



Grafton Group plc 2012 Half-yearly Financial Report

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GRAFTON GROUP PLC

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2012

HIGHLIGHTS

- Revenue up 4.6% to €1.05 billion
- Underlying operating profit up 19.3% to €31.3 million
- Underlying profit before taxation up 18.1% to €23.8 million
- Adjusted basic earnings per share up 11.6% to 8.1 cent
- Strong cash flow from operations of €54.8 million
- UK business accounts for 76% of revenue

	2012	2011
	€m	€m
Revenue	1,055	1,008
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Underlying (before exceptional items and amortisation):		
Operating profit	31.3	26.2
Profit before tax	23.8	20.2
Profit after tax	18.7	16.7
Adjusted basic earnings per share	8.1c	7.2c
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Statutory:		
Operating profit	24.5	21.1
Profit before tax	17.1	15.1
Profit after tax	12.2	12.4
Earnings per share – basic	5.3c	5.4c
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Dividend	3.0c	2.75c
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Net debt	200.6	245.8
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Gavin Slark, Chief Executive Officer commented:

“The Group continues to make good progress in markets that remain challenging and the outlook is still uncertain. The focus on self-help will continue to be at the forefront of our activities and the Group remains in a financially robust state.”



Conference Call

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

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

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

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

The digital replay security code is: 7996472#

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



Interim Results

For the Six Months Ended 30 June 2012

Overview

The Group responded strongly to general economic and market weakness and continued to deliver performance and growth. The half-year performance demonstrated the resilience of the Group's brands and the benefit of a range of internal initiatives taken to improve profitability and returns in a difficult trading environment.

Revenue increased by 4.6 per cent to €1.05 billion. The sterling exchange rate appreciated relative to the euro and contributed to the increase in revenue. Underlying operating profit, which excludes restructuring charges and amortisation, increased by 19.3 per cent to €31.3 million (2011: €26.2 million). Underlying profit before tax increased by 18.1 per cent to €23.8 million (2011: €20.2 million).

The proportion of Group revenue from the UK business increased to 76 per cent from 72 per cent.

The merchanting business in the UK performed strongly despite a decline in volumes in the residential repair, maintenance and improvement market as the UK economy slipped back into a mild recession. The business increased profits from higher turnover, procurement gains and operating synergies. A series of measures taken to reduce costs moderated the decline in operating profit in the Irish merchanting business which experienced a fall in revenue. A contraction in consumer spending and adverse weather conditions in the second quarter contributed to a decline in revenue in the Irish retailing business. Revenue in the Belgian merchanting business increased following the completion of three acquisitions last year and the Group's share of the joint venture increased to 58 per cent from 53 per cent.

The Group's businesses were strongly cash-generative with cash flow generated from operations increasing to €54.8 million (2011: €46.2 million). The Group ended the half-year in a strong financial position with good liquidity and lower net debt that is refinanced out to 2016.

In view of the increase in underlying profits and strong cash flows, the interim dividend has been increased by 9 per cent to 3.0 cent (2011: 2.75 cent).

Segment Review

Merchanting Segment

Revenue in the merchanting segment increased by 6.9 per cent to €932.8 million (2011: €872.9 million). Operating profit before restructuring costs was €38.9 million (2011: €33.4 million), an increase of 16.4 per cent.

Merchanting revenue in the UK increased by 9.5 per cent to €780.5 million (2011: €712.6 million). Sterling turnover increased by 3.8 per cent. UK merchanting operating profit before restructuring costs increased by 18 per cent to €37.5 million (2011: €31.9 million). The increase was 12 per cent in constant currency. The operating margin increased by 34 basis points to 4.81 per cent (2011: 4.47 per cent).

Growth in the UK economy fell in the final quarter of 2011 and continued to decline in the first two quarters of this year. Consumer spending was affected by subdued pay growth which was below the rate of inflation. Consumers were focused on paying off loans and



increasing savings at a time of economic uncertainty. The merchanting business in the UK faced a challenging economic environment in the half-year and trading was also adversely affected by unseasonal weather with record levels of rainfall in the second quarter.

Volumes in the merchanting market are estimated to have declined by 4 per cent as consumers reduced spending on discretionary projects, and the allocation of funds for public housing RMI declined. Housing transactions, a forward indicator of demand in the RMI market, increased by 10 per cent.

The increase in UK merchanting turnover by 3.8 per cent comprised growth of 1.4 per cent in average daily like for like turnover, growth of 0.8 per cent due to an additional trading day and the net effect of new branches, acquisitions and branch consolidations which increased turnover by 1.6 per cent. The increase in average daily like for like turnover reflects a recovery of price increases and a measure of outperformance in a market that experienced a decline in volumes in the half-year.

The gross margin was maintained in a competitive market and overheads in the like for like business were down following the implementation of cost reduction and rationalisation measures.

Buildbase successfully focused on increasing revenue and profitability through self-help measures in a challenging market that has experienced cumulative volume declines in excess of 30 per cent in recent years. Plumbase increased revenue and profit, strengthened its market position through increased promotional activity, improved its gross margin and tightly controlled costs. The seventeen branch specialist heating spares business was integrated into Plumbase and rebranded as Sparesbase. The Jacksons business produced a satisfactory result having outperformed a weak market in the East Midlands. A new branch was opened in Worksop and redevelopment of the Grimsby branch was completed.

Selco Builders Warehouses, the trade-only builders' merchant, reported good turnover and operating profit growth while continuing to develop a strong brand identity with trade customers operating in the residential RMI market. The business performed strongly in London where fifteen of its thirty one stores are located. Last year's store openings in Catford, South London and Slough, Berkshire traded in line with expectation. Development of the business continued in July 2012 with the opening of a store in Hanworth, South East London. Later this year, the opening of a store in Tottenham, North London will improve the brand's market penetration and enhance opportunities for realising scale-related benefits.

In Northern Ireland, economic activity was broadly unchanged due to weak consumer spending. Construction output stabilised but remains one third below the pre-recession peak in 2007. Macnaughton Blair increased turnover in its general merchanting business driven primarily by strengthening its market position in the Belfast market and through an increased exposure to public sector projects in the areas of health, education and infrastructure. Market coverage improved with the acquisition of branches in Cookstown and Downpatrick. Operating profit showed significant improvement with the benefit of increased revenues and an unchanged cost base in the established business.

Buildbase Civils & Lintels, the eighteen branch specialist heavyside business, grew turnover strongly with its house building, civil engineering and groundworks customer base and also developed a presence in the infrastructure market by securing long-term contracts to supply a number of roads schemes. The drywall and insulation distribution branches that supply sub-contractors to the national and regional house builders were rebranded as NDI. The business performed strongly increasing volumes and operating profit. Plans have been developed to increase market coverage by utilising spare capacity in the existing merchanting estate to increase the number of NDI branches.



Frontline, a distributor of bathroom products increased revenue and profit through expanding its regional market coverage. www.plumbworld.co.uk, the UK's largest specialist online retailer of bathroom products, increased revenues strongly as the online share of the retail market continued to grow. Grafton was the only merchandising business among 22 organisations selected as Green Deal Providers. Sponsored by the Department of Energy and Climate Change (DECC), the Green Deal and ECO is an initiative to encourage home owners to improve the energy efficiency of their properties.

Turnover in the merchandising business in Ireland declined by 8.7 per cent to €136.4 million (2011: €149.4 million). Operating profit (before restructuring costs) was €0.9 million (2011: €1.1 million). Despite very tough trading conditions, the business continued to improve its market position gaining share from competitors who reduced capacity or exited the market.

The Irish economy emerged from recession in 2011 and modest export-led growth is forecast for 2012. Weakness in the domestic economy continued due to weak labour market conditions, declining disposable incomes and increased savings. These factors contributed to a further fall in spending on housing RMI, the primary end-use market for the Irish Merchandising business. Housing market indicators point to a further decline in output this year to 5,000 units as the market reaches an historically low and unsustainable level. These are mainly one-off houses built to demand. The very limited construction activity on scheme houses and apartments was concentrated on finishing-out units constructed prior to the market downturn.

Average daily turnover in the Heiton Buckley and Chadwicks branches declined by 13 per cent in January and February including the effect of branch consolidations. The rate of decline moderated to half that level in the March to June period. A number of the provincial branches increased turnover in the half-year benefiting from product expansion and improved facilities. The consolidation of underperforming branches in Dublin, Cork and Limerick implemented in 2011 and during the half-year significantly improved the operational efficiency and results of the enlarged branches.

Gross margins were maintained despite competitive pressures and overheads were reduced by 10 per cent. Branch consolidations generated significant fixed cost synergies and the reduction in employment in the second half of 2011 also contributed to the lower cost base.

Investment in working capital reduced ahead of the rate of decline in revenue. Customer credit exposures were tightly controlled and the proportion of revenue transacted on credit terms continued to decline.

Retailing Segment

Revenue declined by 12.4 per cent to €98.2 million (2011: €112.1 million) due to the combined effects of a decline in household spending and heavy rainfall in April and June which significantly reduced demand for gardening and seasonal products. The sharp fall in turnover resulted in an increased operating loss of €3.5 million (2011: €0.4 million) before restructuring costs.

Retail spending in Ireland continued to decline due to the weak labour market, downward pressure on incomes, public sector cutbacks and higher taxes. The rise in savings, as households reduced borrowings and increased precautionary saving, also exerted pressure on consumer spending. Consumer confidence rose over the first half in response to signs of stabilisation in the wider economy.



The decline in revenue in the Woodie's DIY business reflected a fall in transactions by 10 per cent and a decline in average transaction values by 2.4 per cent as customers switched purchases between product categories. The unseasonably wet weather in the second quarter reduced customer footfall leading to a 18 per cent decline in revenues.

The decline in revenue from gardening products ahead of the trend rate in other product categories accounted for an estimated €1 million of the increase in the operating loss in the period. The business generated an improvement in gross margin from procurement gains and targeting the source of stock shrinkage that partly offset the impact of lower turnover. It also maintained its competitive price position as the leading retailer of DIY and garden products in the Irish market. New ranges of power and hand tools, timber flooring, floor tiles and lighting introduced last year performed well and product ranges were broadened in a number of categories. In a weak consumer market, the business focused on self-help measures that increased the gross margin, maintained tight cost control and improved working capital efficiency.

The Glasnevin, North Dublin City and Blanchardstown, West Dublin stores were extended and refitted to enable improved merchandising, the expansion of product ranges and the creation of an improved shopping experience for customers.

In June 2012 an Examiner was appointed to Atlantic Home Care Ltd, which operates 13 stores as part of the DIY division, in order to facilitate a restructuring and survival of the business which has traded at a loss since 2007. The Examiner has recently indicated that he expects to seek Court approval for a scheme of arrangement on or prior to 14 September 2012 that will involve an investment by a Grafton group company. The scheme of arrangement will incorporate the closure of two stores. Since the period end, agreement has been reached with all but one (currently in discussions) of the continuing landlords to reduce store rents to current open market levels. It is anticipated that, subject to approval by the High Court, the scheme of arrangement will be implemented and the business will return to trading profitably.

Revenues were marginally lower in the eight store In-House kitchens business that has a strong position in the Dublin market. The operating result improved due to further progress in reducing costs. The business expects to improve its competitive position from cross selling opportunities following the installation of kitchen display areas in the newly extended Glasnevin and Blanchardstown Woodie's DIY stores.

Manufacturing Segment

Turnover increased by 1.8 per cent to €23.5 million (2011: €23.1 million). The segment benefitted from a restructuring and cost reduction programme and made an operating profit (before restructuring costs) of €0.5 million compared to an operating loss of €0.9 million in the first half of 2011.

The mortar business in Britain increased turnover by 10.3 per cent to €18.6 million and by 4.5 per cent in constant currency. Volumes were lower due to a decline in housing starts, which were approximately half the pre-recession level, and demand was also affected by adverse weather conditions in the second quarter. The decline in volumes supplied to the housing market was partially offset by the use of the EuroMix silo system for the production of sprayed concrete for use in infrastructure projects. The business recovered higher input costs and with a stable cost base, operating profit was similar to last year.

Turnover in the Irish Manufacturing business declined to €4.9 million (2011: €6.2 million). CPI, the loss making concrete products business was closed. The continuing manufacturing business was operated at close to breakeven with the benefit of increased



turnover in MFP, the PVC drainage and roofline products business, derived from growth opportunities in the infrastructure market and further cost reduction measures.

Financial Review

The Group achieved good growth in underlying profit, generated strong cash flows, and ended the half-year in a strong financial position.

Cash Flow

Cash flow from operations after absorbing redundancy and other costs of €5.0 million amounted to €54.8 million (2011: €46.2 million). This included cash flow of €13.5 million generated from the tight control of working capital. Capital expenditure of €10.6 million (2011: €13.0 million) was concentrated on asset replacement and renewal projects and also included expenditure of €5.6 million on development projects. Net interest and taxation paid was €8.0 million (2011: €9.3 million). Cash outflows also included €11.0 million to cover the second interim dividend for 2011.

Net Debt

Net debt fell by €25.3 million to €200.6 million (31 December 2011: €225.9 million). The gearing ratio declined to 20 per cent from 23 per cent at the end of 2011. Cash deposits and balances were €138.5 million at 30 June 2012 and undrawn committed revolving term bank facilities were €112 million. The average maturity of Group gross debt at 30 June 2012 was 3.4 years.

Pension

The deficit on defined benefit pension schemes was €49.3 million (31 December 2011: €28.6 million) net of the related deferred tax asset. The market value of scheme assets increased to €204.4 million (31 December 2011: €191.1 million). Scheme liabilities were €262.1 million (31 December 2011: €224.6 million), an increase of €37.5 million that included €30.5 million due to a reduction in the rates used to discount liabilities in line with the fall in AA corporate bonds with a maturity of more than ten years.

Taxation

The taxation charge of €4.8 million related mainly to the unwinding of deferred tax assets recognised in prior years in accordance with International Financial Reporting Standards and a charge to reduce the carrying value of net deferred tax assets in the UK business following a reduction in the UK corporation tax rate from 25 per cent to 24 per cent in April 2012.

Since the period end, the UK Revenue has confirmed the Group's entitlement to tax deductions against which a corporation tax provision of €23 million was prudently retained due to uncertainty concerning the outcome. This provision will be available for release through the 2012 full year Income Statement.

Shareholders' Funds

Shareholders' funds were €990.9 million at 30 June 2012 (31 December 2011: €982.8 million). Shareholders' funds were increased by profit after tax for the half-year of €12.2 million and a net exchange gain of €30.2 million on translation of net assets in the UK business at a more favorable sterling/euro exchange rate. The other significant movements on shareholders' funds were payment of a second interim dividend for 2011 of €11.0 million and an actuarial loss after tax of €24.3 million on the defined benefit pension schemes.

Net Finance Income and Expense

The net finance income and expense charge was €7.4 million (2011: €6.0 million). The net finance expense for 2012 includes a net charge of €0.1 million due to movements on



hedges, foreign exchange, lease interest and net pension returns and compares to a net credit of €1.6 million in 2011.

The net charge for bank and loan note interest reduced to €7.4 million (2011: €7.7 million). This reflects lower average debt, a higher bank margin payable on loans refinanced in the second half of 2011 and commitment fees on undrawn revolving term bank facilities put in place in October 2011 as part of the Group's fund raising in the capital markets.

Risks and Uncertainties

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

Trading in the Group's business is affected by economic conditions in the UK, Ireland and Belgium where the Group's earnings are generated. Demand in the builders merchandising markets in the UK, Ireland and Belgium and in the Irish DIY and UK mortar markets are sensitive to economic conditions generally including credit conditions, consumer confidence, interest rates, employment trends, inflation, demographic factors and housing market conditions. More difficult market conditions would reduce demand in the Group's markets resulting in lower turnover and operating profit. Adverse weather conditions would also reduce turnover and operating profit in the Group's businesses.

Outlook

The outlook for the UK economy is uncertain but it is expected to face headwinds over the remainder of the year due to fiscal consolidation, tight credit conditions and a decline in exports to the euro area. There may be a mild recovery in consumer spending as pressure on net take home pay eases but weakness in the wider economy is expected to weigh on demand in the residential RMI market despite the need for significant investment in an ageing housing stock following five years of under spending.

In Ireland, the economy has stabilised but the outlook continues to be challenging. Demand is expected to remain weak in the merchandising and DIY business due to the weak labour market, pressure on disposable incomes and households continuing to pay down debt.

UK merchandising daily like for like sales were flat in July and August. In Ireland average daily merchandising revenues were down 12.5% which was impacted by branch consolidations. Irish retailing revenues were down 7% in the same period.

The Group's first half performance demonstrates the range of self-help measures successfully implemented in response to the challenging market conditions. There will be a renewed focus over the remainder of the year on strengthening the market position of the Group's businesses and on profit improvement measures that will add long-term value for shareholders.



Grafton Group plc

Group Condensed Income Statement

For the six months ended 30 June 2012

	Notes	Pre- Exceptional items 2012 (Unaudited) €000	Exceptional items 2012 (Unaudited) €000	Total 2012 (Unaudited) €000	Pre- Exceptional items 2011 (Unaudited) €000	Exceptional items 2011 (Unaudited) €000	Total 2011 (Unaudited) €000
Revenue	2	1,054,523	-	1,054,523	1,008,075	-	1,008,075
Operating costs and income	3	(1,024,527)	(5,493)	(1,030,020)	(982,959)	(3,972)	(986,931)
Operating profit		29,996	(5,493)	24,503	25,116	(3,972)	21,144
Finance expense	4	(15,404)	-	(15,404)	(14,108)	-	(14,108)
Finance income	4	7,963	-	7,963	8,072	-	8,072
Profit before tax		22,555	(5,493)	17,062	19,080	(3,972)	15,108
Income tax	15	(4,991)	177	(4,814)	(3,326)	606	(2,720)
Profit after tax for the financial period		17,564	(5,316)	12,248	15,754	(3,366)	12,388
Earnings per ordinary share - basic	5			5.28c			5.35c
Earnings per ordinary share - diluted	5			5.26c			5.31c



Grafton Group plc

Group Condensed Balance Sheet as at 30 June 2012

	30 June 2012 (Unaudited) €000	30 June 2011 (Unaudited) €000	31 Dec 2011 (Audited) €000
ASSETS			
Non-current assets			
Goodwill	577,454	542,099	566,336
Intangible assets	975	3,356	2,241
Property, plant and equipment	563,865	542,879	564,884
Deferred tax assets	37,031	36,121	36,331
Retirement benefit assets	-	4,728	-
Derivative financial instruments	3,587	4,238	5,331
Financial assets	157	140	152
Total non-current assets	1,183,069	1,133,561	1,175,275
Current assets			
Inventories	311,319	290,062	271,217
Trade and other receivables	367,051	349,700	323,044
Derivative financial instruments	1,794	4,558	5,625
Cash and cash equivalents	138,509	212,063	134,600
Properties held for sale	19,346	15,744	16,231
Total current assets	838,019	872,127	750,717
Total assets	2,021,088	2,005,688	1,925,992
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Equity share capital	11,664	11,656	11,656
Share premium account	293,009	292,528	292,545
Capital redemption reserve	905	905	905
Revaluation reserve	30,464	31,645	30,566
Shares to be issued reserve	3,885	4,628	4,588
Cash flow hedge reserve	(677)	(477)	(831)
Foreign currency translation reserve	(80,578)	(176,172)	(110,767)
Retained earnings	737,962	796,057	759,908
Treasury shares held	(5,746)	(5,746)	(5,746)
Total equity	990,888	955,024	982,824
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	319,759	371,430	325,230
Provisions	31,111	18,394	32,805
Retirement benefit obligations	57,662	18,534	33,560
Derivative financial instruments	273	343	422
Deferred tax liabilities	39,307	35,831	39,872
Total non-current liabilities	448,112	444,532	431,889
Current liabilities			
Interest-bearing loans and borrowings	23,773	94,513	45,110
Trade and other payables	512,007	468,126	421,658
Current income tax liabilities	36,056	36,970	34,289
Derivative financial instruments	726	398	739
Provisions	9,526	6,125	9,483
Total current liabilities	582,088	606,132	511,279
Total liabilities	1,030,200	1,050,664	943,168
Total equity and liabilities	2,021,088	2,005,688	1,925,992



Grafton Group plc Group Condensed Cash Flow Statement

For the six months ended 30 June 2012

	Six Months to 30 June 2012 (Unaudited) €000	Six Months to 30 June 2011 (Unaudited) €000
Profit before taxation	17,062	15,108
Finance income	(7,963)	(8,072)
Finance expense	15,404	14,108
Operating profit	24,503	21,144
Depreciation	19,804	21,039
Intangible amortisation	1,266	1,097
Share-based payments charge/(credit)	310	(630)
Non-cash movement in operating provisions	481	2,884
Claims paid on provisions	(1,267)	(2,389)
Non-cash movement on asset impairment	523	-
Profit on sale of property, plant and equipment	(183)	(1,007)
Contributions to pension schemes in excess of IAS 19 charge	(4,177)	(1,566)
Decrease in working capital	13,501	5,593
Cash generated from operations	54,761	46,165
Interest paid	(8,669)	(7,880)
Income taxes paid	(433)	(2,444)
Cash flows from operating activities	45,659	35,841
Investing activities		
<i>Inflows</i>		
Proceeds from sale of property, plant and equipment	1,847	3,792
Interest received	1,097	991
Sale of financial assets	-	33
	2,944	4,816
<i>Outflows</i>		
Acquisition of subsidiary undertakings and businesses	(1,473)	(2,651)
Investment in joint venture	(650)	(1,030)
Net cash/(overdraft) assumed with joint venture	69	(23)
Deferred acquisition consideration paid	(1,098)	-
Purchase of property, plant and equipment	(10,558)	(13,049)
	(13,710)	(16,753)
Cash flows from investing activities	(10,766)	(11,937)
Financing activities		
<i>Inflows</i>		
Proceeds from the issue of share capital	472	1,336
Proceeds from borrowings	10,687	59,122
	11,159	60,458
<i>Outflows</i>		
Repayment of borrowings	-	(53,722)
Dividends paid	(11,015)	(10,421)
Movement on finance lease liabilities	(162)	(252)
Redemption of loan notes payable net of derivatives	(34,877)	(32,034)
	(46,054)	(96,429)
Cash flows from financing activities	(34,895)	(35,971)
Net decrease in cash and cash equivalents	(2)	(12,067)
Cash and cash equivalents at 1 January	134,600	234,275
Effect of exchange rate fluctuations on cash held	3,911	(10,145)
Cash and cash equivalents at the end of the period	138,509	212,063



Grafton Group plc
Group Condensed Statement of Comprehensive Income

For the six months ended 30 June 2012

	Six months to 30 June 2012 (Unaudited) €000	Six months to 30 June 2011 (Unaudited) €000
Profit after tax for the financial period	<u>12,248</u>	<u>12,388</u>
Other comprehensive income		
Currency translation effects		
- on foreign currency net investments	31,683	(43,286)
- on foreign currency borrowings and derivatives designated as net investment hedges	(1,494)	3,424
Actuarial (loss)/gain on Group defined benefit pension schemes	(28,451)	1,459
Deferred tax on Group defined benefit pension schemes	4,157	(549)
Fair value movement on cash flow hedges:		
- Effective portion of changes in fair value of cash flow hedges	(157)	290
- Net change in fair value of cash flow hedges transferred from equity	331	805
Deferred tax on cash flow hedges	<u>(20)</u>	<u>(132)</u>
Total other comprehensive income	<u>6,049</u>	<u>(37,989)</u>
Total comprehensive income for the financial period	<u><u>18,297</u></u>	<u><u>(25,601)</u></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
Six months to 30 June 2012 (Unaudited)										
At 1 January 2012	11,656	292,545	905	30,566	4,588	(831)	(110,767)	759,908	(5,746)	982,824
Profit after tax for the financial period	-	-	-	-	-	-	-	12,248	-	12,248
Total other comprehensive income										
Actuarial loss on pensions (net of tax)	-	-	-	-	-	-	-	(24,294)	-	(24,294)
Movement in cash flow hedge reserve (net of tax)	-	-	-	-	-	154	-	-	-	154
Currency translation effect on foreign currency net investments	-	-	-	-	-	-	31,683	-	-	31,683
Currency translation effect on foreign currency borrowings and derivatives designated as net investment hedges	-	-	-	-	-	-	(1,494)	-	-	(1,494)
Total other comprehensive income	-	-	-	-	-	154	30,189	(24,294)	-	6,049
Transactions with owners of the Company recognised directly in equity										
Dividends paid	-	-	-	-	-	-	-	(11,015)	-	(11,015)
Issue of Grafton Units (net of issue expenses)	8	464	-	-	-	-	-	-	-	472
Share based payments charge	-	-	-	-	310	-	-	-	-	310
Transfer from shares to be issued reserve	-	-	-	-	(1,013)	-	-	1,013	-	-
Transfer from revaluation reserve	-	-	-	(102)	-	-	-	102	-	-
	8	464	-	(102)	(703)	-	-	(9,900)	-	(10,233)
At 30 June 2012	11,664	293,009	905	30,464	3,885	(677)	(80,578)	737,962	(5,746)	990,888
Six months to 30 June 2011 (Unaudited)										
At 1 January 2011	11,632	291,216	905	31,747	5,258	(1,440)	(136,310)	793,078	(5,746)	990,340
Profit after tax for the financial period	-	-	-	-	-	-	-	12,388	-	12,388
Total other comprehensive income										
Actuarial gain on pensions (net of tax)	-	-	-	-	-	-	-	910	-	910
Movement in cash flow hedge reserve (net of tax)	-	-	-	-	-	963	-	-	-	963
Currency translation effect on foreign currency net investments	-	-	-	-	-	-	(43,286)	-	-	(43,286)
Currency translation effect on foreign currency borrowings and derivatives designated as net investment hedges	-	-	-	-	-	-	3,424	-	-	3,424
Total other comprehensive income	-	-	-	-	-	963	(39,862)	910	-	(37,989)
Transactions with owners of the Company recognised directly in equity										
Dividends paid	-	-	-	-	-	-	-	(10,421)	-	(10,421)
Issue of Grafton Units (net of issue expenses)	24	1,312	-	-	-	-	-	-	-	1,336
Share based payments credit	-	-	-	-	(630)	-	-	-	-	(630)
Transfer from revaluation reserve	-	-	-	(102)	-	-	-	102	-	-
	24	1,312	-	(102)	(630)	-	-	(10,319)	-	(9,715)
At 30 June 2011	11,656	292,528	905	31,645	4,628	(477)	(176,172)	796,057	(5,746)	955,024



	Equity share capital	Share premium account	Capital redemption reserve	Revaluation reserve	Shares to be issued reserve	Cash Flow hedge reserve	Foreign currency translation reserve	Retained earnings	Treasury shares	Total equity
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Year to 31 December 2011 (Audited)										
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 other comprehensive income	-	-	-	(976)	-	609	25,543	(19,123)	-	6,053
Transactions with owners of the Company recognised directly in equity										
Dividends paid	-	-	-	-	-	-	-	(16,797)	-	(16,797)
Issue of Grafton Units (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



Grafton Group plc
Notes to Condensed Interim Financial Statements for the half year ended 30 June 2012

1. General Information

The condensed consolidated interim financial statements for the half-year ended 30 June 2012 are unaudited but have been reviewed by the auditor whose report is set out on page 27.

The financial information presented in this report has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union. These condensed interim financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements in respect of the year ended 31 December 2011 that are available on the Company's website www.graftonplc.com.

The financial information included in this report in relation to the year ended 31 December 2011 does not comprise statutory annual financial statements within the meaning of section 19 of the Companies (Amendment) Act 1986. Those 2011 annual financial statements have been filed with the Registrar of Companies and the audit report thereon was unqualified and did not contain any matters to which attention was drawn by way of emphasis.

Basis of Preparation, Accounting Policies and Estimates

(a) Basis of Preparation and Accounting Policies

The accounting policies applied by the Group in the condensed interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2011.

The adoption of other new standards and interpretations (as set out in the 2011 Annual Report) that became effective for the Group's financial statements for the year ended 31 December 2012 did not have any significant impact on the interim financial statements.

(b) Estimates

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

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2011.



2. Segmental Analysis

The amount of revenue and operating profit/(loss) under the Group's operating segments of Merchancing, Retailing and Manufacturing is as follows:

	Six months to 30 June 2012 (Unaudited) €000	Six months to 30 June 2011 (Unaudited) €000
Revenue		
Merchancing	932,767	872,863
Retailing	98,223	112,085
Manufacturing	26,468	25,975
Less: Inter-segment revenue - manufacturing	(2,935)	(2,848)
	<u>1,054,523</u>	<u>1,008,075</u>
Segment operating profit/(loss) before restructuring costs		
Merchancing	38,928	33,436
Retailing	(3,523)	(431)
Manufacturing	501	(925)
	<u>35,906</u>	<u>32,080</u>
Restructuring costs		
Merchancing	(2,646)	(2,376)
Retailing	(907)	(1,547)
Manufacturing	(1,940)	(49)
	<u>(5,493)</u>	<u>(3,972)</u>
Segment operating profit/(loss) after restructuring costs		
Merchancing	36,282	31,060
Retailing	(4,430)	(1,978)
Manufacturing	(1,439)	(974)
	<u>30,413</u>	<u>28,108</u>
Reconciliation to consolidated operating profit		
Central activities	(4,644)	(5,867)
Intangible amortisation	(1,266)	(1,097)
Operating profit	<u>24,503</u>	<u>21,144</u>
Finance expense	(15,404)	(14,108)
Finance income	7,963	8,072
Profit before tax	<u>17,062</u>	<u>15,108</u>
Income tax	(4,814)	(2,720)
Profit after tax for the financial period	<u>12,248</u>	<u>12,388</u>



2. Segmental Analysis (continued)

Operating segment assets are analysed below:

	30 June 2012 (Unaudited) €000	30 June 2011 (Unaudited) €000
Segment assets		
Merchanting	1,684,382	1,572,970
Retailing	99,586	114,969
Manufacturing	56,042	55,901
	<u>1,840,010</u>	<u>1,743,840</u>
Unallocated assets		
Deferred tax assets	37,031	36,121
Retirement benefit assets	-	4,728
Financial assets	157	140
Derivative financial instruments	5,381	8,796
Cash and cash equivalents	138,509	212,063
	<u>2,021,088</u>	<u>2,005,688</u>

The amount of revenue by geographic area is as follows:

	Six months to 30 June 2012 (Unaudited) €000	Six months to 30 June 2011 (Unaudited) €000
Revenue		
United Kingdom	799,180	729,544
Ireland	239,492	267,715
Belgium	15,851	10,816
	<u>1,054,523</u>	<u>1,008,075</u>

3. Exceptional Items

	Six months to 30 June 2012 (Unaudited) €000	Six months to 30 June 2011 (Unaudited) €000
Restructuring costs:		
Redundancy and other costs	4,970	3,972
Impairment of property, plant and equipment	523	-
	<u>5,493</u>	<u>3,972</u>

The 2012 exceptional items of €5.5 million (2011: €4.0 million) largely relate to redundancy costs in the merchanting business and in the closure of the CPI mortar manufacturing business in Ireland along with asset impairment in the DIY business.



4. Finance Expense and Finance Income

	Six months to 30 June 2012 (Unaudited) €000	Six months to 30 June 2011 (Unaudited) €000
Finance expense		
Bank loans and overdrafts	* (6,884)	(6,437)
Interest on loan notes	* (1,057)	(2,187)
Net change in fair value of cash flow hedges transferred from equity	(331)	(805)
Interest on finance leases	(156)	(208)
Finance cost on pension scheme liabilities	# (5,712)	(5,594)
Fair value movement on hedged financial liabilities	(362)	7,884
Fair value movement on fair value hedges	158	(6,725)
Ineffectiveness on cash flow hedges	(12)	(36)
Foreign exchange loss	(1,048)	-
	<u>(15,404)</u>	<u>(14,108)</u>
Finance income		
Foreign exchange gain	555	157
Fair value movement on derivatives (Cross Currency Interest Rate Swaps (CCIRS) not in hedging relationships)	680	-
Ineffectiveness on net investment hedge	-	453
Interest income on bank deposits	* 555	944
Expected return on pension plan assets	# 6,173	6,518
	<u>7,963</u>	<u>8,072</u>
Net finance expense	<u>(7,441)</u>	<u>(6,036)</u>

* Net bank/loan note interest of €7.4 million (June 2011: €7.7 million).

Net expected pension return of €0.5 million (June 2011: return of €0.9 million).



5. Earnings per Share

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

	Half Year 30 June 2012 (Unaudited) €000	Half Year 30 June 2011 (Unaudited) €000
Numerator for basic, adjusted and diluted earnings per share:		
Profit after tax for the financial period	12,248	12,388
Numerator for basic and diluted earnings per share	<u>12,248</u>	<u>12,388</u>
Intangible amortisation after tax	1,108	960
Net rationalisation and impairment costs	5,316	3,366
Numerator for adjusted earnings per share	<u><u>18,672</u></u>	<u><u>16,714</u></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	231,903,120	231,663,780
Effect of potential dilutive Grafton Units	1,148,493	1,716,379
Denominator for diluted earnings per share	<u><u>233,051,613</u></u>	<u><u>233,380,159</u></u>
Earnings per share (cent)		
- Basic	5.28	5.35
- Diluted	5.26	5.31
Adjusted earnings per share (cent)		
- Basic	8.05	7.21
- Diluted	8.01	7.16

6. Dividends

The payment in 2012 of a second interim dividend for 2011 of 4.75 cent on the 'C' Ordinary shares in Grafton Group (UK) plc from UK-sourced income amounted to €11.02 million.

An interim dividend for 2012 of 3.0 cent per share will be paid on the 'C' Ordinary Share in Grafton Group (UK) plc from UK-sourced income to all holders of Grafton Units on the Company's Register of Members at the close of business on 7 September 2012 (the 'Record Date'). The cash consideration will be paid on 5 October 2012. A liability in respect of the interim dividend has not been recognised at 30 June 2012, as there was no present obligation to pay the dividend at the half-year.

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 for the period which approximates actual exchange rates at the date of transactions. The related balance sheets of the Group's United Kingdom subsidiaries at 30 June 2012, 30 June 2011 and 31 December 2011 have been translated at the rate of exchange ruling at the balance sheet date.



7. Exchange Rates (continued)

The average euro/sterling rate of exchange for the six months ended 30 June 2012 was Stg82.25p (six months to 30 June 2011: Stg86.82p and twelve months to 31 December 2011: Stg86.79p). The euro/sterling exchange rate at 30 June 2012 was Stg80.68p (30 June 2011: Stg90.26p and 31 December 2011: Stg83.53p)

8. Interest in Joint Venture

The Group has proportionally consolidated its interest in BMC Groep NV, its Belgian joint venture. The Group's shareholding increased from 53 per cent to 58 per cent in May 2012 and its interest continued to be accounted for as a joint venture in line with the provisions of the shareholders' agreement. The additional investment in the JV including net debt acquired amounted to €1,458,000 and the share of the fair value of the net assets acquired was €1,080,000. Goodwill of €378,000 was allocated to a separate cash generating unit for the JV.

The Group share of the income and expense and assets and liabilities of its Belgian joint venture for the half-year ended 30 June 2012 is shown below.

Share of BMC Groep NV included in 2012 Group Income Statement

	Six months To 30 June 2012 (Unaudited) €000	Six months To 30 June 2011 (Unaudited) €000
<i>Group share of:</i>		
Revenue	15,851	10,816
Operating costs and income	<u>(15,352)</u>	<u>(10,299)</u>
Operating profit	499	517
Finance costs (net)	<u>(168)</u>	<u>(63)</u>
Profit before tax	331	454
Income tax expense	<u>(68)</u>	<u>(145)</u>
Profit after tax for the financial period	263	309

Share of BMC Groep NV included in Group Balance Sheet

	30 June 2012 (Unaudited) €000	30 June 2011 (Unaudited) €000
<i>Group share of:</i>		
Non-current assets	7,698	3,685
Current assets	15,006	9,460
Total assets	22,704	13,145
Total equity	<u>6,750</u>	<u>5,060</u>
Non-current liabilities	4,488	1,600
Current liabilities	11,466	6,485
Total liabilities	15,954	8,085
Total equity and liabilities	22,704	13,145
Net debt included above	<u>9,792</u>	<u>3,419</u>



9. Movement in Working Capital

	Inventory €000	Trade and other receivables €000	Trade and other payables €000	Total €000
At 1 January 2012	271,217	323,044	(421,658)	172,603
Translation adjustment	5,955	8,898	(9,799)	5,054
Interest accrual and other movements	-	19	241	260
Assumed with joint venture	491	660	(417)	734
Acquisitions through business combinations	364	849	-	1,213
Movement in 2012	33,292	33,581	(80,374)	(13,501)
At 30 June 2012	311,319	367,051	(512,007)	166,363

10. Interest-Bearing Loans and Borrowings and Net debt

	30 June 2012 €000	30 June 2011 €000	31 Dec 2011 €000
Non-current liabilities			
Bank loans	281,871	321,319	271,990
Loan notes	32,602	43,969	47,540
Finance leases	5,286	6,142	5,700
Total non-current interest bearing loans and borrowings	319,759	371,430	325,230
Current liabilities			
Bank loans and overdrafts	6,512	58,055	5,006
Loan notes	16,397	35,913	39,507
Finance leases	864	545	597
Total current interest bearing loans and borrowings	23,773	94,513	45,110
Derivatives-non current			
Included in non-current assets	(3,587)	(4,238)	(5,331)
Included in non-current liabilities	273	343	422
Derivatives-current			
Included in current assets	(1,794)	(4,558)	(5,625)
Included in current liabilities	726	398	739
Total derivatives	(4,382)	(8,055)	(9,795)
Cash and cash equivalents	(138,509)	(212,063)	(134,600)
Net debt	200,641	245,825	225,945

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 30 June 2012 and net debt repaid during the period.

The decrease in derivatives (current and non-current) at 30 June 2012 is mainly due to three cross currency interest rates swaps (CCIRS) and one interest rate swap finishing in the half year as well as reflecting the underlying movement in the fair values of the remaining cross- currency and interest rate swaps.



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

	30 June 2012 €000	30 June 2011 €000
Net decrease in cash and cash equivalents	(2)	(12,067)
Net movement in derivative financial instruments	624	1,059
Cash-flow from movement in debt and lease financing	24,352	26,886
Change in net debt resulting from cash flows	24,974	15,878
Bank loans and loan notes assumed with joint venture	(877)	(4,039)
Translation adjustment	1,207	(2,554)
Movement in net debt in the period	25,304	9,285
Net debt at 1 January	(225,945)	(255,110)
Net debt at end of the period	(200,641)	(245,825)
Gearing	20%	26%

12. Retirement Benefits

The principal financial assumptions employed in the valuation of the Group's defined benefit scheme liabilities for the current reporting period and the 2011 year were as follows:

	Irish Schemes		UK Schemes	
	At 30 June 2012	At 31 Dec 2011	At 30 June 2012	At 31 Dec 2011
	%	%	%	%
Rate of increase in salaries	3.00%*	3.00%*	2.15%	2.30%
Discount rate	4.00%	5.10%	4.70%	5.00%
Inflation	2.00%	2.00%	2.70%	2.90%

*3% applies from 2 January 2014



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		Liabilities		Net asset/(deficit)	
	Half year 30 June 2012 €000	Year to 31 Dec 2011 €000	Half year 30 June 2012 €000	Year to 31 Dec 2011 €000	Half year 30 June 2012 €000	Year to 31 Dec 2011 €000
At 1 January	191,054	190,943	(224,614)	(208,502)	(33,560)	(17,559)
Expected return on plan assets	6,173	13,038	-	-	6,173	13,038
Contributions by employer	5,077	7,496	-	-	5,077	7,496
Contributions by members	894	1,827	(894)	(1,827)	-	-
Benefit payments	(3,671)	(8,566)	3,671	8,566	-	-
Current service cost	-	-	(1,092)	(2,280)	(1,092)	(2,280)
Past service cost	-	-	-	462	-	462
Settlement loss	-	-	-	(378)	-	(378)
Curtailment gain	-	-	192	294	192	294
Interest cost on scheme liabilities	-	-	(5,712)	(11,187)	(5,712)	(11,187)
Actuarial gains/(losses)	1,334	(16,653)	(29,785)	(6,558)	(28,451)	(23,211)
Translation adjustment	3,582	2,969	(3,871)	(3,204)	(289)	(235)
At 30 June	204,443	191,054	(262,105)	(224,614)	(57,662)	(33,560)
Related deferred tax asset					8,381	4,947
Net pension liability					(49,281)	(28,613)

The pension scheme deficit of €57,662,000 is shown in the Group balance sheet as retirement benefit obligations (non-current liabilities) with €10,203,000 relating to the two UK schemes and €47,459,000 relating to the five Irish schemes. Changes in the rates used to discount liabilities in line with changes in corporate bond rates increased scheme liabilities by €30.5 million.

13. Acquisitions

In the six months to 30 June 2012 the Group acquired two merchanting branches in Northern Ireland previously owned by the Brooks Group (acquired: 5 April 2012).

The total acquisition consideration was €1.5 million and the fair value of the net assets acquired was €1.3 million. The income statement impact of these transactions in the half year was not material. Goodwill acquired during the half year in the amount of €0.2 million was allocated to the Merchanting cash generating unit.

Details of the acquisitions made in 2011 are disclosed in the Group's 2011 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. There were no indicators of impairment during the half year. The Board is satisfied that the carrying value of goodwill has not been impaired. The increase in goodwill in the period principally reflects a currency translation movement.



15. Taxation

The taxation expense for the half year is an estimate based on the current expected full year tax rate. The tax rate of 28% (2011: 18%) largely reflects 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.

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 30 June 2012, there were unrecognised deferred tax assets in relation to capital losses of €3.1 million (31 December 2011: €3.7 million), trading losses of €10.2 million (31 December 2011: €9.4 million) and deductible temporary differences of €4.3 million (31 December 2011: €3.7 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 the increase in the Group's holding in the Belgian joint venture as referred to in Note 8 from those described in the 2011 Annual Report that materially affected the financial position or the performance of the Group during the half year to 30 June 2012.

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

Share awards over 1,180,300 Grafton Units were granted under the LTIP on 18 April 2012. The total fair value of the awards is €3.3 million and this will be charged to the income statement over the three year vesting period.

18. Issue of Shares

During the period 159,429 Grafton Units were issued under the Group's Savings Related Share Option Scheme (SAYE) to eligible UK employees.

19. Events after the Balance Sheet Date

There have been no material events subsequent to 30 June 2012 that would require adjustment to or disclosure in this report except that in August 2012, the Group received confirmation of its entitlement to certain tax deductions. The Group had appropriately provided for a tax exposure due to the uncertainty surrounding the potential outcome and expects that around €23 million will be available for release to the income statement in the second half of the year.



20. Cautionary Statement

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

21. Board Approval

These condensed consolidated interim financial statements were approved by the Board of Grafton Group plc on 28 August 2012.

Directors' Responsibility Statement in respect of the half-yearly financial report for the six months ended 30 June 2012

Each of the directors listed in the 2011 Annual Report confirms their responsibility for preparing the half-yearly financial report in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007, the Transparency Rules of the Republic of Ireland's Financial Regulator and with IAS 34 *Interim Financial Reporting* as adopted by the EU. We confirm that, to the best of each person's knowledge and belief:

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

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

On behalf of the Board:

Gavin Slark
Chief Executive Officer

Colm Ó Nualláin
Finance Director



Independent Review Report to Grafton Group plc

Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2012 which comprises the Group Condensed Income Statement, the Group Condensed Statement of Comprehensive Income, the Group Condensed Balance Sheet, the Group Condensed Cash Flow Statement and the Group Condensed Statement of Changes in Equity and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors’ responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the TD Regulations and the Transparency Rules of the Republic of Ireland’s Financial Regulator.

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

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly report for the six months ended 30 June 2012 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU, the TD Regulations and the Transparency Rules of the Republic of Ireland’s Financial Regulator.



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

28 August 2012