of customer credit exposures resulted in a material decline in the charge for bad debts.

Savings of €50 million were realised in the Irish Merchanting business in the three years to the end of 2011 through cost reductions and branch consolidations. These savings were



critical to maintaining profitability in response to sharp declines in volumes and should result in significant operational leverage when the Irish merchandising market recovers.

Retailing

Turnover declined by 4.7 per cent to €219.7 million (2010: €230.5 million) and operating profit of €2.1 million was down from €2.4 million.

Consumer spending was influenced by declining disposable incomes, a weak labour market and a high savings ratio. Consumers also continued to pay down debt. Core retail sales volumes registered growth for the year following a recovery in the last quarter that was partly weather-related and also influenced by discounting and promotions. Discretionary spending categories including DIY experienced a further decline in volumes as financially stretched households remained cautious about the outlook for their personal finances.

The Woodie's business had a strong start to the year benefitting from easier comparatives and driven by very favourable weather conditions in the first four months that brought forward sales of gardening and seasonal products. These early gains were more than offset by tougher trading conditions in the seasonally important months of May and June. Turnover trends were more even in the second half of the year reflecting the weaker backdrop for consumer spending.

Woodie's retained its position as the leading retailer in a well-developed market for DIY and garden centre products. Store footfall was strong and the business completed almost nine million customer transactions during 2011. This compared favourably with the prior year in a more challenging retail market. Average transaction values declined at a time of lower consumer spending on discretionary higher value products. Outdoor seasonal products including garden furniture, BBQs, lawnmowers and furniture experienced a drop in volumes. Sales of DIY, decorative and building products were resilient and electrical, paint and decorative products benefitted from improved merchandising. New ranges of own brand power and hand tools, timber flooring, floor tiles and lighting were successfully rolled out across the network.

A reduction in sales of higher value lower margin products, reduced discounting on seasonal ranges and product sourcing gains contributed to an increase in gross margin. The improvement offset most of the impact on profit of lower turnover.

The store at Airside Retail, North County Dublin was successfully upgraded and increased turnover for the year. Extensions to two long-established stores in Glasnevin, North Dublin City and Blanchardstown, West Dublin will be completed in April 2012 enabling both stores to carry wider product ranges in a larger store format.

In-House, the eight store kitchens business, performed in line with the prior year on lower turnover. The business has a strong presence in the Dublin market and also operates a number of stores in regional cities where market conditions were more challenging due to competitive pressures from industry overcapacity.

Manufacturing

Turnover increased by 9.8 per cent to €47.5 million (2010: €43.3 million) and the operating loss before rationalisation costs reduced to €0.54 million from €3.5 million in 2010. The segment was cash generative after rationalisation costs due to the significant non-cash charge for depreciation in arriving at the segment result.

The UK Mortar business increased turnover by 16 per cent to €34.4 million (2010: €29.7 million) with the benefit of improved weather conditions in the early and final months of the



year. Housing starts, an indicator of activity levels in the business' principal market, were down by 4 per cent in England and supply of new housing was approximately half of the pre-downturn level. CPI Mortars performed strongly despite the decline in house building and increased volumes supplied to the sector. The business also benefitted from the development of innovative products and logistical solutions for the supply of sprayed concrete to certain infrastructure projects. CPI Mortars improved volumes in a fairly stable market and also reduced its cost base to report a strong improvement in profit.

Turnover in the Irish manufacturing businesses declined by 3.4 per cent to €13.1 million (2010: €13.6 million). Operating losses were materially reduced and further rationalisation measures were implemented including closure, since the year end, of the concrete products division in Dublin.

Financial Review

A continued recovery in underlying operating profit and substantial cash generation was achieved in 2011 despite challenging economic and market conditions. Cash flow was used to increase dividends, reduce net debt and invest in the business to create a stronger platform for future growth. A strong year-end balance sheet incorporated a significant freehold estate, a low level of gearing, loans with a maturity profile of almost five years and substantial deposits and undrawn long-term bank facilities.

Cashflow

Cashflow from operations of €96.9 million (2010: €95.7 million) demonstrated the strength of the Group's proven cash generating business model. Adjusted operating cashflow, which excludes rationalisation costs of €10.7 million (2010: €5.3 million), was €107.6 million (2010: €101.0 million). Cash conversion increased by €18.3 million (2010: €8.8 million) from continued tight management of working capital.

Capital expenditure on property, plant and equipment of €35.3 million (2010: €9.6 million) was concentrated on asset replacement and renewal projects and also included new branch openings that support long-term growth and strengthen strategic market positions. The disposal of a number of surplus properties with limited development potential and the routine disposal of non-property assets generated cashflow of €8.7 million (2010: €4.3 million). The spend on acquisitions in the UK merchanting market and further investment in the Belgian Joint Venture was €12.8 million (2010: €2.4 million).

Net Debt

The Group continued to use its strong liquidity from operations to reduce net debt for the fifth consecutive year. Net debt at the year end, which benefits from a seasonally lower level of investment in working capital, reduced to €225.9 million from €255.1 million at the end of 2010. The gearing ratio fell to 23 per cent from 26 per cent.

Good flexibility in managing the liquidity of the business was maintained through the holding of substantial deposits and cash balances that amounted to €134.6 million at the year end. The Group also had access to a significant source of liquidity in the form of undrawn committed revolving term bank facilities of €120 million. In October 2011, as part of the Group's ongoing capital markets programme, new five year revolving bank facilities for €75 million were put in place and the maturity profile of existing debt of €195 million was extended to 2016. In addition, a bank facility for €85 million was extended by one year to mature in 2014 and a new three year bank facility for €35 million was agreed.

The cash generated from operations, as the main source of liquidity, combined with substantial cash deposits and undrawn term bank facilities provide the Group with the resources to finance appropriate organic and acquisition-led development opportunities.



Net Finance Income and Expense

The interest charge on net bank and loan note debt increased to €15.3 million (2010: €9.5 million). The increased interest charge was due to the higher bank margin on debt refinanced at the end of August 2010 compared to the favourable arrangements put in place prior to the credit crisis. The majority of the Group's debt was set at floating rates to take advantage of low interest rates at this stage in the economic cycle. In view of the improving conditions in international debt markets and the Group's access to significant undrawn committed revolving term facilities, cash deposits were reduced to minimise net interest costs in a low interest rate environment.

Shareholders' Funds

Shareholders' funds of €982.8 million (31 December 2010: €990.3 million) increased by underlying profit after tax of €34.6 million and an exchange gain of €25.5 million on translation of the net assets in the UK business at a more favourable sterling/euro exchange rate. Shareholders' funds were reduced by restructuring costs and an onerous lease provision of €32.1 million, an actuarial loss after tax of €19.1 million on defined benefit pension schemes and dividend payments of €16.8 million.

Taxation

The taxation charge of €7.7 million is primarily a non-cash charge due to the unwinding of deferred tax assets and provisions recognised in prior years. The charge also reflects a reduction in UK deferred tax assets due to a fall in the UK rate of corporation tax and an increase in Irish deferred tax liabilities due to an increase in the rate of capital gains tax. No taxation benefit arose in the year from the charge for restructuring costs and the onerous lease provisions related to the Irish business. Taxation paid of €3.1 million reflected the availability of tax deductions carried forward from prior years.

Pension

The deficit on defined benefit pension schemes was €28.6 million (31 December 2010: €15.5 million) net of the related deferred tax asset. The market value of scheme assets was €191.1 million (31 December 2010: €190.9 million). A fall in the rate used to discount liabilities, in line with changes in corporate bond yields, contributed to the increase in scheme liabilities to €224.6 million (31 December 2010: €208.5 million).

Outlook

In the UK, growth is forecast to remain subdued in the near term before starting to improve as households' real incomes gradually recover following an easing of the high rate of inflation experienced over recent years. The fiscal consolidation programme, tight credit conditions and households saving a high proportion of income are likely to weigh on housing transactions and a recovery in volumes in the RMI market. Medium-term demand fundamentals for the housing RMI market remain exceptionally strong in view of the decline in volumes by over 30 per cent since 2007 and the need for investment in an aging housing stock.

In Ireland, the economy has stabilised but the immediate outlook is challenging due to pressure on disposable incomes, concerns about employment prospects and very tight credit conditions. Demand is expected to remain weak in the Irish merchandising and DIY businesses.

Group turnover in the UK Merchandising business in January and February continued on a similar trend to 2011 with average daily like for like growth of 4.0 per cent. Market conditions remained difficult in Ireland with average daily turnover in the Merchandising branches down by 11 per cent in the like for like business after adjusting for branch consolidations. A decline in turnover by eight per cent in the Irish Retailing business was largely offset by an improved gross margin.



The Group is targeting further operating profit growth for 2012 based on cost savings and modest turnover growth, subject to market conditions. Grafton's strategically important market positions, high operating cashflow and reduced cost base provide a good platform to benefit from a recovery in its markets from current cyclical lows.



Grafton Group plc

Group Condensed Income Statement

For the year ended 31 December 2011

	Notes	Pre- Exceptional items 2011 €000	Exceptional items 2011 €000	Total 2011 €000	Pre- Exceptional items 2010 €000	Exceptional items 2010 €000	Total 2010 €000
Revenue	2	2,053,833	-	2,053,833	2,004,418	-	2,004,418
Operating costs and income	3	(1,999,114)	(32,055)	(2,031,169)	(1,956,022)	(15,375)	(1,971,397)
Operating profit		54,719	(32,055)	22,664	48,396	(15,375)	33,021
Finance expense	4	(32,377)	-	(32,377)	(26,001)	-	(26,001)
Finance income	4	19,977	-	19,977	18,534	-	18,534
Profit before tax		42,319	(32,055)	10,264	40,929	(15,375)	25,554
Income tax	15	(8,583)	864	(7,719)	38,432	-	38,432
Profit after tax for the financial year		33,736	(31,191)	2,545	79,361	(15,375)	63,986
Earnings per ordinary share - basic	5			1.10c			27.68c
Earnings per ordinary share - diluted	5			1.09c			27.54c



Grafton Group plc

Group Condensed Balance Sheet as at 31 December 2011

	31 Dec 2011 (Audited) €000	31 Dec 2010 (Audited) €000
ASSETS		
Non-current assets		
Goodwill	566,336	552,831
Intangible assets	2,241	4,453
Property, plant and equipment	564,884	568,767
Deferred tax assets	36,331	46,252
Retirement benefit assets	-	1,107
Derivative financial instruments	5,331	11,068
Investment in associate	-	3,690
Financial assets	152	176
Total non-current assets	1,175,275	1,188,344
Current assets		
Inventories	271,217	271,918
Trade and other receivables	323,044	305,560
Derivative financial instruments	5,625	5,798
Cash and cash equivalents	134,600	234,275
Properties held for sale	16,231	14,693
Total current assets	750,717	832,244
Total assets	1,925,992	2,020,588
EQUITY		
Capital and reserves attributable to the equity holders		
Equity share capital	11,656	11,632
Share premium account	292,545	291,216
Capital redemption reserve	905	905
Revaluation reserve	30,566	31,747
Other reserves	4,588	5,258
Cash flow hedge reserve	(831)	(1,440)
Foreign currency translation reserve	(110,767)	(136,310)
Retained earnings	759,908	793,078
Treasury shares held	(5,746)	(5,746)
Total equity	982,824	990,340
LIABILITIES		
Non-current liabilities		
Interest-bearing loans and borrowings	325,230	353,019
Provisions	32,805	17,555
Retirement benefit obligations	33,560	18,666
Derivative financial instruments	422	812
Deferred tax liabilities	39,872	37,599
Total non-current liabilities	431,889	427,651
Current liabilities		
Interest-bearing loans and borrowings	45,110	151,432
Trade and other payables	421,658	399,890
Current income tax liabilities	34,289	43,959
Derivative financial instruments	739	988
Provisions	9,483	6,328
Total current liabilities	511,279	602,597
Total liabilities	943,168	1,030,248
Total equity and liabilities	1,925,992	2,020,588



Grafton Group plc Group Condensed Cash Flow Statement

For the year ended 31 December 2011

	Twelve months to 31 Dec 2011 (Audited) €000	Twelve months to 31 Dec 2010 (Audited) €000
Profit before taxation	10,264	25,554
Finance income	(19,977)	(18,534)
Finance expense	<u>32,377</u>	<u>26,001</u>
Operating profit	22,664	33,021
Depreciation	40,448	44,524
Intangible amortisation	2,212	2,212
Share based payments (credit)/charge	(670)	581
Non cash movement in operating provisions	20,337	4,596
Claims paid on provisions	(3,927)	(3,725)
Non cash movement on asset impairment	4,588	10,039
Profit on sale of property, plant and equipment	(1,457)	(563)
Contributions to pension schemes in excess of IAS 19 charge	(5,594)	(3,799)
Decrease in working capital	<u>18,333</u>	<u>8,792</u>
Cash generated from operations	96,934	95,678
Interest paid	(16,610)	(13,955)
Income taxes paid	<u>(3,131)</u>	<u>(974)</u>
Cash flows from operating activities	77,193	80,749
Investing activities		
<i>Inflows</i>		
Proceeds from sale of property, plant and equipment	8,732	4,262
Interest received	3,979	7,062
Sale of financial assets	<u>36</u>	<u>44</u>
	<u>12,747</u>	<u>11,368</u>
<i>Outflows</i>		
Acquisition of subsidiary undertakings and businesses	(3,945)	(1,638)
Share of acquisition of subsidiaries and businesses by J.V.	(8,736)	-
Share of cash acquired through acquisitions made by J.V.	873	-
Net overdraft assumed with joint venture	(106)	-
Net cash acquired with subsidiary undertakings	-	102
Deferred acquisition consideration paid	-	(853)
Purchase of property, plant and equipment	(35,327)	(9,608)
	<u>(47,241)</u>	<u>(11,997)</u>
Cash flows from investing activities	(34,494)	(629)
Financing activities		
Proceeds from the issue of share capital	1,353	1,450
Net proceeds from borrowings	<u>65,313</u>	<u>280,984</u>
	<u>66,666</u>	<u>282,434</u>
<i>Outflows</i>		
Repayments of borrowings	(161,411)	(390,460)
Dividends paid	(16,797)	(11,551)
Movement on finance lease liabilities	22	(520)
Redemption of loan notes payable net of derivatives	(32,195)	(34,776)
	<u>(210,381)</u>	<u>(437,307)</u>
Cash flows from financing activities	(143,715)	(154,873)
Net decrease in cash and cash equivalents	(101,016)	(74,753)
Cash and cash equivalents at 1 January	234,275	301,984
Effect of exchange rate fluctuations on cash held	1,341	7,044
Cash and cash equivalents at the end of the period	<u>134,600</u>	<u>234,275</u>
Cash and cash equivalents are broken down as follows:		
Cash at bank and short-term deposits	134,600	234,275
Overdrafts	-	-
	<u>134,600</u>	<u>234,275</u>



Group Condensed Statement of Comprehensive Income

For the year ended 31 December 2011

	Twelve months to 31 Dec 2011 €000	Twelve months to 31 Dec 2010 €000
Profit after tax for the financial year	<u>2,545</u>	<u>63,986</u>
Other comprehensive income:		
Currency translation effects		
- on foreign currency net investments	28,871	25,584
- on foreign currency borrowings and derivatives designated as net investment hedges	(2,257)	(3,283)
Recycling of exchange gain on net investment hedge	(1,071)	-
Actuarial (loss)/gain on Group defined benefit pension schemes	(23,211)	2,971
Deferred tax on Group defined benefit pension schemes	4,088	(889)
Deferred tax on capital gains tax rate increase	(976)	-
Fair value movement in cash flow hedges:		
- Effective portion of changes in fair value of cash flow hedges	(457)	(2,481)
- Net change in fair value of cash flow hedges transferred from equity	1,146	2,175
Deferred tax on cash flow hedge	<u>(80)</u>	<u>48</u>
Total other comprehensive income	<u>6,053</u>	<u>24,125</u>
Total comprehensive income for the financial year	<u>8,598</u>	<u>88,111</u>



Grafton Group plc

Group Condensed Statement of Changes in Equity

	Equity share capital €000	Share premium account €000	Capital redemption reserve €000	Revaluation reserve €000	Shares to be issued reserve €000	Cash Flow hedge reserve €000	Foreign currency translation reserve €000	Retained earnings €000	Treasury shares €000	Total equity €000
Year to 31 December 2011										
At 1 January 2011	11,632	291,216	905	31,747	5,258	(1,440)	(136,310)	793,078	(5,746)	990,340
Profit after tax for the financial year	-	-	-	-	-	-	-	2,545	-	2,545
Total other comprehensive income										
Actuarial loss on pensions (net of tax)	-	-	-	-	-	-	-	(19,123)	-	(19,123)
Deferred tax – capital gains tax rate increase	-	-	-	(976)	-	-	-	-	-	(976)
Movement in cash flow hedge reserve (net of tax)	-	-	-	-	-	609	-	-	-	609
Currency translation effect on foreign currency net investments	-	-	-	-	-	-	28,871	-	-	28,871
Currency translation effect on foreign currency borrowings and derivatives designated as net investment hedges	-	-	-	-	-	-	(2,257)	-	-	(2,257)
Recycling of exchange gain on net investment hedge	-	-	-	-	-	-	(1,071)	-	-	(1,071)
Total comprehensive income	-	-	-	(976)	-	609	25,543	(16,578)	-	8,598
Transactions with owners of the Company recognised directly in equity										
Dividends paid	-	-	-	-	-	-	-	(16,797)	-	(16,797)
Issue of Grafton Units – Employee share schemes (net of issue expenses)	24	1,329	-	-	-	-	-	-	-	1,353
Share based payments credit	-	-	-	-	(670)	-	-	-	-	(670)
Transfer from revaluation reserve	-	-	-	(205)	-	-	-	205	-	-
	24	1,329	-	(205)	(670)	-	-	(16,592)	-	(16,114)
At 31 December 2011	11,656	292,545	905	30,566	4,588	(831)	(110,767)	759,908	(5,746)	982,824
Year to 31 December 2010										
At 1 January 2010	11,598	289,800	905	31,952	4,677	(1,182)	(158,611)	738,356	(5,746)	911,749
Profit after tax for the financial year	-	-	-	-	-	-	-	63,986	-	63,986
Total other comprehensive income										
Actuarial gain on pensions (net of tax)	-	-	-	-	-	-	-	2,082	-	2,082
Movement in cash flow hedge reserve (net of tax)	-	-	-	-	-	(258)	-	-	-	(258)
Currency translation effect on foreign currency net investments	-	-	-	-	-	-	25,584	-	-	25,584
Currency translation effect on foreign currency borrowings and derivatives designated as net investment hedges	-	-	-	-	-	-	(3,283)	-	-	(3,283)
Total comprehensive income	-	-	-	-	-	(258)	22,301	66,068	-	88,111
Transactions with owners of the Company recognised directly in equity										
Dividends paid	-	-	-	-	-	-	-	(11,551)	-	(11,551)
Issue of Grafton Units (net of issue expenses)	34	1,416	-	-	-	-	-	-	-	1,450
Share based payments expense	-	-	-	-	581	-	-	-	-	581
Transfer from revaluation reserve	-	-	-	(205)	-	-	-	205	-	-
	34	1,416	-	(205)	581	-	-	(11,346)	-	(9,520)
At 31 December 2010	11,632	291,216	905	31,747	5,258	(1,440)	(136,310)	793,078	(5,746)	990,340



Grafton Group plc
Notes to Preliminary Statement for the year ended 31 December 2011

1. General Information

The financial information presented in this report has been prepared using accounting policies consistent with International Financial Reporting Standards (IFRS) as adopted by the European Union and as set out in the Group's annual financial statements in respect of the year ended 31 December 2010 except as noted below. The financial information does not include all the information and disclosures required in the annual financial statements. The Annual Report will be distributed to shareholders and made available on the Company's website www.graftonplc.com in due course. It will also be filed with the Company's Annual Return in the Companies Registration Office. The auditors have reported on the financial statements for the year ended 31 December 2011 and their report was unqualified and did not contain any matters to which attention was drawn by way of emphasis. The financial information for the year ended 31 December 2010 represents an abbreviated version of the Group's statutory financial statements on which an unqualified audit report was issued and which have been filed with the Companies Registration Office.

Basis of Preparation, Accounting Policies and Estimates

(a) Basis of Preparation and Accounting Policies

The financial information contained in this Preliminary Statement has been prepared in accordance with the accounting policies set out in the last annual financial statements.

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

- Improvements to IFRSs (2010)
- IAS 24 Revised: Related Party Disclosures
- Amendment to IAS 32 – Financial Instruments: Presentation – Classification of Rights Issues
- Amendment to IFRIC 14 – Prepayments of a Minimum Funding Requirement
- IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments

(b) Estimates

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

In preparing this Preliminary Statement, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2010 other than the addition of taxation referred to in note 15.



2. Segmental Analysis

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

	Twelve months to 31 Dec 2011 (Audited) €000	Twelve months to 31 Dec 2010 (Audited) €000
Revenue		
Merchandising	1,786,601	1,730,610
Retail	219,709	230,528
Manufacturing	53,488	49,144
Less: Inter-segment revenue - manufacturing	(5,965)	(5,864)
	<u>2,053,833</u>	<u>2,004,418</u>
Segment operating profit/(loss)		
Merchandising	64,924	61,524
Retail	2,120	2,351
Manufacturing	(535)	(3,457)
	<u>66,509</u>	<u>60,418</u>
Restructuring costs & onerous lease provision/ asset impairment		
Merchandising	(11,217)	(5,151)
Retail	(19,636)	-
Manufacturing	(1,202)	(185)
	<u>(32,055)</u>	<u>(5,336)</u>
Segment operating profit/(loss) after restructuring costs		
Merchandising	53,707	56,373
Retail	(17,516)	2,351
Manufacturing	(1,737)	(3,642)
	<u>34,454</u>	<u>55,082</u>
Reconciliation to consolidated operating profit		
Central activities	(9,578)	(9,810)
Intangible amortisation	(2,212)	(2,212)
Asset impairment – manufacturing segment	-	(10,039)
Operating profit	<u>22,664</u>	<u>33,021</u>
Finance expense	(32,377)	(26,001)
Finance income	19,977	18,534
Profit before tax	<u>10,264</u>	<u>25,554</u>
Income tax	(7,719)	38,432
Profit after tax for the financial year	<u>2,545</u>	<u>63,986</u>



2. Segmental Analysis (continued)

Operating segment assets are analysed below:

	31 Dec 2011 (Audited) €000	31 Dec 2010 (Audited) €000
Segment assets		
Merchanting	1,586,681	1,550,860
Retail	101,857	111,520
Manufacturing	55,415	55,842
	<u>1,743,953</u>	<u>1,718,222</u>
Unallocated assets		
Deferred tax assets	36,331	46,252
Retirement benefit assets	-	1,107
Investment in associate	-	3,690
Financial assets	152	176
Derivatives and other financial instruments	10,956	16,866
Cash and cash equivalents	134,600	234,275
Total assets	<u>1,925,992</u>	<u>2,020,588</u>

The amount of revenue by geographic area is as follows:

	Twelve months to 31 Dec 2011 (Audited) €000	Twelve months to 31 Dec 2010 (Audited) €000
Revenue		
United Kingdom	1,493,212	1,432,525
Ireland	539,695	571,893
Belgium	20,926	-
	<u>2,053,833</u>	<u>2,004,418</u>

3. Exceptional Items in Operating Profit

	Twelve months to 31 Dec 2011 (Audited) €000	Twelve months to 31 Dec 2010 (Audited) €000
Restructuring costs	10,659	5,336
Restructuring costs – asset impairment	2,003	-
	<u>12,662</u>	<u>5,336</u>
Onerous lease provision	16,808	-
Asset impairment relating to onerous leases	2,585	-
Asset impairment – manufacturing segment	-	10,039
	<u>32,055</u>	<u>15,375</u>

The 2011 exceptional items relate to restructuring costs and asset impairment which amounted to €12.7 million. A charge of €19.4 million was recognised in respect of a small number of onerous leases and related asset impairment primarily in the Irish retailing businesses which accounts for the increase in provisions on the balance sheet at 31 December 2011.



4. Finance Expense and Finance Income

	Twelve months to 31 Dec 2011 (Audited) €000		Twelve months to 31 Dec 2010 (Audited) €000
Finance expense			
Bank loans and overdrafts	(14,126) *		(9,094)
Net changes in fair value of cash flow hedges transferred from equity	(1,146)		(2,175)
Interest on finance leases	(378)		(449)
Finance cost on pension scheme liabilities	(11,187) #		(11,134)
Interest on loan notes	(3,149) *		(5,434)
Fair value movement on hedged financial liabilities	5,749		(10,168)
Fair value movement on fair value hedges	(4,217)		12,691
Ineffective portion of changes in fair value of cash flow hedges	(60)		(75)
Foreign exchange loss	(3,863)		(163)
	<u>(32,377)</u>		<u>(26,001)</u>
Finance income			
Recycling of exchange gain on net investment hedge	1,071		-
Fair value movement on derivatives (Cross Currency Interest Rate Swaps not in hedging relationships)	2,032		-
Ineffectiveness on net investment hedge	896		1,284
Interest income on bank deposits	1,964 *		5,007
Settlement gain on loan repayment	976		-
Expected return on pension plan assets	13,038 #		12,243
	<u>19,977</u>		<u>18,534</u>
Net finance expense	<u>(12,400)</u>		<u>(7,467)</u>

* Net bank/loan note interest of €15.3 million (2010: €9.5 million).

Net expected pension return of €1.9 million (2010: return of €1.1 million).



5. Earnings per Share

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

	Year Ended 31 Dec 2011 (Audited) €000	Year Ended 31 Dec 2010 (Audited) €000
Numerator for basic, adjusted and diluted earnings per share:		
Profit after tax for the financial year	2,545	63,986
Numerator for basic and diluted earnings per share	<u>2,545</u>	<u>63,986</u>
Intangible amortisation after tax	1,936	1,936
Taxation credit	-	(38,432)
Net rationalisation and impairment costs	31,191	15,375
Numerator for adjusted earnings per share	<u>35,672</u>	<u>42,865</u>
	Number of Grafton Units	Number of Grafton Units
Denominator for basic and adjusted earnings per share:		
Weighted average number of Grafton Units in issue	231,751,122	231,176,982
Effect of potential dilutive Grafton Units	1,291,453	1,202,602
Denominator for diluted earnings per share	<u>233,042,575</u>	<u>232,379,584</u>
Earnings per share (cent)		
- Basic	1.10	27.68
- Diluted	1.09	27.54
Adjusted earnings per share (cent)		
- Basic	15.39	18.54
- Diluted	15.31	18.45

6. Dividend

The payment in 2011 of a second interim dividend for 2010 of 4.5 cent on the 'C' Ordinary shares in Grafton Group (UK) plc from UK-sourced income amounted to €10.4 million. A 2011 interim dividend of 2.75 cent per share was paid on 7 October 2011 on the 'C' Ordinary Share in Grafton Group (UK) plc from UK-sourced income and amounted to €6.4 million.

A second interim dividend for 2011 of 4.75 cent will be paid on the 'C' Ordinary shares in Grafton Group (UK) plc from UK-sourced income to all holders of Grafton Units on the Company's Register of Members at the close of business on 16 March 2012 (the 'Record Date'). The payment will be made on 13 April 2012. The second interim dividend for 2011 has not been provided for in the balance sheet at 31 December 2011, as there was no present obligation to pay the dividend at year-end.

7. Exchange Rates

The results and cash flows of the Group's United Kingdom subsidiaries have been translated into euro using the average exchange rate. The related balance sheets of the Group's United Kingdom subsidiaries at 31 December 2011 and 31 December 2010 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 2011 was Stg86.79p (year to 31 December 2010: Stg85.78p). The euro/sterling exchange rate at 31 December 2011 was Stg83.53p (31 December 2010: Stg86.08p).

8. Interest in Joint Venture

The Group's interest in BMC Groep NV, a Belgian builders merchanting business, was accounted for as a Joint Venture (J.V.) with effect from 1 January 2011 having previously been treated as an associate. The change of accounting treatment, to consolidate the Group's share of the income and expenses and assets and liabilities of the J.V., reflects new arrangements between the Group and its J.V. partner. The fair value of the net assets of the joint venture were assessed at 1 January 2011 and it was determined that there was no material difference between the carrying value of the Group's investment in the associate at 1 January 2011 and the fair value of the Group's interest in the net assets. The Group's shareholding increased to 53 per cent in July 2011 and its interest continued to be accounted for as a J.V. in line with the provisions of the shareholders' agreement.

In the twelve months to 31 December 2011, the J.V. made three acquisitions in the Belgian Merchanting sector. The businesses acquired were Stichelbout (acquired on 1 April 2011); Duyck (acquired on 31 July 2011) and Sivo (acquired on 4 November 2011). The J.V. also acquired trading assets from the Group's J.V. partner in consideration for the issue of shares in the J.V.. The Group's share of the total acquisition consideration was €9.4 million and its share of the fair value of the net assets acquired was €7.0 million. The Group's share of goodwill acquired during the year in the amount of €2.4 million was allocated to a separate cash generating unit.

The Group's share of the income and expense and assets and liabilities of the J.V. are as follows:

Group Income Statement

	Year to 31 Dec 2011 (Audited) €000
<i>Group share of:</i>	
Revenue	20,926
Operating costs and income	<u>(20,012)</u>
Operating profit	914
Finance costs (net)	<u>(181)</u>
Profit before tax	733
Income tax expense	<u>(249)</u>
Profit after tax for the financial period	<u>484</u>

Share of BMC Group NV included in Group Balance Sheet

	At 31 Dec 2011 (Audited) €000
<i>Group share of:</i>	
Non-current assets	7,332
Current assets	<u>12,175</u>
Total assets	<u>19,507</u>
Total equity	<u>6,236</u>
Non-current liabilities	3,864
Current liabilities	<u>9,407</u>
Total liabilities	<u>13,271</u>
Total equity and liabilities	<u>19,507</u>
Net debt included above	<u>(7,977)</u>



9. Movement in Working Capital

	Inventory €000	Trade and other receivables €000	Trade and other payables €000	Total €000
At 1 January 2011	271,918	305,560	(399,890)	177,588
Translation adjustment	5,025	6,833	(7,221)	4,637
Interest accrual and other movements	-	48	(81)	(33)
Assumed with joint venture	1,716	1,462	(1,542)	1,636
Acquisitions through business combinations	4,566	4,931	(2,389)	7,108
Movement in 2011	(12,008)	4,210	(10,535)	(18,333)
At 31 December 2011	271,217	323,044	(421,658)	172,603

10. Interest-Bearing Loans and Borrowings and Net Debt

	31 Dec 2011 €000	31 Dec 2010 €000
Non-current liabilities		
Bank loans	271,990	260,784
Loan notes	47,540	85,785
Finance leases	5,700	6,450
Total non-current interest-bearing loans and borrowings	325,230	353,019
Current liabilities		
Bank loans and overdrafts	5,006	112,225
Loan notes	39,507	38,690
Finance leases	597	517
Total current interest-bearing loans and borrowings	45,110	151,432
Derivatives-non current		
Included in non-current assets	(5,331)	(11,068)
Included in non-current liabilities	422	812
Derivatives-current		
Included in current assets	(5,625)	(5,798)
Included in current liabilities	739	988
Total derivatives	(9,795)	(15,066)
Cash and cash equivalents	(134,600)	(234,275)
Net debt	225,945	255,110

The reduction in non-current interest-bearing loans and borrowings and in current interest-bearing loans and borrowings reflects the maturity profile of the Group's debt at 31 December 2011 after the refinancing completed in October 2011 and debt repaid during the year.

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



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

	31 Dec 2011 €000	31 Dec 2010 €000
Net decrease in cash and cash equivalents	(101,016)	(74,753)
Net movement in derivative financial instruments	639	(381)
Movement in financial liabilities from cessation of hedge accounting	515	-
Cash-flow from movement in debt and lease financing	<u>128,271</u>	<u>144,772</u>
Change in net debt resulting from cash flows	28,409	69,638
Non-cash movement on finance lease liability extinguished	706	-
Bank loans and loan notes assumed with joint venture	(883)	-
Translation adjustment	<u>933</u>	<u>(2,280)</u>
Movement in net debt in the year	29,165	67,358
Net debt at 1 January	<u>(255,110)</u>	<u>(322,468)</u>
Net debt at 31 December	<u>(225,945)</u>	<u>(255,110)</u>
Gearing	<u>23%</u>	<u>26%</u>

12. Retirement Benefits

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

	Year ended 31 December			
	Irish Schemes		UK Schemes	
	2011 %	2010 %	2011 %	2010 %
Rate of increase in salaries	3.00*	3.00*	2.30	2.55
Discount rate	5.10	5.30	5.00	5.50
Inflation	2.00	2.00	2.90**	3.30

* 3% is assumed to apply from January 2014

** The inflation assumption shown for the UK is based on the Retail Price Index (RPI).



12. Retirement Benefits (continued)

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

	Assets		Year ended 31 December		Net asset/(deficit)	
	2011	2010	2011	2010	2011	2010
	€000	€000	€000	€000	€000	€000
At 1 January	190,943	165,764	(208,502)	(191,023)	(17,559)	(25,259)
Expected return on plan assets	13,038	12,243	-	-	13,038	12,243
Contributions by employer	7,496	5,738	-	-	7,496	5,738
Contributions by members	1,827	2,127	(1,827)	(2,127)	-	-
Benefit payments	(8,566)	(7,091)	8,566	7,091	-	-
Current service cost	-	-	(2,280)	(2,064)	(2,280)	(2,064)
Past service credit	-	-	462	-	462	-
Settlement loss	-	-	(378)	-	(378)	-
Curtailment gain	-	-	294	125	294	125
Interest cost on scheme liabilities	-	-	(11,187)	(11,134)	(11,187)	(11,134)
Actuarial gains/(losses)	(16,653)	9,580	(6,558)	(6,609)	(23,211)	2,971
Translation adjustment	2,969	2,582	(3,204)	(2,761)	(235)	(179)
At 31 December	191,054	190,943	(224,614)	(208,502)	(33,560)	(17,559)
Related deferred tax asset					4,947	2,034
Net pension liability					(28,613)	(15,525)

The pension deficit of €33,560,000 is shown in the Group balance sheet as retirement benefit obligations (non-current liabilities) with €6,012,000 relating to the two UK schemes and €27,548,000 relating to the five Irish schemes.

13. Acquisition of Subsidiary Undertakings

In the twelve months to 31 December 2011, the Group completed the acquisition of 16 plumbing and heating branches in Britain from Travis Perkins Group plc (acquired: 12 branches on 25 February 2011; 2 branches on 27 May 2011 and 2 branches on 30 June 2011). The Group also acquired three single branch merchanting businesses in Britain; Big Ord (acquired: 24 January 2011); Silverstone Builders Merchants (acquired: 1 August 2011) and Ecotube (acquired: 21 October 2011).

The total acquisition consideration was €3.94 million and the fair value of the net assets acquired was €3.0 million. The income statement impact of these transactions in the year was not material. Goodwill acquired during the year in the amount of €0.94 million (2010: €0.68 million) was allocated to the Merchanting cash generating unit.

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



14. Goodwill

Goodwill is subject to impairment testing on an annual basis and more frequently if an indicator of impairment is considered to exist. The Group, having performed impairment testing, is satisfied that the carrying value of goodwill has not been impaired. The increase in goodwill in the year principally reflects a currency translation movement.

15. Taxation

The taxation charge of €7.7 million is primarily a non-cash charge due to the unwinding of deferred tax assets and provisions recognised in prior years. The charge also reflects a reduction in UK deferred tax assets due to a fall in the UK rate of corporation tax and an increase in Irish deferred tax liabilities due to an increase in the rate of capital gains tax. No taxation benefit arose in the year from the charge for restructuring costs and the onerous lease provisions related to the Irish business. Taxation paid of €3.1 million reflected the availability of tax allowances and reliefs carried forward from prior years.

The reduction in the deferred tax asset reflects the utilisation of tax allowances and reliefs for which deferred tax assets were previously recognised.

Accounting estimates and judgements

Management is required to make judgements and estimates in relation to taxation provisions and exposures. In the ordinary course of business, the Group is party to transactions for which the ultimate tax determination may be uncertain. As the Group is subject to taxation in a number of jurisdictions, an open dialogue is maintained with Revenue Authorities with a view to the timely agreement of tax returns. The amounts provided/recognised for tax are based on management's estimate having taken appropriate professional advice. If the final determination of these matters is different from the amounts that were initially recorded such differences will impact the income tax and deferred tax provisions and assets in the period in which the determination was made.

Deferred tax

At 31 December 2011, there were unrecognised deferred tax assets in relation to capital losses of €3.7 million (2010: €3.6 million), trading losses of €9.4 million (2010: €5.1 million) and deductible temporary differences of €3.7 million (2010: €3.3 million). Deferred tax assets were not recognised in respect of capital losses as they can only be recovered against certain classes of taxable profits and the Directors cannot foresee such profits arising in the foreseeable future. The trading losses and deductible temporary differences arose in entities that have incurred losses in recent years and the Directors have no certainty as to when there will be sufficient taxable profits in the relevant entities against which they can be utilised.

16. Related Party Transactions

There have been no related party transactions or changes in related parties other than changes to joint ventures as referred to in note 8 and the appointment of Mr. Gavin Slark and Ms. Annette Flynn to the Board from 1 April 2011 and 15 March 2011 respectively from those described in the 2010 Annual Report that materially affected the financial position or the performance of the Group during 2011.



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

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

18. Events after the Balance Sheet Date

There have been no material events subsequent to 31 December 2011 that would require adjustment to or disclosure in this report.

19. Cautionary Statement

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

20. Board Approval

This announcement was approved by the Board of Grafton Group plc on 6 March 2012.