Grafton Group plc
Annual Report 2013

Contents

Group Profile

Grafton Group plc ("Grafton" or "the Group") is primarily a distributor of building materials in the UK, Ireland and Belgium. The Group is also the market leader in DIY retailing in Ireland and is the largest manufacturer of dry mortar in Britain.

Grafton has over 9,000 employees and operates from over 600 locations.

Grafton Group plc is headquartered in Ireland and its units (shares) are quoted on the London Stock Exchange where it is a member of the FTSE 250 Index.

Grafton has strong national or regional positions in the merchanting, retailing and mortar manufacturing markets.

Grafton's strategy is to be an international trade supplier of construction products and related activities, built on service, supported by a strong financial base and operated within a framework of high business ethics and integrity.

Grafton is a branch-based, sales-led organisation with a strategy that retains the flexibility to adjust to new ways of working whether driven by technology or an evolution in customers' requirements and demands. The Group aims to stay close to its customers as it is they who will help to define the future shape of its business.

The Merchanting Segment operates from 556 locations. In Britain, Grafton operates the third largest builders merchanting business and is among the top four plumbers merchanting businesses. The Merchanting Segment also incorporates the largest merchanting business in Ireland. The network of merchanting branches supply mainly trade customers engaged in residential repair, maintenance and improvement projects. The merchanting business trades under the Buildbase, Selco and Plumbase brands in Britain and under the Heiton Buckley, Chadwicks and Macnaughton Blair brands in Ireland. These brands have leading national or regional market positions. The Merchanting business in Belgium trades from 17 branches.

The Retailing Segment incorporates the largest DIY retailing business in Ireland trading nationally from 38 stores under the Woodie's DIY brand.

The Manufacturing Segment operates the largest dry mortar business in Britain from 9 plants that provide regional market coverage in England and Scotland.

Financial Highlights

- Revenue up 8% to £1.9 billion
- Underlying operating profit up 27% to £77.2 million from £61.0 million
- Group operating profit margin increased by 60 basis points to 4.1% from 3.5%
- Underlying profit before taxation up 35% to £64.9 million from £48.1 million
- Adjusted basic earnings per share up 48% to 22.3p
- 21% dividend increase reflects continuing improvement in trading performance
- Strong cash generation from operations of £95.3 million and year-end gearing of 15%

	2013 £'m	2012* £'m	% change
Revenue	**1,900**	1,761	+8%
Underlying			
(Before pension credit and property impairment in 2013 and before restructuring costs and amortisation in 2012)			
Operating profit	**77.2**	61.0	+27%
Profit before tax	**64.9**	48.1	+35%
Profit after tax	**51.7**	35.0	+48%
Adjusted earnings per share – basic	**22.3p**	15.1p	+48%
Statutory			
Operating profit	**80.0**	37.9	+111%
Profit before tax	**67.7**	25.1	+170%
Profit after tax	**62.1**	31.6	+96%
Earnings per share – basic	**26.8p**	13.6p	+97%
Dividend	**8.5p**	7.0p	+21%
Net debt	**133.7**	164.9	-19%
Total equity	**874.3**	817.6	+7%

**Restated as required by IFRS following the adoption of IAS 19 (Revised) 'Employee Benefits'.*

Operating Highlights

- Strong UK merchanting performance benefited from self-help measures adopted over recent years and expansion of the branch network
- The merchanting business in Ireland returned to growth in the second half
- DIY market in Ireland stabilised
- Tight management of gross margins in competitive markets and disciplined control of costs

"The Group recovery is making good progress in markets that are still challenging. We are maintaining the disciplined approach to costs and margins demonstrated by these results. Grafton continues to develop a balanced growth strategy combining both organic growth and acquisitive growth where appropriate. Trading in the current year has been encouraging and, while we expect recovery in our markets to be gradual, the Group is confident of building on its strong 2013 performance in 2014."

Gavin Slark,
Chief Executive Officer

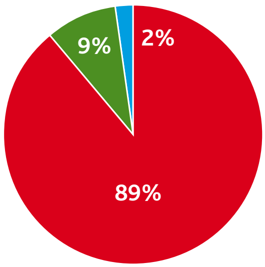
Segment Trading Locations

	Trading Locations			
	UK	Ireland	Belgium	Total
Builders Merchanting	273	40	17	**330**
Plumbers Merchanting	224	2	-	**226**
Merchanting Segment	497	42	17	**556**
Retailing Segment	-	45	-	**45**
Manufacturing Segment	9	1	-	**10**
Total	506	88	17	**611**

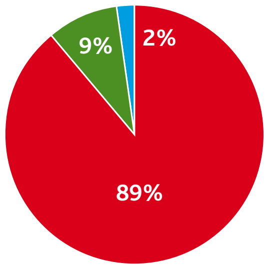
Segment Revenue

- Merchanting
- Retailing
- Manufacturing

2013
£1.90bn

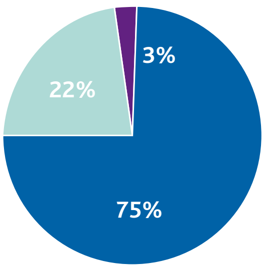


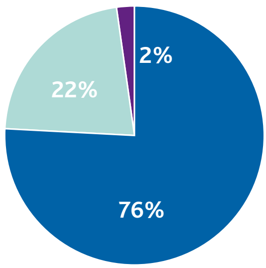
2012
£1.76bn



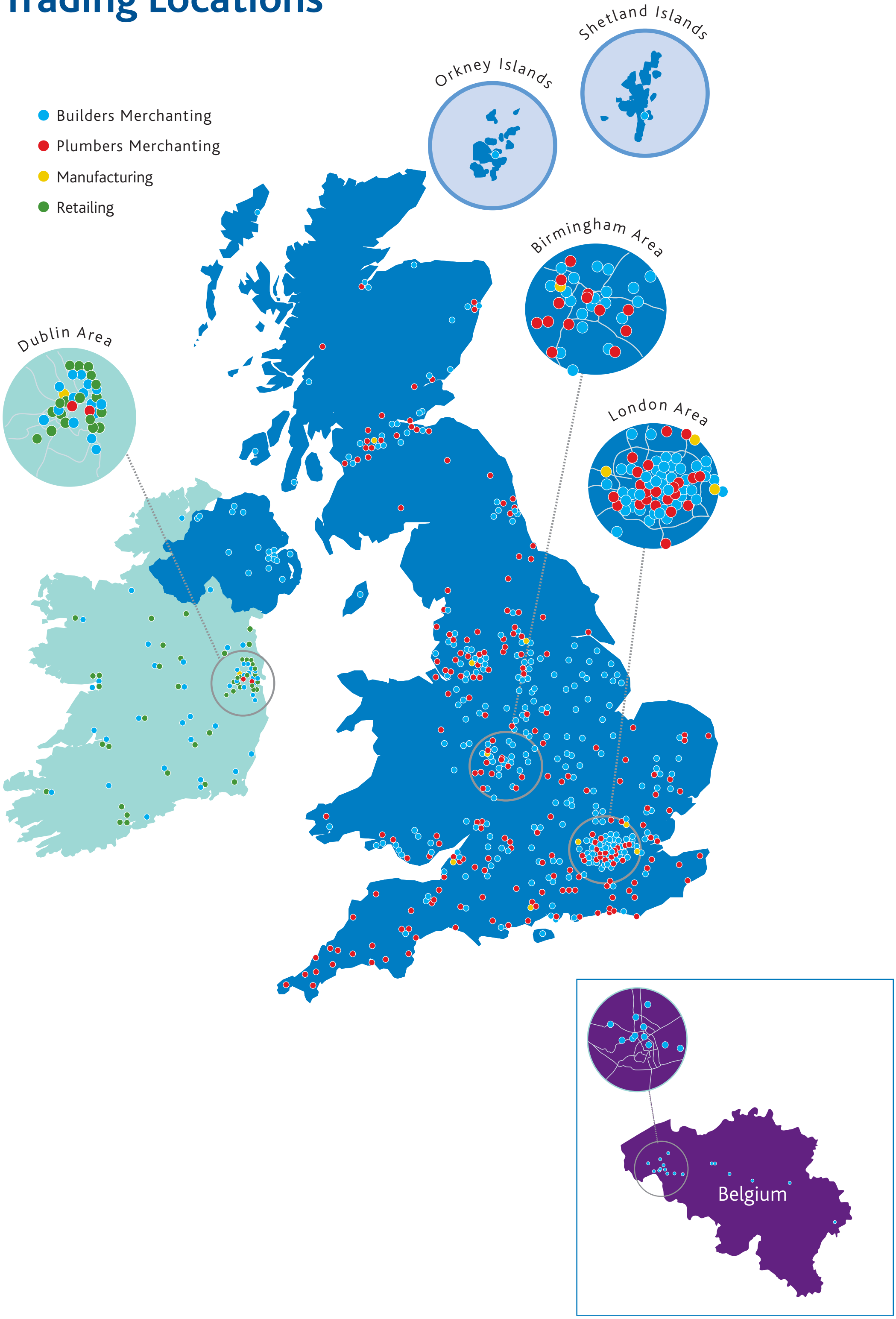
Geographic Revenue

- UK
- Ireland
- Belgium





Trading Locations



Principal Brands

Merchanting

The merchanting division trades from 556 branches, principally under the Buildbase, Selco and Plumbase brands in the South East, Midlands and North of England, and under the Chadwicks, Heiton Buckley and Macnaughton Blair brands in Ireland. Grafton trades under the YouBuild and MPRO brands in Belgium.

UK

Ireland

Belgium

Retailing

The Group is the largest DIY retailer in Ireland trading from 38 stores nationally and also operates a kitchens business from 7 stores.

Mortar Manufacturing

EuroMix, the largest manufacturer in Britain of silo-based mortar for use in a range of residential and commercial construction projects, trades from 9 plants which provide market coverage in England and Scotland.

Board of Directors and Secretary

Michael Chadwick, (IRL),
BA, MSc
NON-EXECUTIVE CHAIRMAN

Michael Chadwick joined the Group in 1975, was appointed to the Board on 4 December 1979 and became Executive Chairman in 1985. He retired as Executive Chairman on 1 July 2011 and continued to serve on the Board from that date as non-executive Chairman. He is a Director of Pochin's plc and of other companies.

Gavin Slark, (UK),
CHIEF EXECUTIVE OFFICER

Gavin Slark joined the Group and the Board as Chief Executive Designate on 1 April 2011 and was appointed Chief Executive Officer on 1 July 2011. He was previously Group Chief Executive of BSS Group plc, a leading UK distributor to specialist trades including the plumbing, heating and construction sectors.

David Arnold, (UK),
BSc, FCMA, FCT
CHIEF FINANCIAL OFFICER

David Arnold joined the Board and the Group as Group Chief Financial Officer on 9 September 2013. He was Group Finance Director of Enterprise plc, the UK Maintenance and Support Services business, from 2010 to 2013 and Finance Director of Redrow plc, the House Builder, from 2003 to 2010. He previously held senior financial positions with Six Continents plc, the hotels group and Tarmac plc, the building materials company.

Roderick Ryan, (IRL),
B.Comm, FCA, AITI
NON-EXECUTIVE DIRECTOR

Roderick Ryan joined the Board on 15 March 2006 and was appointed Senior Independent Director in May 2010. He is a Non-Executive Director of Glen Dimplex having previously served as an executive director of the company. Mr. Ryan is a former Managing Partner of Arthur Andersen in Ireland. He is a member of the Chartered Accountants Regulatory Board.

Charles M. Fisher, (UK),
MA
NON-EXECUTIVE DIRECTOR

Charles Fisher was appointed to the Board on 1 May 2009. He is currently Chairman of Country Homes & Gardens plc. He was Chairman and Chief Executive of Sharpe & Fisher plc, the UK builders merchanting company, from 1989 to 1999. He was formerly Chairman of Mowlem plc and previously served as a director of a number of other public companies including Travis Perkins plc, Baggeridge Brick plc, South Western Electricity plc and Delta plc.

Annette Flynn, (IRL),
B.Comm, FCCA
NON-EXECUTIVE DIRECTOR

Annette Flynn was appointed to the Board on 15 March 2011. She was formerly a non-executive director of Irish Life Group (Ireland's leading life and pensions company) and of UDG Healthcare plc, the International Healthcare Services Group having previously served with the latter as an executive director for seven years. She has also held senior positions with Kerry Group plc, the international food ingredients business.

Frank van Zanten, (NL),
MBA
NON-EXECUTIVE DIRECTOR

Frank van Zanten was appointed to the Board on 13 May 2013. He is Managing Director of the Continental Europe business area of Bunzl plc, the FTSE 100 UK international distribution and outsourcing Group with operations across the Americas, Europe and Australasia. He was previously Chief Executive of PontMeyer N.V., the Dutch Builders Merchants.

Charles Rinn, MBA, FCCA,
GROUP FINANCIAL CONTROLLER & SECRETARY

Board Service

Director	Length of Service
M. Chadwick	34.3 years
G. Slark	3.0 years
D. Arnold	0.5 years
F. van Zanten	0.8 years
R. Ryan	8.0 years
C. M. Fisher	4.9 years
A. Flynn	3.0 years

Board Committee Membership and Length of Service

Audit and Risk		Remuneration		Nomination		Finance	
Membership	Length of Service	Membership	Length of Service	Membership	Length of Service	Membership	Length of Service
R. Ryan (Chairman) A. Flynn F. van Zanten	7.5 years 3.0 years 0.6 years	C. M. Fisher (Chairman) A. Flynn R. Ryan	3.8 years 2.4 years 3.8 years	R. Ryan (Chairman) M. Chadwick C. M. Fisher	3.8 years 20.3 years 3.8 years	G. Slark (Chairman) D. Arnold C. Rinn	3.0 years 0.5 years 10.0 years

Strategy

The Group's overall strategy as set by the Board is to be an international distributor of building materials and related activities. This strategy is executed by building market leadership positions in national or regional geographic markets through organic growth and acquisitions. Implementing this strategy is based on:

- Maximising long term returns for shareholders supported by the three strategic financial pillars of Revenue growth in existing and new markets, Operating Profit Margin growth and increasing Capital Turn.
- Developing an innovative and efficient multi-specialist and multi-channel business.
- Being a focused supplier of construction materials to all segments of the industry.
- Deploying mature acquisition and integration skills to complete transactions and realise synergies.
- Operating a decentralised organisation structure that confers significant autonomy on local management teams within a tight Group accounting, risk management and control environment.
- Employing high calibre management teams comprised of individuals that have a mix of:
    - → Through-the-cycle Merchanting, DIY Retailing and Mortar Manufacturing experience;
    - → Broadly based operational management experience; and
    - → Suitably qualified professionals with expertise covering a range of management disciplines appropriate to the scale and diversity of individual group businesses.
- Utilising the Board and the Group Headquarters based in Ireland:
    - → To allocate capital for replacement and development projects using a rigorous approach to project evaluation;
    - → To critically review business performance using key metrics that are applied across the Group;
    - → To facilitate the transfer of best practice initiatives; and
    - → To coordinate the realisation of Group synergy benefits including procurement gains.
- Conducting business to a high standard of integrity for the benefit of all stakeholders and in a responsible way that involves a commitment to achieving the highest practical standards of health and safety for employees, customers and visitors to Group locations.

Markets

Demand in the Group's markets is influenced by a range of macro-economic factors including GDP growth, construction growth, construction output as a percentage of GDP, interest rates and the availability of credit. Other relevant measures are demographic trends, sustainable housing demand and employment trends. Demand in individual markets is also a function of the size of the construction, merchanting, RMI and housing markets. The age of the housing stock influences demand in the merchanting market as increased expenditure on housing RMI is required as the housing stock ages and where the replacement rate of housing is low.

The Group's merchanting customers are primarily trade professionals covering a range of skills required for the construction and repair of houses including general house building, civils and groundworks contractors and trade specialists covering the plumbing and heating, joinery, roofing, insulation, landscaping and electrical trades.

Strategy

Merchanting Segment

The overall merchanting segment strategy is based on developing and maintaining national or regional market positions in the distribution of building materials and related markets through a combination of organic growth, greenfield developments and acquisitions.

Merchanting Brands in the UK

- Primary business focus on RMI sector which has attractive market dynamics including greater through the cycle resilience.
- Focus on three financial pillars of revenue growth, improving the operating profit margin and increasing returns on capital employed by utilising spare capacity and creating greater efficiency in the existing branch network.
- Continue to extract efficiencies and synergies from current market leading positions.
- Development of Buildbase, Selco and Plumbase brands in areas of the market where they currently don't have a presence or are under-represented.
- Selectively participate in consolidation of UK merchanting market as a buyer of choice.
- Develop sustainable position in electrical distribution through the use of a low cost implant route to market model that leverages off existing merchanting assets and infrastructure.
- Continued development of hire centres in builders merchanting branches.
- Expand selectively in complementary product markets such as the new Plumbase Industrial format that supplies pipeline and mechanical engineering products.

Merchanting Brands in Ireland

- Strengthen market leadership position.
- Utilise bottom of the cycle spare capacity in the branch network, as market conditions improve, to increase revenue, operating margin and return on capital employed.
- Develop complementary presence in adjacent product categories.
- In-fill geographic coverage through greenfield development.

Merchanting Brands in Belgium

- Expand current market position through acquisitions.
- Extract scale related synergies as market position develops.
- Leverage off best practice and know-how in merchanting businesses in the UK and Ireland.

Retailing Segment

- Maintain clear market leadership position and strong brand recognition.
- Focus on core strengths in DIY, Home and Garden product categories.
- Utilise spare capacity in branch network, as market conditions improve, to increase revenue, operating margin and return on capital employed.

Strategy

Strategic Financial Pillars

Revenue Growth

- Economic growth from recovery in the UK and Irish economies.
- Organic growth from implants, new formats and greenfield developments.
- Acquisitions in the UK as the market consolidates and in other overseas markets.

Margin Growth

- Inherent operating leverage in the Group's brands as volumes recover.
- Pricing initiatives through consistency, customer insights and benchmarking.
- More favourable customer and product mix.
- Self-help measures focused on branch implants, cost efficiencies and purchasing synergies.

Increasing Return on Capital

- Benefits from economic and organic growth and operating leverage.
- Property development and disposal opportunities.
- Working capital reduction from increasing stock turn.
- Cash and collect retail style proposition for trade customers.

Business Model Overview

- Grafton is an international trade focussed multi-channel supplier of construction products and related activities.
- The business is built on the quality of products and service supported by a strong financial base.
- The Group aims to build on leading market positions in the UK, Ireland and Belgium and to grow further internationally in businesses with which it is familiar.

The Group has Three Operating Segments:

- Merchanting in the UK, Ireland and Belgium which accounts for 89 per cent of Group revenue;
- DIY Retailing in Ireland that generates 9 per cent of Group revenue; and
- Dry Mortar Manufacturing in the UK which accounts for 2 per cent of Group revenue.

- The Group is developing scalable specialist implant models to maximise returns from the existing merchanting estate in the UK and Ireland. These include tool hire, electrical, plumbing & heating and bathroom implants.

Strategy

Key Objectives

The Group's key objectives are:

- To generate above average long term shareholder returns.
- To be the first choice supplier of its customers.
- To improve cash generation and operating margins.
- To maximise returns on capital employed from the existing branch network.
- To increase market coverage where the Group is currently under represented.
- To refine and develop the range of products and services offered.
- To increase multi-channel supply capabilities.
- To develop beyond the UK, Ireland and Belgium in merchanting and related markets where opportunities exist to:
  - → Achieve good returns on capital invested;
  - → Achieve leading market positions; and
  - → Where value can be added to familiar business models operating in unconsolidated markets.

Key Strengths

The Group's strategy is underpinned by key strengths that include:

- A profit orientated growth philosophy.
- A history of successful investment in acquisitions and organic developments.
- Leading market positions and brands in each of the countries in which the Group operates.
- Unique market positioning with scope to significantly develop the UK merchanting business through acquisition.
- Highly experienced acquisition and integration skills.
- A portfolio of highly cash generative and profitable businesses.
- Strong and capable highly motivated management teams.
- Innovative business development program.
- Sound financial metrics including cash generation, low debt and a strong balance sheet and financial capacity.

Chairman's Statement

Results

The Group performed strongly in 2013 increasing underlying operating profit by 27 per cent, profit before tax by 35 per cent and adjusted earnings per share by 48 per cent. These results were delivered against the background of volume growth in the UK merchanting business for the first time in five years and a return to growth in the second half of 2013 in the merchanting business in Ireland following a very prolonged and deep downturn.

Dividend

The second interim dividend approved has been increased by 22 per cent to 5.5p from 4.5p (5.5 cent) giving a total dividend for the year of 8.5p, an increase of 21 per cent from 7.0p (8.5 cent) in 2012. The dividend cover increased to 2.6 times from 2.2 times. The increase in dividend is in line with the Board's progressive dividend policy which is based on increasing dividends as underlying earnings recover and reflects the improvement in results for the year and strong cash flow from operations.

Strategy

Significant progress was made during the year by the Chief Executive Officer and senior management in developing the Group's medium term strategy. The Board played an active role in the process through its annual strategy day meeting and discussions on strategy at the majority of board meetings held during the year. The strategic review undertaken was focused on organic growth and development opportunities in existing markets and expansion into new geographic markets.

Corporate Governance

The Board and management are committed to maintaining a high standard of corporate governance and to ensuring that appropriate risk management and internal controls are in place throughout the Group. The Board had seven meetings during the year including two extended two day meetings to consider strategy and to meet the management teams in the larger businesses to consider their budgets and development plans for 2014. There was also contact with the Board between scheduled board meetings and as required to progress the business of the Group.

The Board has delegated responsibility for reviewing the effectiveness of the Group's internal controls and risk management systems to the Audit and Risk Committee. In addition, management has undertaken a significant review of the Group's risk management framework to ensure that the systems in place are appropriate to the scale and diversity of the Group's operations.

Listing of Grafton Units

Following a review of listing arrangements, the Board decided to cancel the Company's listing on the Irish Stock Exchange while maintaining its Premium Listing on the London Stock Exchange. This was a logical development as three quarters of the Group's revenue has for some time been generated in the UK and most of the Group's development activity is taking place outside of Ireland. These changes facilitated the inclusion of Grafton in the FTSE 250 and exposes the Group to a wider pool of international investors. The change of listing will not have an impact on the operations of Grafton which will remain headquartered in Ireland and fully committed to its operations in Ireland.

Capital Market Day

In November 2013, the Group held a capital markets day in London for institutional investors and research analysts. The event, which was well received, provided an opportunity to update the market on the Group's performance and strategy and for Executive Directors and members of the Executive Committee to engage with the investment community and to hear the views of investors on the Group.

Board and Senior Management

An evaluation of the Board, its Committees and individual Directors was conducted by the Senior Independent Director in line with the requirements of The UK Corporate Governance Code 2012. The review concluded that the Board and its Committees are operating effectively and to a high standard of governance and in compliance with best practice.

Chairman's Statement

In line with the policy adopted in recent years, the Board has decided that all Directors will retire and seek re-election at the 2014 Annual General Meeting. This is not required legally or by the Company's Articles of Association but is in line with best practice and the provisions of The UK Corporate Governance Code 2012. The internal evaluation confirmed that each of the Directors continue to perform effectively and to demonstrate a strong commitment to the role. I strongly recommend that each of the Directors going forward be re-elected at the Annual General Meeting.

Mr. David Arnold joined the Group and the Board as Chief Financial Officer in September 2013. David is a very experienced finance professional, having held senior financial management positions in a range of industries, and the Board looks forward to working with him in the continued development of the Group.

Mr. Frank van Zanten joined the Board as a Non-Executive Director in May 2013. Frank is Managing Director of the Continental Europe business area of Bunzl plc, the FTSE 100 international distribution and outsourcing group. He brings both valuable Continental European and industry experience to the Board.

The appointments made to the Board during the year continued the process of board refreshment and renewal that has seen significant change to the composition of the Board at both Executive Director and Non-Executive Director level in recent years.

Mr. Colm Ó Nualláin, Finance Director, retired from the Board in September 2013. He was appointed to the Board as Finance Director in 1990 and made a unique contribution to the development of Grafton over a long and distinguished career. I offer Colm our very best wishes for the future.

Mr. Richard W. Jewson retired from the Board at the conclusion of the Annual General Meeting in May 2013. His wide experience of the merchanting industry and as a Non-Executive Director of other public companies enabled him to make an exceptional contribution to the Board over a long period and I offer Richard our very best wishes for the future.

Management and Staff

On behalf of the Board, I thank Gavin Slark and all Grafton management and employees for their part in achieving a very good set of results in a recovering but challenging trading environment.

Conclusion

The Board is positive about the overall prospects for the Group and the opportunities presented from a gradual recovery in its market to increase profitability, cash flow and return on capital employed. The Group is well placed to benefit as its markets improve and also from the initiatives undertaken in recent years.

Michael Chadwick,
Chairman

Chief Executive Officer's Review

Group Results

The Group made solid progress during the year and delivered a strong set of results against the backdrop of improving trading conditions in the UK and Irish merchanting markets and stabilisation of the DIY market in Ireland. Strong growth was achieved in profits and earnings.

The overall increase in Group revenue of 7.9 per cent was driven by an increase of 3.4 per cent in the like-for-like business, new branches and acquisitions. There was a strong benefit to profit from the increase in revenue due to tight control of costs and focus on margin.

The highlight of these results was the performance of the merchanting business in the UK which increased operating profit by 19.8 per cent to £75.9 million (2012: £63.4 million) and grew its operating profit margin by 60 basis points to 5.5 per cent (2012: 4.9 per cent).

Trading conditions in the merchanting business in Ireland stabilised in the first half and in the second half showed a return to growth and a significantly improved result was achieved from a low base following the restructuring and self-help measures implemented in 2012.

The Group continued to be strongly cash generative and ended the year with net debt of £133.7 million, its lowest year-end net debt since 2001. The gearing ratio fell to 15 per cent (December 2012: 20 per cent) and, in addition to strong cash flow from operations, significant cash resources and undrawn facilities were retained to fund operating activities and investment in the business.

Non-recurring Income and Expenditure

The defined benefit pension schemes in the UK and Ireland were restructured to provide for more sustainable future benefits at an affordable cost resulting in a once-off credit of £30.0 million (£25.2 million after tax). A strategic review of freehold properties gave rise to a non-cash impairment charge of £27.2 million (£23.4 million after tax) to the Income Statement. The impairment charge related mainly to properties located in the Republic of Ireland.

Listing Arrangements and Reporting Currency

As previously announced, following a review of listing arrangements Grafton now has a sole listing of its Units on the London Stock Exchange. Grafton Group plc was admitted to the FTSE UK Index Series on 23 December 2013 where its Units trade in sterling.

The Group is presenting its results in sterling for the first time having previously reported in euro. This change should help to provide a clearer understanding of the Group's financial performance as three quarters of its revenue has for some time been generated in sterling.

Outlook

There are signs that the relatively recent recovery underway in the UK economy has gained momentum as growth has strengthened in recent quarters. House price increases, improved access to finance and an increase in housing transactions should continue to support a recovery in the housing and Repair, Maintenance and Improvement (RMI) markets.

In Ireland, the economy is expected to improve moderately in 2014. A very gradual pick-up in house building in Dublin and the regional cities is expected in response to the shortage of family homes due to the very low level of house building over the past five years. The volume of expenditure on residential RMI is expected to return to growth in 2014 following the sharp declines experienced in recent years. Growth in employment and consumer confidence should have a positive effect on consumer spending but demand in retail markets generally including DIY is likely to be tempered by weak growth in disposable incomes with households continuing to pay down debt.

Chief Executive Officer's Review

Trading in the seasonally quieter months of January and February 2014 reflected more favourable weather conditions than the freezing temperatures experienced last year together with improving trends in the merchanting and mortar manufacturing businesses. Daily like-for-like revenue in the UK merchanting business increased by 9.8 per cent and by 7.1 per cent in the merchanting business in Ireland. Like-for-like revenue growth of 1.6 per cent was reported by the DIY business in Ireland.

The overall outlook is more favourable than it has been for some time and, as the UK's third largest merchanting business and the market leader in the Irish merchanting and DIY markets, the Group is well placed to capitalise on an improvement in trading conditions while recognising that the recovery is likely to be gradual and involve its own challenges.

Operating Review

Merchanting Segment (89% of Group Revenue)

Merchanting revenue increased by 8.3 per cent to £1.69 billion (2012: £1.56 billion). Operating profit was up by 22.5 per cent to £81.8 million (2012: £66.7 million) and the operating profit margin increased by 56 basis points to 4.8 per cent (2012: 4.3 per cent).

UK Merchanting revenue increased by 6.7 per cent to £1.39 billion (2012: £1.3 billion) and operating profit grew by 19.8 per cent to £75.9 million (2012: £63.4 million).

The operating profit margin increased by 60 basis points to 5.5 per cent. The operating profit margin grew by 15 basis points in the first half to 5.0 per cent and by 1.0 percentage point in the second half to 5.9 per cent. The gross profit margin was slightly lower in the year as turnover growth in higher margin businesses almost offset competitive pricing pressure.

The increase in revenue of 6.7 per cent comprised growth in average daily like-for-like revenues of 3.2 per cent, 0.4 per cent growth due to an additional trading day and growth of 3.1 per cent from new branches, acquisitions and branch consolidations. Average daily like-for-like revenue increased by 1.7 per cent in the first half and by 4.7 per cent in the second half as spending on residential construction and RMI increased over the course of the year. Price inflation over the year was estimated at 1.8 per cent and merchanting volumes increased by 1.4 per cent.

The resumption of volume growth in the merchanting market follows five years of flat or declining volumes. The improvement in market conditions was driven by the recovery in the wider economy that took hold during the year. The economy grew at its strongest rate since 2007 supported by increased employment, a decline in the savings ratio and increased availability of credit. Activity in the housing market also picked up. Housing transactions, a lead indicator of demand in the merchanting market, increased by 15 per cent with growth concentrated in the second half of the year. The number of home loans approved increased by 20 per cent with the rate of growth accelerating towards the end of the year in what was the most positive lending environment for six years.

The **Buildbase** business benefited from generally improved economic conditions and increased activity in the new housing and RMI markets. Against this backdrop and with a disciplined focus on pricing and cost control, Buildbase grew revenues and delivered a significant increase in operating profit and the operating margin. Buildbase continued to implement its strategy of developing its market position acquiring Thompsons, a five branch merchanting business that extended market coverage into the North East of England. It also acquired a single branch merchanting business in Oban on the West Coast of Scotland. The Buildbase Civils & Lintels branches benefited from strong activity in the house building market but tough competition in the sector exerted downward pressure on prices. The specialist drywall and insulation products branches increased revenue and operating profit. These branches were successfully repositioned to focus on low volume new build residential projects.

As outlined at the Capital Markets Day in November the Group is developing an efficient route to market implant model to drive revenue growth in its UK merchanting branches. Hirebase implants were opened in 15 branches prior to the year-end taking the number of Hirebase implants in Buildbase branches to 93. Electricbase implants were opened in 20 Buildbase branches following a successful trial of the concept.

Plumbase increased operating profit from a low base due to growing demand in the plumbing and heating market and good returns from restructuring initiatives. The principal focus during the year was on positioning the business for further profit improvement under a new management team. The specialist bathroom products distribution business had a good year increasing revenue and profit strongly due to a number of product range, marketing and customer service initiatives.

Towards the end of the financial year, the Group launched a new format, Plumbase Industrial, aimed at the commercial building and industrial process markets. The first branch was opened on an existing Group property at Hayes, West London supplying pipeline and mechanical engineering products. Since the year end, a second branch servicing East London was opened in Barking which is complemented by an Electricbase implant serving a similar customer base.

Selco Builders Warehouse, a trade only business that operates a retail style self-select format, made good progress during the year from its continued focus on the residential RMI market. Revenue increased due to organic growth in the established branches and development of new branches. With the benefit of increased revenue and tight control over gross margins and costs, the business achieved a significant increase in operating profit.

The Selco brand, which is differentiated from competitors by its trading format, competitive pricing, product ranges and service, continued to improve its position in the London market. Revenue growth was driven by a very strong performance in the first full year of trading in the Hanworth and Tottenham stores. Significant market penetration was quickly achieved in the South London market following the very successful opening of stores at Old Kent Road and Wimbledon. Selco ended the year trading from 34 branches including 18 in the London area.

Macnaughton Blair, the Northern Ireland merchanting business reported growth in revenue and profit for the year. The business benefited from a modest recovery in the local economy which got underway in the summer months. There were also signs of a recovery in the housing market. House prices, housing transactions and mortgage approvals increased from a very low base. Demand for new houses was partly met by builders completing developments that were started prior to the downturn. Turnover growth was broadly based across the new housing, RMI and infrastructure markets. Competitive gains were made by a number of the provincial branches. Revenue was lower in the Belfast area due to a decline in public sector and commercial new build projects.

Irish Merchanting revenue increased by 6.7 per cent to £243.0 million (2012: £227.7 million). The increase in like-for-like revenue was 3.6 per cent. Operating profit almost doubled to £5.2 million.

The Irish housing market showed signs of improvement during 2013. Housing transactions rose by 15 per cent to almost 29,000 and prices rose nationally by 6.5 per cent driven by the Dublin market where a shortage of supply contributed to the increase in values. Mortgage approvals rose by 4.1 per cent to 18,000. Actual house building is estimated at 4,500 houses compared to potential demand of 20,000 to 25,000 units per year based on demographic trends. Lead indicators pointed to a pick-up in house building activity in the second half of the year. This was the first period of growth in almost six years and an early indication that a recovery in the new housing markets was starting to take hold.

The merchanting branches in Ireland grew like-for-like revenue by 1.0 per cent in the first half and by 6.2 per cent in the second half which reflected a strong finish to the year with fourth quarter growth of 6.6 per cent. This was the first year since 2006 for the merchanting business in Ireland to report growth in like-for-like revenue. The business has emerged from the Irish recession, which saw its revenue contract by two thirds, having strengthened its leadership position in the builders and plumbers merchanting markets through its national branch network.

The market recovery was initially concentrated in Dublin City but extended into the greater Dublin area and surrounding counties as the year progressed. There was also evidence of a recovery in the key urban centres of Cork and Limerick. Competitive gains and branch upgrades contributed to revenue growth in the North West and Mid-West regions. Market conditions were challenging in the Midlands region where revenue was lower for the year.

The improvement in market conditions, growth in plumbing and heating revenues and cost saving benefits from consolidating a number of branches in the second half of 2012 contributed to the increase in profitability for the year.

Belgium

The business was consolidated as a subsidiary with effect from October 2012 having been previously accounted for as a joint venture. The change of accounting treatment and the acquisition of Holvoet, a two branch merchanting business, in October 2012 accounted for an increase in revenue to £58.8 million from £30.8 million.

While the Belgium economy was more resilient than neighbouring economies, revenue was lower in the like-for-like business due to a softening of demand in a weak residential construction and renovation market and disruption to trading in the early months of the year caused by prolonged winter weather conditions. Operating profit was marginally lower than the prior year at £0.6 million.

The Group completed the acquisitions of Binje Ackermans SA, a six branch merchanting business based in Brussels, on 3 February 2014 following approval of the transaction by the Belgium Competition Authority. The acquired branches are a very good geographic fit with the 11 existing branches that are located in the west of Belgium.

Ms. Catherine de Miribel has been appointed Chief Executive Officer of Grafton Belgium. She was previously Chief Financial Officer of Saint-Gobain Distribution Belgium.

Retail Segment (9% of Group Revenue)

Revenue increased by 3.8 per cent to £167.9 million (2012: £161.8 million). Turnover was down by 0.9 per cent in constant currency following the closure of two stores in the second half of 2012 and up by 1.5 per cent in the like-for-like business. Operating profit increased to £1.2 million from £0.2 million including the benefit of a property credit of £0.9 million.

Irish retail sales recovered in the second half of 2013 and rose by 3 per cent in the year following declines in each of the previous five years. Consumer confidence rose steadily over the year to its highest level in over six years. While concerns eased following a very deep recession, consumers remained relatively cautious about their personal finances.

Trading conditions in the DIY market were affected by severe weather conditions in March and April which impacted footfall and reduced revenue from outdoor products. Prolonged periods of good weather in May, June and July stimulated strong demand for seasonal products including barbeques, lawnmowers and garden furniture which increased average transaction values. Revenue showed more modest growth in the latter months of the year with the benefit of promotional activity.

Chief Executive Officer's Review

The result for the year benefited from revenue growth in the Glasnevin and Blanchardstown stores in West Dublin that were extended and upgraded during 2012 and from the restructuring during 2012 that involved the closure of two stores and the realignment of rents to current open market levels in ten stores. There were also market share gains in a number of towns due to store closures by competitors.

Like-for-like transactions were unchanged at over eight million in 38 stores and average transaction values increased by 2.4 per cent due to increased sales of high value outdoor products and the successful trial of a range of kitchens in three stores. Three stores were upgraded during the year. Woodie's launched a refreshed web site which increased product availability on-line. The site provides for improved navigation, mobile functionality and a reserve and collect facility.

As previously announced, Declan Ronayne was appointed Chief Executive of Woodie's DIY in August 2013. The customer proposition will be focused during 2014 on the core strengths of the business in the DIY, Home and Garden product categories. Driving operational efficiencies and improving the stock turn will also be priorities for the new management team.

Revenue was lower in the seven store In-House kitchens business in a very competitive environment for kitchen retailers. The business offset lower revenues in Ireland by establishing an assembly facility on a Group property in Milton Keynes to supply a range of kitchens to Selco stores.

Manufacturing Segment (2% of Group Revenue)

Revenue increased by 7.1 per cent to £37.0 million (2012: £34.5 million) and operating profit more than doubled to £3.9 million (2012: £1.7 million). The segment operating profit margin increased to 10.7 per cent from 4.8 per cent.

CPI EuroMix, the market leader in the supply of silo based mortar from eight manufacturing plants in England and one in Scotland increased revenue by 16.4 per cent to £33.9 million (2012: £29.1 million). Trading was impacted by adverse weather conditions in the early months of the year and revenue was flat in the first half. Trading conditions were very favourable in the second half due to the recovery in the new housing market and revenue increased by 35 per cent. Growth in volumes and improved plant and transport utilisation contributed to strong growth in profit.

Activity in the new housing market, which accounted for three quarters of revenue, rose to its highest level since 2007 with housing registrations, a lead indicator of housing starts, up 28 per cent from a low base to almost 134,000. Increased demand for new houses was driven by the recovery in the economy, wider access to mortgage finance stimulated by Government funding initiatives, low interest rates and an improvement in consumer confidence.

Revenue in the Irish Manufacturing business declined to £3.1 million (2012: £5.4 million) due to rationalisation of the division in 2012. MFP, the PVC drainage and roofline products business, improved its performance from the supply of increased volumes of its roofline facia and soffit system through the Selco branch network. The business was returned to profit having traded at breakeven in 2012.

Gavin Slark,
Chief Executive Officer

Group Financial Review

The Group made further progress during the year as the individual businesses were well positioned to increase profitability, cash flow and returns on capital as markets started to recover. Like-for-like revenue growth of 3.4 per cent across the business accounted for the strong growth in operating profit with the benefit of tight management of gross margins in competitive markets and a disciplined focus on controlling costs. Acquisitions, new branches and branch consolidations also contributed to profit growth.

The focus on cash generation over the past five years has strengthened the quality of the balance sheet and enabled investment in the business during the year. Return on capital employed increased to 7.8 per cent from 6.1 per cent and capital turn to 1.9 times from 1.8 times.

Pensions

As previously announced, new arrangements were agreed, following consultations with the trustees and active members of the defined benefit pension schemes in Ireland and the UK. The changes are based on sharing the costs of funding the deficit and provide for more sustainable future benefits at an affordable cost while reducing the financial risks of the schemes to the Group.

The Group agreed to make additional cash contributions over a period of eleven years as part of the arrangements agreed. A payment of £5.0 million will be made over the next three years. A non-cash reduction in pension liabilities of £30.0 million related to the new arrangements is recognised in the income statement.

The IAS 19 pre-tax deficit on the defined benefit pension schemes reduced to £7.1 million from £51.4 million. The return on scheme assets was £22.4 million and contributions of £7.4 million were made to the scheme during the year. Benefits paid during the year of £27.9 million formed part of the new arrangements.

Property

Following completion of restructuring and cost saving measures which were implemented across the Group during 2011 and 2012, the Group focused on maximising return on capital employed through a number of initiatives during 2013, including a review of its estate. The Group Property Director, who was appointed in 2012, completed a review of the Group's properties. A number of these properties have become vacant and are being held pending a recovery in the property market or with a view to enhancing their development potential by securing alternative use planning and are classified as investment properties while others are being actively marketed and classified as held for sale.

Valuations were reassessed on the basis of future cash flows expected to be generated by individual properties which are held as investment properties or for resale. A non-cash impairment charge of £27.2 million has been recognised in the income statement.

Net Finance Income and Expense

The net finance charge for the year was £12.3 million (2012: £12.9 million). The net bank and loan note interest charge declined to £9.8 million from £10.9 million due to the benefit of low short-term interest rates, the maturity of an interest rate swap and lower net debt.

Adoption of amendments to IAS 19 required the return on defined benefit pension scheme assets to be based on the discount rate that is used to discount scheme liabilities. The charge for 2012 has been restated on a comparable basis in accordance with IFRS. The net finance expense charge includes £1.4 million (2012: £1.4 million) in respect of pension scheme obligations.

There was a net charge of £0.8 million (2012: £0.3 million) due to movements on hedges and foreign exchange.

Group Financial Review

Taxation

The effective rate of tax on underlying profit, which excludes the pension scheme credit and property impairment charge, was 20.4 per cent (2012: 27.5 per cent). This reflects the mix of profits between the UK, Ireland and Belgium and the disallowance of a tax deduction for certain items of expenditure including depreciation on buildings and incorporates the impact on deferred tax assets and liabilities of a reduction in the UK rate of corporation tax by 3 per cent to 20 per cent over the period to 1 April 2015. The effective rate of 20.4 per cent also excludes a once-off credit of £8.5 million due to the recognition of a deferred tax asset for trading losses carried forward in the Irish business (2012: Nil).

Cash Flow

The strength of the Group's cash generative businesses continued to be demonstrated with cash flow from operations of £95.3 million (2012: £85.7 million).

Capital and Development Expenditure

Net capital expenditure of £22.5 million (2012: £21.0 million) was incurred on replacing distribution vehicles, branch upgrades and on developments that should provide a platform for the future profitable growth of the business including new Selco stores and Hire and Electrical branch implants.

A strategic review of IT systems across the Group was completed and a programme of investment in systems and infrastructure is planned over a number of years that will result in the upgrading and consolidation of the systems that support a number of businesses.

An investment of £5.9 million was made in acquiring the five branch Thompsons business in the North East of England, the acquisition of a single branch business in Oban, Scotland and the payment of deferred consideration on a prior year acquisition made by the Belgium merchanting business.

Net Debt and Financing

Net debt declined by £31.2 million to £133.7 million (31 December 2012: £164.9 million) with the benefit of seasonally lower investment in working capital in December. The gearing ratio declined to 15 per cent from 20 per cent. Net debt declined by two thirds (£281.2 million) over the five years since 2008 due to a sustained focus on cash generation. The Group continued to retain good liquidity through the holding at the year-end of deposits and cash balances of £151.1 million (31 December 2012: £128.0 million) and undrawn bank loans of £112 million.

A new three year revolving term loan facility for €50.0 million (£41.7 million) was put in place with Barclays Bank Ireland plc and the maturity profile of a facility for €85.0 million (£70.9 million) with Ulster Bank was extended until October 2016.

The Group continued to pursue policies consistent with a view to recovering its investment grade credit rating and it will seek to manage it future financing requirements by diversifying its sources of funding and considering alternative funding sources.

Underlying EBITDA interest cover for 2013 was 10.7 times (2012: 8.6 times) and year end debt was 1.23 times EBITDA (2012: 1.77 times).

Shareholders' Equity

Shareholders' equity increased to £870.3 million at 31 December 2013 (31 December 2012: £813.5 million). Profit after tax increased equity by £62.1 million. There was an actuarial gain of £6.4 million on the defined benefit pension schemes, a currency gain of £2.1 million on translation of net euro assets to sterling at the year-end sterling/euro rate of exchange and £2.0 million was raised from the issue of shares under the Group employees share schemes. Shareholder equity was reduced by dividend payments of £17.7 million.

David Arnold,
Chief Financial Officer

Executive Committee

Gavin Slark,
Chief Executive Officer

David Arnold,
Chief Financial Officer

Charles Rinn,
Group Financial Controller & Company Secretary

Chris Cunliffe,
Managing Director, Selco Builders Warehouse

Jolyon Ingham,
Group IT Director

Jonathan Jennings,
Group Property Director

Peter Kearney,
Managing Director, Grafton Merchanting Northern Ireland

Eddie Kelly,
Managing Director, Grafton Merchanting Republic of Ireland

Mark Kelly,
Managing Director, Grafton Merchanting Great Britain

Catherine de Miribel,
Chief Executive Officer, Grafton Belgium

Declan Ronayne,
Chief Executive, Woodie's DIY

Jonathon Sowton,
Group Strategic Development Director

The Executive Committee constitutes the Group's most senior executives who are responsible for implementing Board strategy and for the day-to-day operational management and performance of the Group.

The Committee met four times during the year under the Chairmanship of the Chief Executive Officer and dealt with the following matters:

- Updates on the performance of the Group and business environment.
- Chief Executive updates on the merchanting and retailing businesses.
- Updates from Group function heads on Finance, Property, Information Technology and Acquisitions.
- Significant business development projects.
- Improving operating standards and optimising procurement arrangements.
- Health and safety.
- Succession planning, training and professional development.

Grafton Group plc Financial History - 1992 to 2013

	IFRS									
Group Income Statements	**2013 £'m**	2012‡ £'m	2011 £'m	2010 £'m	2009 £'m	2008 £'m	2007 £'m	2006 £'m	2005 £'m	2004 £'m
Revenue	**1,899.8**	1,760.8	1,782.5	1,719.4	1,763.8	2,128.5	2,193.3	2,000.0	1,798.1	1,270.5
Operating profit	**77.2**	59.1	47.5	41.5	21.3	92.7	180.4	165.4	146.2	109.3
Operating margin %	**4.1%**	3.4%	2.7%	2.4%	1.2%	4.4%	8.2%	8.3%	8.1%	8.6%
Restructuring (costs)/credit	**2.8**	(21.2)	(27.8)	(13.2)	(17.0)	(13.7)	-	-	-	-
Property profit	**-**	-	-	-	-	-	5.0	25.9	6.6	5.1
Finance (expense)/income (net)	**(12.3)**	(12.9)	(10.8)	(6.4)	7.8	(28.0)	(24.0)	(21.4)	(21.4)	(15.5)
Profit before taxation	**67.7**	25.0	8.9	21.9	12.1	51.0	161.4	169.9	131.4	98.9
Taxation	**(5.6)**	6.6	(6.7)	33.0	(0.2)	(5.1)	(21.0)	(22.0)	(17.8)	(13.5)
Profit after taxation	**62.1**	31.6	2.2	54.9	11.9	45.9	140.4	147.9	113.6	85.4

Group Balance Sheets	**2013 £'m**	2012 £'m	2011 £'m	2010 £'m	2009 £'m	2008 £'m	2007 £'m	2006 £'m	2005 £'m	2004 £'m
Capital employed										
Goodwill and intangibles	**481.0**	476.2	474.9	479.7	489.3	516.0	448.7	400.3	375.4	174.2
Property, plant and equipment	**413.4**	458.3	471.9	489.6	537.1	603.2	516.1	460.8	427.1	286.4
Financial assets	**0.1**	0.2	0.1	3.4	3.5	0.2	0.6	0.3	0.2	33.2
Net current assets*	**136.5**	133.7	121.2	122.2	122.6	193.0	256.9	225.4	207.8	137.6
Other net non-current liabilities	**(23.0)**	(85.9)	(58.4)	(22.8)	(56.4)	(69.9)	(35.7)	(35.8)	(52.4)	(35.8)
	1,008.0	982.5	1,009.7	1,072.1	1,096.1	1,242.5	1,186.6	1,051.0	958.1	595.6
Financed as follows:										
Shareholders' equity	**870.3**	813.5	821.0	852.5	809.7	827.6	783.0	681.1	557.7	349.4
Non-controlling interest	**4.0**	4.1	-	-	-	-	-	-	-	-
Net debt/(cash)	**133.7**	164.9	188.7	219.6	286.4	414.9	403.6	369.9	400.4	246.2
	1,008.0	982.5	1,009.7	1,072.1	1,096.1	1,242.5	1,186.6	1,051.0	958.1	595.6
Other Information										
Acquisitions & investments	**5.9**	17.6	11.1	2.1	6.1	22.4	61.0	59.4	326.7	60.2
Purchase of fixed assets	**24.7**	23.0	30.6	8.2	11.0	62.6	71.7	84.8	68.8	60.3
	30.6	40.6	41.7	10.3	17.1	85.0	132.7	144.2	395.5	120.5
Depreciation and intangible amortisation	**31.5**	33.9	37.1	40.1	44.7	45.0	40.4	37.8	34.5	23.5

Financial Highlights	**2013**	2012‡	2011	2010	2009	2008	2007	2006	2005	2004
Adjusted EPS** (pence)	**22.3**	15.1	13.4	15.9	4.8	25.6	57.7	53.2	46.4	38.1
Dividend/share purchase per share (pence)	**8.5**	7.0	6.5	6.0	4.5	11.9	15.1	12.8	10.8	8.8
Cashflow per share (pence)#	**39.5**	29.9	24.9	44.8	26.6	39.6	74.1	68.4	60.4	49.1
Net assets per share (pence)	**374.4**	350.6	354.1	368.5	351.0	359.5	341.2	284.7	234.9	163.7
Net finance cost cover on EBITDA (times)	**8.8**	7.2	7.9	12.7	5.5	4.9	9.4	10.7	8.8	8.9
Dividend/share purchase cover	**2.6**	2.2	2.1	2.6	1.1	2.1	3.8	4.2	4.3	4.3
Net debt to shareholders' funds	**15%**	20%	23%	26%	35%	50%	52%	54%	72%	70%
ROCE	**7.8%**	6.1%	4.6%	3.8%	1.8%	7.6%	16.1%	16.5%	18.8%	19.3%

The summary financial information is stated under IFRS for 2004 to 2013 and under Irish GAAP for all years from 1992 to 2003.

* *Excluding net debt/(cash)*

** *Before pension credit and property impairment in 2013 and before restructuring costs and intangible amortisation in 2012 and taxation credits in both years. In previous years before intangible amortisation, onerous lease provision and impairment, restructuring costs (net), taxation credit in 2010 and investment profit in 2009 and excluding material property profits in previous years*

Grafton Group plc Financial History - 1992 to 2013

Irish GAAP

2003 £'m	2002 £'m	2001 £'m	2000 £'m	1999 £'m	1998 £'m	1997 £'m	1996 £'m	1995 £'m	1994 £'m	1993 £'m	1992 £'m
1,035.2	724.6	614.9	506.2	408.6	289.7	239.1	197.1	156.7	130.1	102.4	93.4
80.1	56.4	48.1	39.4	30.5	22.4	18.7	15.4	11.4	8.7	4.7	4.9
7.7%	7.8%	7.8%	7.8%	7.5%	7.7%	7.8%	7.8%	7.3%	6.7%	4.6%	5.2%
-	-	-	-	-	-	-	-	-	-	-	-
2.4	2.3	1.4	-	-	-	-	1.5	0.6	-	-	-
(11.9)	(8.3)	(7.7)	(7.2)	(5.4)	(3.3)	(1.8)	(1.1)	(0.9)	(0.9)	(0.7)	(1.2)
70.6	50.4	41.8	32.2	25.1	19.1	16.9	15.8	11.1	7.8	4.0	3.7
(10.6)	(7.5)	(5.4)	(4.2)	(3.0)	(2.7)	(2.5)	(2.3)	(2.0)	(1.6)	(0.8)	(0.9)
60.0	42.9	36.4	28.0	22.1	16.4	14.4	13.5	9.1	6.2	3.2	2.8

2003 £'m	2002 £'m	2001 £'m	2000 £'m	1999 £'m	1998 £'m	1997 £'m	1996 £'m	1995 £'m	1994 £'m	1993 £'m	1992 £'m
148.6	65.3	38.0	32.3	19.7	6.9	-	-	-	-	-	-
244.4	196.6	153.0	130.8	109.4	99.2	42.1	37.8	35.1	31.3	26.9	27.9
23.7	21.9	20.5	11.7	11.8	0.1	8.5	0.1	-	0.9	2.6	0.9
139.9	93.9	78.8	66.5	47.4	42.5	20.1	16.7	17.5	14.2	13.4	15.5
(19.9)	(11.7)	(10.8)	(10.0)	(8.8)	(8.7)	(0.8)	(0.9)	(0.9)	(0.9)	(0.8)	(0.8)
536.7	366.0	279.5	231.3	179.5	140.0	69.9	53.7	51.7	45.5	42.1	43.5
317.0	209.5	160.9	135.1	112.7	98.6	53.6	55.0	46.9	38.9	34.3	35.7
-	-	-	-	-	-	-	-	-	-	-	-
219.7	156.5	118.6	96.2	66.8	41.4	16.3	(1.3)	4.8	6.6	7.8	7.8
536.7	366.0	279.5	231.3	179.5	140.0	69.9	53.7	51.7	45.5	42.1	43.5
152.3	55.8	38.4	34.5	41.9	36.2	21.7	6.5	1.1	4.5	2.1	-
48.0	42.8	26.1	26.3	19.4	14.0	10.7	6.1	6.2	4.4	4.0	1.8
200.3	98.6	64.5	60.8	61.3	50.2	32.4	12.6	7.3	8.9	6.1	1.8
26.0	16.7	13.6	10.1	8.3	4.9	3.9	3.4	2.9	2.3	2.0	1.6

2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
31.2	23.3	20.0	15.8	12.8	9.6	8.5	7.3	5.2	3.7	1.9	1.7
7.3	5.3	4.7	3.7	3.0	2.2	2.0	1.7	1.2	0.8	0.7	0.6
40.6	32.7	27.9	22.1	18.1	13.1	11.5	9.9	7.2	5.4	3.3	2.8
149.1	118.1	91.4	77.6	65.2	59.9	33.3	34.4	29.8	24.7	22.0	22.8
9.1	9.1	8.2	6.9	7.2	8.3	12.9	20.2	17.1	12.4	9.9	5.5
4.3	4.4	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.8	2.8	2.8
69%	75%	74%	71%	59%	42%	30%	-	10%	17%	23%	22%
17.1%	16.5%	17.4%	17.4%	16.9%	18.2%	23.1%	22.2%	17.6%	14.4%	7.8%	8.6%

\# *Based on profit after tax before depreciation, 2013 pension credit, intangible amortisation, onerous lease provision, impairment and excluding material property profits in previous years*

‡ *IAS 19 (Revised) 'Employee Benefits' has been adopted as required by IFRS for the year ended 31 December 2013. The comparatives for the year ended 31 December 2012 have been restated.*

Report of the Directors

The Directors present their report to the shareholders together with the audited financial statements for the year ended 31 December 2013.

Group Results

Group revenue of £1.90 billion was 7.9 per cent higher than Group revenue of £1.76 billion in 2012. Operating profit (before pension credit and property impairment charge) increased 27 per cent to £77.2 million compared to £61.0 million in 2012 (before restructuring costs and amortisation).

The defined benefit pension schemes in the UK and Ireland were restructured to provide for more sustainable future benefits at an affordable cost resulting in a once-off credit of £30.0 million. A strategic review of freehold properties gave rise to a non-cash impairment charge of £27.2 million. The impairment charge related mainly to properties located in the Republic of Ireland.

The net finance expense was £12.29 million (2012: £12.86 million). Group profit before taxation amounted to £67.7 million compared with £25.1 million in the previous year.

The effective rate of tax on underlying profit, which excludes the pension scheme credit and property impairment charge, was 20.4 per cent (2012: 27.5 per cent). This reflects the mix of profits between the UK, Ireland and Belgium and the disallowance of a tax deduction for certain items of expenditure including depreciation on buildings and incorporates the impact on deferred tax assets and liabilities of a reduction in the UK rate of corporation tax by 3 per cent to 20 per cent over the period to 1 April 2015. The effective rate of 20.4 per cent excludes a once-off credit of £8.5 million due to the recognition of a deferred tax asset for trading losses carried forward in the Irish business (2012: Nil).

Basic earnings per share were 26.79 pence compared with 13.64 pence in the previous year. Adjusted earnings per share (before pension credit and property impairment charge) increased by 48 per cent to 22.3 pence from 15.1 pence in 2012 (before restructuring costs and amortisation).

The Group and Company Financial Statements for the year ended 31 December 2013 are set out in detail on pages 84 to 180.

Dividends

The payment in 2013 of a second interim dividend for 2012 of 4.5 pence (5.50 cent) on the 'C' Ordinary shares in Grafton Group (UK) plc from UK-sourced income amounted to £10.8 million. A 2013 interim dividend of 3.0 pence (3.5 cent) per share was paid on 4 October 2013 on the 'C' Ordinary shares in Grafton Group (UK) plc from UK-sourced income and amounted to £6.9 million.

A second interim dividend for 2013 of 5.5 pence per share 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 14 March 2014 (the 'Record Date'). The cash consideration will be paid on 11 April 2014. A liability in respect of this second interim dividend has not been recognised at 31 December 2013, as there was no present obligation to pay the dividend at the year-end.

Report of the Directors

Review of the Business

Shareholders are referred to the Chairman's Statement, Chief Executive Officer's Review and Group Financial Review which contain a review of operations and the financial performance of the Group for 2013, the outlook for 2014 and the key performance indicators used to assess the performance of the Group.

Cautionary Statement

Certain statements made in this Annual Report are forward looking statements. Such statements are based on current expectations and are subject to a number of risks and uncertainties that could cause actual events or results to differ materially from those expressed or implied by these forward-looking statements. They appear in a number of places throughout this Annual Report and include statements regarding the intentions, beliefs or current expectations of Directors and senior management concerning, amongst other things, the results of operations, financial conditions, liquidity, prospects, growth, strategy and the businesses operated by the Group. The Directors do not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise.

Board of Directors

Mr. Richard W. Jewson retired from the Board at the conclusion of the Annual General Meeting on 14 May 2013. In line with the provisions contained in the 2012 UK Corporate Governance Code, all other Directors retired at the Annual General Meeting of the Company on 14 May 2013 and being eligible offered themselves for re-election and all were re-elected to the Board on the same day.

Mr. David Arnold was appointed to the Board as Chief Financial Officer with effect from 9 September 2013 and Mr. Colm Ó Nuallain, Finance Director retired from the Board on the same date.

Under the Company's Articles of Association, Directors are required to submit themselves to shareholders for election at the Annual General Meeting following their appointment and all the Directors are required to submit themselves for re-election at intervals of not more than three years. However, in accordance with the provisions contained in the 2012 UK Corporate Governance Code, the Board has decided that all Directors seeking re-election should retire at the 2014 Annual General Meeting and offer themselves for re-election.

Share Capital

At 31 December 2013, a Grafton Unit comprised one ordinary share of 5 cent and seventeen 'A' ordinary shares of 0.001 cent each in Grafton Group plc and one 'C' ordinary share of Stg0.0001p in Grafton Group (UK) plc. The composition of the Company's share capital including a summary of the rights and obligations attaching to the three components of a Grafton Unit is set out in Note 17 to the Group Financial Statements.

The Group has in place a number of employee share schemes, the details of which are set out in the Report of the Remuneration Committee on Directors' Remuneration and in Note 32 to the Group Financial Statements.

Disapplication of Pre-emption Rights

At each Annual General Meeting, the Directors seek authority to disapply statutory pre-emption rights in relation to allotments of shares for cash up to an aggregate nominal value for all allotments and all treasury shares of €600,000, which is approximately 5 per cent of the nominal value of the issued share capital of the Company. Under the Articles of Association, shareholders are required to renew this power at each year's Annual General Meeting.

Purchase of Own Shares

At the 2013 Annual General Meeting, shareholders gave the Company and/or any of its subsidiaries authority to make market purchases of up to 10 per cent of the Company's own shares. Shareholders will be asked to renew this authority at the Annual General Meeting. Shareholders will also be asked to sanction the price range at which any treasury share may be re-issued other than on the Stock Exchange.

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

The authorities which will be sought at the forthcoming AGM to disapply pre-emption rights and purchase the Company's Units will, if granted, expire on the earlier of the date of the Annual General Meeting in 2015 or 9 August 2015.

Report of the Remuneration Committee on Directors' Remuneration

Resolution 4, to be proposed at the Annual General Meeting, deals with the Report of the Remuneration Committee on Directors' Remuneration which the Board has decided, in line with best practice, to present to shareholders as a non-binding resolution.

Notice Period for Extraordinary General Meetings

If adopted, Resolution 5, to be proposed at the Annual General Meeting, will maintain the existing authority in the Articles of Association which permits the Company to convene an extraordinary general meeting on 14 days notice in writing where the purpose of the meeting is to consider an ordinary resolution. As a matter of policy, the 14 days notice will only be utilised where the Directors believe that it is merited by the business of the meeting and the circumstances surrounding the business.

Report of the Directors

Substantial Holdings

So far as the Company is aware, in addition to the Chairman, Mr. Michael Chadwick, whose holding of 19,436,079 Grafton Units represents 8.36 per cent of the Units in issue (excluding treasury shares), the following held shares representing 3 per cent or more of its ordinary share capital (excluding treasury shares) at 31 December 2013 and 4 March 2014:

Name	31 December 2013		4 March 2014	
	Holding	%	Holding	%
Investec Asset Management Limited*	30,639,080	13.18%	29,984,082	12.90%
Franklin Templeton Institutional, LLC*	27,958,484	12.03%	27,823,484	11.97%
The Capital Group Companies*	22,903,000	9.85%	22,903,000	9.85%
BlackRock, Inc.*	12,786,718	5.5%	15,108,244	6.5%

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

Apart from these holdings, the Company has not been notified at 4 March 2014 or at 31 December 2013 of any interest of 3 per cent or more in its ordinary share capital.

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

Accounting Records

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

Takeover Directive

The capital structure of the Company is detailed in Note 17 to the Group Financial Statements. Details of employee share schemes are set out in Note 32. In the event of a change of control, the vesting/conversion/exercise of share entitlements/options may be accelerated. The Group's borrowing facilities may require repayment in the event of a change of control. The Company's Articles of Association provide that the business of the Company shall be managed by the Directors, who may exercise all such powers of the Company subject to the Companies Acts and the Articles of Association. Details of the powers of the Directors in relation to the issuing or buying back by the Company of its shares are set out above.

Corporate Governance

As required by company law, the Directors have prepared a Report on Corporate Governance which is set out on pages 33 to 39 and which, for the purposes of Statutory Instrument 450/2009 European Communities (Directive 2006/46) Regulations 2009, forms part of this Report of the Directors.

Report of the Directors

Transparency Regulations 2007

The report on Corporate Social Responsibility set out on pages 29 to 32, is deemed to be incorporated in this part of the Report of the Directors together with details of earnings per share in Note 10 to the Group Financial Statements, employment details in Note 5 and details of financial instruments in Note 20.

Subsidiaries

The Group's principal operating subsidiary undertakings are set out on page 179.

Political Contributions

There were no political contributions which require disclosure under the Electoral Act, 1997.

Post Balance Sheet Events

There have been no material events subsequent to 31 December 2013 that would require adjustment to or disclosure in this report except for the acquisition of Binje Ackermans SA as described in Note 36 to the Group Financial Statements.

Auditor

In accordance with Section 160 (2) of the Companies Act, 1963, the Auditor shall automatically be re-appointed at the company's Annual General Meeting unless the Auditor does not wish to be re-appointed or a resolution has been passed appointing someone else as Auditor. The Auditor, KPMG, Chartered Accountants, are willing to continue in office and a resolution authorising the Directors to fix their remuneration will be submitted to the Annual General Meeting.

Annual General Meeting

The Annual General Meeting of the Company will be held at the IMI Conference Centre, Sandyford Road, Dublin 16 on 9 May 2014 at 10.30am. Your attention is drawn to the circular enclosed with this report and available on the Company's website, www.graftonplc.com which sets out details of the matters to be considered at the Annual General Meeting.

On behalf of the Board

G. Slark,
D. Arnold,
Directors

4 March 2014

Corporate Social Responsibility

The Group recognises the importance of conducting its business in a socially responsible manner. This is demonstrated in the way it deals with its employees, customers, suppliers and the communities in which it trades. The Group considers that corporate social responsibility is an integral element of good business management and is committed to taking a balanced view on economic, social and environmental issues when making business decisions.

The Environment

The Group supplies a range of environmental and sustainable products to customers. The Group also promotes the conservation and sustainable use of natural resources to minimise environmental pollution in its activities.

Waste Management

As a supplier of building materials and associated products, the Group strives to reduce waste going to landfill by increasing levels of recycling. The Group's Irish businesses are members of Repak and the UK businesses are members of Biffpack. The UK merchanting business has reduced its waste to landfill through this partnership. Baling machines to recycle paper and cardboard operate throughout the Buildbase branch network. The merchanting business in the UK is working with Biffa, a recycling-led waste management company, to partner it in delivering a sustainable waste strategy and to optimise waste disposal methods. It increased its waste recycling rates during 2013, with the company now recycling 76 per cent of waste, an increase of 3 per cent in the year. The UK merchanting business aims to achieve a higher recycling rate across the business by driving awareness and behaviour throughout the branch network.

CPI EuroMix began working with Biffa in 2013 to achieve higher recycling rates across its business. Recycling services were introduced in all plants during 2013.

Carbon Reduction Commitment

As part of its commitment to environmental issues, the UK merchanting business is registered as a stakeholder in the UK government's Carbon Reduction Commitment. The Group is striving to reduce the UK merchanting business's carbon footprint and to improve performance in other environmentally sensitive areas.

In 2013 trials were carried out to reduce energy consumption in one region of Plumbase and a ten per cent reduction in energy consumption was achieved through more effective control over energy use. Further savings are expected to be achieved through changes to equipment specifications. As well as the energy saved, this trial saved over 13 tonnes of carbon dioxide. In 2014 the trial will be expanded across a larger part of the Plumbase business.

Grafton Merchanting GB has worked with its utility service providers to introduce automatic meter readers at branch locations. This enabled the company to accurately monitor usage of both gas and electricity and to set targets for branches to reduce energy consumption.

In 2012 the UK merchanting business focused on a move to more fuel efficient vehicles in the car fleet that provided a significant reduction in the average emissions per vehicle. In 2013 the business renewed its focus on reducing vehicle emissions in the commercial fleet by encouraging the adoption of more fuel efficient driving techniques, underpinned by improved driver education and training.

Corporate Social Responsibility

Online Home Retail is continuing its carbon offset scheme. This scheme uses contributions from customers concerned about the environment to purchase and plant traditional broadleaf woodland trees, such as oak, elm and ash in conjunction with The Heart of England Forest Project, the Woodland Trust and local village schemes. Since 2011 Online Home Retail has raised over £110,000, which has been used to plant trees in local communities in the UK. There was more than 16,000 trees across 24 varieties planted in the "Online Home Retail Woods" by the end of 2013, absorbing thousands of tonnes of carbon dioxide and providing much needed habitats for wildlife species native to the UK.

Sustainable Products

The Group recognises the increasing importance of supplying renewable and sustainable products. Product ranges designed to provide sustainable building solutions have been introduced. These ranges include Solar Thermal and Solar PV, air source heat pumps, ground source heat pumps, biomass heating, rainwater harvesting and heat recovery ventilation systems. The Woodie's DIY business offers a range of environmentally friendly products including energy-saving lamps, solar garden lights and composters for recycling garden and household waste. The merchanting branches stock condensing boilers which reduce demand for fossil fuels, energy-saving insulation materials and controlled ventilation systems.

Grafton Merchanting GB is a Green Deal Provider. Sponsored by the Department of Energy and Climate Change (DECC), The Green Deal is an initiative to encourage home and business owners to improve the energy efficiency of their properties. It provides a platform to enable customers to engage in this initiative which provides finance to property owners for the installation of energy efficiency measures.

Buildbase has adopted the Timber Trades Federation 'Responsible Purchasing Policy'. This demonstrates that the business is committed to sourcing timber and timber products from legal and well-managed forests and supports the UK/EU global objective to stop illegal logging. Buildbase holds an internationally recognised environmental certificate for the PEFC (Programme for the Endorsement of Forest Certification) scheme. It is Buildbase policy that its natural timber products are FSC/PEFC accredited. The entire operation is independently audited to guarantee that timber is legally harvested and originates from a sustainable source.

The UK merchanting brands are ISO 14001 certified. Branches have an environmental champion who is responsible for managing environmental policies and procedures.

The UK merchanting business published 'Go Green with Grafton', a brochure for trade customers which looks at aspects of sustainable development from legislation to product performance.

Health and Safety

The Group is committed to achieving the best practicable standard of health and safety for its employees, customers and visitors to trading locations. It considers health and safety to be an important element in the overall management of the businesses. Group companies invest significant resources in health and safety management and actively work to identify and minimise health and safety risks. They aim to ensure that all reasonable precautions are taken to provide and maintain conditions for employees, customers and visitors alike that are safe and healthy, and in compliance with statutory requirements. Accidents are monitored so that corrective action may be taken where appropriate to reduce the number of incidents and the cost of claims from employees, customers and third parties.

Health and safety risks in branch locations concern the manual handling of products, slips, trips and falls and incidents involving fork lift trucks and delivery vehicles. Outside of branch locations the main risks relate to vehicles transferring building materials from branch locations to customer sites.

2013 saw significant activity across the Group to continue improving the health and safety management capability, most notably in relation to management of its most significant risks, workplace transport and materials handling.

Increased alignment of health and safety management across the Group is planned in 2014. This will involve a strong focus on employee training, internal auditing and strategic reviews of safety management systems. Health and safety is an agenda item for all board meetings and statistics covering a range of measures are reviewed periodically.

Human Resources

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

The Group and its businesses are committed to high standards of employment practice and are recognised as good employers in both the UK and Ireland. The Group aims to reward management and staff fairly by reference to skills, performance, peers and market conditions. The Group, where appropriate, provides incentives to management and staff through remuneration policies that promote commitment and reward achievement.

It is Group policy that all employees receive fair and equal treatment regardless of gender, age, ethnic origin, nationality, religion or disability.

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

The UK merchanting businesses launched a new Apprenticeship Scheme to provide training opportunities for new and current employees.

The Group has Revenue approved share schemes in place in the UK and Ireland that are intended to enable employees to share in the success and growth of the Group. The Save As You Earn (SAYE) scheme operated for UK employees, enjoys a good level of participation.

Corporate Social Responsibility

Community

The Group recognises its responsibility as a member of the communities where its branches/plants are located and where it does business. It is committed to developing links to those communities through local management and staff supporting a range of initiatives covering health, welfare, sport, education and community projects. The Group also supports a range of charitable causes, mainly at local level, by giving donations.

Buildbase is a patron of CRASH the construction and property industry's charity for homeless people. This charity focuses on improvements to buildings used by homeless people throughout the UK.

The Irish Merchanting Business partnered with Hand on Heart's ("HOH's") enterprise initiative which provides employment opportunities for people with disabilities. HOH's vending machines were installed in all branches. Using a new 'Social Enterprise' model, HOH helps to develop self-sustaining enterprises that create jobs for people with disabilities.

Staff in the Irish Merchanting Business purchased gifts for children and families and donated them to Barnardos, the Society of St. Vincent de Paul and Crumlin Children's Hospital in Dublin.

In June 2013, Grafton Group plc sponsored the second Dublin to Sunderland Cycle Challenge. A team of senior executives cycled 600 kilometres in five days and raised another £20,000 for the Foundation of Light, the registered charity of Sunderland AFC. The Foundation uses the power of football to inspire, involve and educate children, families and adults across the North East of England and engages with more than 40,000 people every year.

Selco continued to support MacMillan Cancer Support throughout 2013 and raised £100,000 for the Charity in the last two years.

Woodie's DIY continued to act as the main sponsor of Grow It Yourself Ireland which promotes growing vegetables. Woodie's stores also provided support to local community projects and charity appeals.

Directors' Report on Corporate Governance

Compliance with the Combined Code

Grafton Group plc is incorporated in Ireland and subject to Irish company law. It's Units (shares) are listed on the London Stock Exchange and the 2012 UK Corporate Governance Code (the 2012 Code) sets out the standards for corporate governance to be applied by companies with a listing on the London Stock Exchange. This report describes how the Company has applied the main and supporting principles of the 2012 Code.

Compliance Statement

The Board believes that the Company has throughout the accounting period complied with all relevant provisions set out in the 2012 Code except that the external audit contract was not put out to tender as explained in the Report of the Audit and Risk Committee.

The Board

Composition

It is the Company's policy that the Board comprises a majority of Non-Executive Directors. At 31 December 2013, the Board of Directors was made up of seven members comprising the Non-Executive Chairman, two Executive Directors and four independent Non-Executive Directors. Mr. Roderick Ryan is Senior Independent Director. Directors' biographical details are set out on page 7. The Board considers that its current size and structure is appropriate to the scale, complexity and geographic spread of its operations.

The number of Non-Executive Directors is considered sufficient to enable the Board and its Committees to operate effectively without excessive reliance on any individual Non-Executive Director. The Board believes that executive and Non-Executive Directors between them have the necessary skills, knowledge and experience, gained from a diverse range of industries and backgrounds, required to manage the Group. The skills, expertise and experience of the Board is used to review strategy, allocate capital, monitor financial performance and consider executive managements' response to market developments and operational matters.

Role of the Board and Division of Responsibilities

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

It is Board policy that no individual or small group of individuals can dominate its decision making.

The roles of Chairman and Chief Executive are split. There is a clear division of responsibility between the Chairman and the Chief Executive Officer. The Chief Executive Officer is responsible for day-to-day management of the Group and is accountable to the Board as Chief Executive Officer for all authority delegated to executive management. The Chairman is responsible for leading the Board and ensuring its effectiveness in all aspects of its role.

Directors' Report on Corporate Governance

Non-Executive Directors act constructively to challenge management proposals and review the performance of the business and management. The Board has delegated some of its responsibilities to the Audit and Risk, Remuneration, Nomination and Finance Committees.

Information and Support

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

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

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

Company Secretary

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

Directors' Independence and Board Balance

Four Non-Executive Directors, Mr. Roderick Ryan, Mr. Charles M. Fisher, Ms. Annette Flynn and Mr. Frank van Zanten are considered by the Board to be independent in character and free from any business or other relationship which could materially interfere with the exercise of independent judgement. The Board has determined that each of the Non-Executive Directors fulfilled this requirement and is independent. In reaching that conclusion, the Board considered the principles relating to independence contained in the 2012 Code.

The Company's Articles of Association provide that one third of the Directors retire by rotation each year and that each Director seek re-election at the Annual General Meeting every three years. New Directors are subject to election by shareholders at the next Annual General Meeting following their appointment. However, in accordance with the provisions in the 2012 Code, the Board has decided that all Directors should retire at the 2014 Annual General Meeting and offer themselves for re-election. It is Board Policy that Non-Executive Directors are normally appointed for an initial period of three years, which is then reviewed. Mr. Roderick Ryan has one year of his third term to serve, Mr. Charles Fisher has 1.1 years of his second term to serve, Ms. Annette Flynn has been reappointed for a second term of 3 years and Mr. Frank van Zanten has 2.2 years of his first term to serve.

The Board undertakes a formal annual evaluation of its Directors and is satisfied that all Directors who are proposed for re-election continue to discharge their obligations as Directors and contribute effectively to the work of the Board and its Committees.

Directors' Report on Corporate Governance

The overall composition and balance of the Board is kept under review as detailed below in the programme of work undertaken by the Nomination Committee. The Board will continue to manage the orderly succession of Non-Executive Directors.

Induction and Training

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

Evaluation of Board

A formal review of the performance of the Board, Board Committees and individual Directors is undertaken each year including an external evaluation every three years. The process is designed to ensure that the effectiveness of the Board is maintained and improved where possible.

An externally facilitated evaluation of the Board was conducted during 2012 by the Institute of Directors in Ireland which has extensive experience as a facilitator of board evaluations for listed companies. The use of an external facilitator to conduct Board evaluations at least once every three years complements evaluations conducted by the Chairman and/or the Senior Independent Director. The review in 2012 by the Institute of Directors concluded that the Board and its Committees are operating effectively and to a high standard of governance and in compliance with best practice. It also found that there was no concentration of power on the Board and that the Board operated in an open and transparent manner with a high level of engagement from Directors.

Following on from the external evaluation undertaken in 2012, an internal evaluation was conducted by the Senior Independent Director. This involved each Director completing a self-assessment questionnaire independently that covered the running of an effective board, relationships with management, oversight of strategy and development, monitoring financial and operating performance and shareholder value creation. The Senior Independent Directors collated the responses to the questionnaire and reported the results of the evaluation to the Board which included a discussion of areas that required increased focus during 2014. The overall result of the evaluation was very positive with a high level of satisfaction among Directors concerning the matters covered by the evaluation.

The Board confirmed that each Non-Executive and Executive Director continues to perform effectively and demonstrate a strong commitment to the role.

Directors' Report on Corporate Governance

Succession Planning

The Boards' general policy is to keep the overall composition and balance of the Board under review and to manage the orderly succession of Non-Executive Directors without compromising the effectiveness and continuity of the Board and its Committees.

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

The Nomination Committee takes account of the skills, knowledge and experience required by the Board, international business experience and diversity, including nationality and gender, in considering suitable candidates to serve as Non-Executive Directors as part of the ongoing process of Board renewal.

The Board considers senior management succession planning on a regular basis with a view to developing over the coming years a robust succession pipeline for key positions up to Executive-Director level.

Communication with Shareholders

The Company recognises the importance of communication with shareholders. Presentations are made to both existing and prospective institutional shareholders principally after the release of half-yearly and annual results. Interim Management Statements are issued in compliance with the EU Transparency (Directive 2004/109/EC Regulations 2007) and the Group also issues trading updates in January and July. Historically, the Group held Analysts' conference calls following the issue of the half-yearly and annual results.

It is planned to hold an Analysts presentation in London on 5 March 2014 following the announcement of the Final Results for 2013. The presentation by the Chief Executive and the Chief Financial Officer will be broadcast live on www.graftonplc.com/webcast and can be viewed/downloaded at www.grafton.plc.com.

Any significant or noteworthy acquisitions are announced to the market and the Company's website www.graftonplc.com provides the full text of all announcements including the half-yearly and annual results and investor presentations.

In November 2013, the Group held a capital markets day in London for institutional investors and research analysts. The event provided an opportunity to update the market on the Group's performance and strategy and for Executive Directors and members of the Executive Committee to engage with the investment community and to hear the views of investors on the Group.

The Board receives reports on feedback from investors and also receives analysts' reports on the Group. Non-Executive Directors are offered an opportunity to attend meetings with major shareholders. The Chairman is available to meet with shareholders if they have concerns which have not been resolved through the normal channels of Chief Executive Officer and Chief Financial Officer or where such contacts are not appropriate.

Directors' Report on Corporate Governance

General Meetings

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

All other general meetings are called Extraordinary General Meetings (EGMs). An EGM called for the passing of a special resolution must be called by at least 21 clear days' notice. Provided shareholders have passed a special resolution at the immediately preceding AGM and the Company allows shareholders to vote by electronic means, an EGM to consider an ordinary resolution may, if the Directors deem it appropriate, be called at 14 clear days' notice.

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

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

Memorandum and Articles of Association

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

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

Directors' Report on Corporate Governance

Board Committees

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

	Board		Audit and Risk Committee		Finance Committee		Remuneration Committee		Nomination Committee	
Number of Meetings	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**
M. Chadwick	7	7	-	-	-	-	-	-	4	4
G. Slark	7	7	-	-	4	4	-	-	-	-
C. Ó Nualláin	5	5	-	-	3	3	-	-	-	-
D. Arnold	2	2	-	-	1	1	-	-	-	-
F. van Zanten	5	4	1	1	-	-	-	-	-	-
R. W. Jewson	3	3	-	-	-	-	-	-	2	2
R. Ryan	7	7	4	4	-	-	7	7	4	4
C. M. Fisher	7	7	3	3	-	-	7	7	4	4
A. Flynn	7	7	4	4	-	-	7	7	-	-

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

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

The Board is assisted by Committees of Board members that focus on specific aspects of its responsibilities. The terms of reference of the Audit and Risk Committee, Remuneration Committee and Nomination Committee, which were approved by the Board and comply with the 2012 Code, are available from the Company and can also be found on the Group's website at www.graftonplc.com. Membership of Board Committees is shown on page 7. The Company Secretary is secretary to the Audit and Risk and Remuneration Committees.

Nomination Committee

The Nomination Committee comprises Mr. Roderick Ryan, Chairman of the Committee, Mr. Michael Chadwick and Mr. Charles M. Fisher. The Board is actively engaged in orderly succession planning and is assisted in this function by the Nomination Committee. The Committee keeps the composition, skills and diversity of the Board under review to ensure that it has the range of skills required for the Board to meet the demands of the business and fulfil its obligations to shareholders.

The Nomination Committee met formally on four occasions during the year and had extensive interaction between meetings. The Board appointed a new Non-Executive Director and a new Chief Financial Officer during 2013 on the recommendation of the Committee.

As part of that process of appointing a new Non-Executive Director, the Committee evaluated the Board to ensure that it has the right balance of experience, skills and diversity, including both nationality and gender, to support the future development of the Group. In the light of this evaluation, the Committee prepared a specification of the capabilities required of prospective candidates and an assessment of the anticipated time commitment. An external search consultancy, that has no connection with the Group, was appointed to facilitate the search for a suitable candidate for nomination to the Board, and the Committee recommended the appointment of Mr. Frank van Zanten to the Board following a rigorous interview process of shortlisted candidates.

The appointment of a new Chief Financial Officer arose due to the retirement of Mr. Colm Ó Nualláin, Finance Director on reaching the age of 60. The Committee appointed a London based international senior executive search consultancy firm with the functional expertise to identify suitable candidates for the role. The Committee worked closely on the appointment with the Chief Executive Officer and recommended the appointment of Mr. David Arnold to the position.

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

Finance Committee

The Finance Committee comprises Mr. Gavin Slark, Chairman, Mr. David Arnold, Chief Financial Officer and Mr. Charles Rinn, Secretary and Group Financial Controller. The Committee deals with acquisition opportunities up to the Board approval stage of the process, capital expenditure under the limit reserved from time to time for the Board and Group management and finance issues.

Going Concern

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

Audit and Risk Committee Report

Membership

The Audit and Risk Committee ("the Committee") comprises three Non-Executive Directors:

Mr. Roderick Ryan, *Chairman;*
Ms. Annette Flynn; and
Mr. Frank van Zanten.

All members of the Committee are determined by the Board to be independent Non-Executive Directors in accordance with provision B1.1 of the 2012 UK Corporate Governance Code. Mr. Charles Fisher retired from the Committee on 27 August 2013 and was replaced by Mr. Frank van Zanten. In accordance with the requirements of provision C.3.1 of the UK Corporate Governance Code, Mr. Roderick Ryan is designated as the Committee member with recent and relevant financial experience. The biographical details on page 7 demonstrate that members of the Committee have a wide range of financial, taxation, commercial and business experience.

Duties

Under its terms of reference, which were reviewed and revised during the year and reflect best practice, the Committee:

- Monitors the integrity of the Group's financial statements and announcements relating to the Group's performance;
- Advises the Board on whether the Annual Report and accounts, taken as a whole, is fair, balanced and understandable, and whether it provides the information necessary for shareholders to assess the Group's performance, business model and strategy;
- Monitors the effectiveness of the external audit process and makes recommendations to the Board in relation to the appointment, reappointment and remuneration of the External Auditor;
- Oversees the relationship between the Group and the External Auditor including the terms of engagement and scope of audit;
- Reviews the effectiveness of the company's internal controls;
- Reviews the scope, resourcing, findings and effectiveness of the Internal Audit function;
- Oversees the effectiveness of the risk management procedures in place and the steps taken to mitigate the Group's risks; and
- Reports to the Board on how it has discharged its responsibilities.

The Committee is satisfied that its role and authority include those matters envisaged by the 2012 UK Corporate Governance Code that should fall within its jurisdiction and that the Board has delegated authority to the Committee to address those tasks for which it has responsibility. The Committee's terms of reference are available from the Company and are displayed on the Group's website www.graftonplc.com.

Meetings

The Committee met four times during the year. The Chairman of the Committee reports to the Board on the work of the Audit and Risk Committee and on its findings and recommendations. Meetings are attended by the members of the Committee and, by invitation, the Chief Financial Officer and the Head of Internal Audit. Other members of executive management may be invited to attend to provide a deeper level of insight or expertise in relation to certain issues or developments. The KPMG Audit Partner and Audit Director are invited to attend certain Audit and Risk Committee meetings. The Committee also meets privately with the External Auditor and the Head of Internal Audit without executive management present. The Chairman of the Committee reports the outcome of the Audit and Risk Committee meetings to the Board.

Activities of the Committee During 2013

Financial Reporting

The Committee reviewed the draft financial statements and draft half-yearly results before recommending their approval to the Board. As part of this review, the Committee considered significant accounting policies, estimates and significant judgements. The Committee also reviewed the significant management letter points on internal controls in the Group's individual businesses prepared by KPMG as part of the audit process.

The significant issues in relation to the financial statements considered by the Audit Committee and how these were addressed are summarised as follows:

Property Impairment

The Group carried out a review of its property portfolio during the year following completion of the restructuring programmes in 2012 that involved branch closures and consolidations that freed up properties for disposal or alternative use. A number of vacant properties that are mainly located in Ireland were reclassified as investment properties and the determination of the fair value for these properties, which gave rise to an impairment charge, required the exercise of judgement due to the shortage of comparable market transactions.

In forming its view on the amount of the property impairment charge, the Committee considered the detailed assessment made by management of the market value for each property based on future rental opportunities, offers from third parties, any comparable transactions and external professional input.

Goodwill and Intangible Assets

The Committee considered the goodwill impairment analysis provided by management and agreed with the conclusion reached that no impairment charge needed to be recognised in the year. In arriving at its decision, the Committee reviewed the key assumptions used in the calculations including the revenue growth rate, the discount rate and the growth rate in perpetuity. The Committee also considered reports on the medium term macro-economic environment, analysts' forecasts, the budget for 2014 and forecasts for 2015 to 2018 inclusive prepared by management.

The Committee noted the significant level of headroom in the value in use model prepared by management and considered the impact on the headroom of sensitivity analysis on the key assumptions used in the model. The Committee also considered the year-end market capitalisation of the Group compared to the net asset position.

Retirement Benefit Obligations

The Committee considered the recognition of an exceptional credit in the income statement and a significant reduction in the deficit on the defined benefit pension scheme related to new defined benefit pension arrangements agreed between the Group, the Trustees and active members of the schemes.

Audit and Risk Committee Report

In forming its view that it was appropriate to recognise the income statement credit and the reduction of the deficits in the schemes, the Committee reviewed papers prepared by management that summarised the agreements entered into between the Group and the Trustees and a report from the Group's Actuary on the financial implications of the changes agreed.

Taxation

The Committee considered management's analysis of the change to the carrying value of deferred tax assets and liabilities and the impact on the tax charge for the year of a further reduction in the UK rate of corporation tax.

The Committee also considered management's assessment of the recognition of deferred tax assets in respect of trading losses carried forward in the Irish trading entities and agreed that the treatment was appropriate in view of the stabilisation of trading during the year and expectations concerning the trading prospects for these businesses.

The Committee considered the judgements and estimates made by management, having taken appropriate professional advice, in relation to the Group taxation charge for the year including a provision for tax uncertainty and concluded that the tax charge and tax provisions were appropriate.

Rebate Income

Supplier rebates represent a significant source of income from suppliers in the merchanting industry. The Committee reviewed the basis used by management in arriving at rebate income for the year and rebates receivable at the year end and was satisfied that the accounting treatment adopted was appropriate. The Committee reviewed information and reports prepared by management and internal audit in reaching its view.

Valuation of Inventory

The key judgments made by management in estimating the level of provisioning required for slow moving inventory were reviewed and agreed by the Committee.

Internal Audit

The Committee considered reports and updates from the internal audit function which summarised the findings, recommendations and management responses to audits conducted during the year. These reports covered the work undertaken, findings, actions recommended and the response of executive management of the Group's businesses to recommendations made. The Committee considered and approved the programme of work to be undertaken by the Group's internal audit function in 2014. The Head of Internal Audit reports to the Audit Committee Chairman and has direct access to members of the Committee. The Committee met with the Head of Internal Audit on three occasions during the year. The scope, authority and responsibility of the Internal Audit function are set out in the Internal Audit Charter which has been approved by the Committee.

Risk Management

The Committee's work was focused on oversight of the procedures in place for the identification, management and mitigation of significant risks. The Committee considered the Group's assessment of its principal risks and uncertainties set out on pages 46 to 50. A report on the risk evaluation process conducted by the operating units and Group functions was also considered.

Audit and Risk Committee Report

Whistleblowing

The Committee reviewed the Group's overall Whistleblowing Policy arrangements to ensure they remained effective. All matters reported are investigated by senior management in the relevant operating company in conjunction with Head Office management. Issues raised are reported to the Audit Committee where appropriate including details of how they were resolved.

Anti-Bribery and Corruption

The Group's Code of Conduct and its policies on anti-bribery and corruption require that employees and others working on behalf of the Group do not engage in any form of bribery or corruption.

External Auditor

The Committee reviewed the External Auditor's overall audit plan for the 2013 audit of the Group and approved the remuneration and terms of engagement. The Committee reviewed the quality and effectiveness of the external audit process and the independence and objectivity of the Auditor.

In order to ensure the independence of the external Auditor, the Committee received confirmation from the Auditors that they are independent of the Group under the requirements of the Auditing Practices Board's Ethical Standards for Auditors. The Auditors also confirmed that they were not aware of any relationships between the firm and the Group or between the firm and persons in financial reporting oversight roles in the Group that may affect its independence. The Committee considered and was satisfied that the relationships between the Auditor and the Group including those relating to the provision of non-audit services did not impair the Auditors judgment or independence. A new Group Audit Partner is appointed at least every five years and senior audit staff are periodically rotated.

KPMG have been the Group's Auditors since 1993. Under Irish company law an auditor is automatically re-appointed at a company's annual general meeting unless the incumbent auditor has given notice in writing that they do not wish to be re-appointed or a resolution has been passed appointing someone else or providing expressly that the incumbent firm shall not be re-appointed. KPMG's audit partner rotation rules require the lead audit partner responsible for the audit to be rotated every five years. The Group has not formally tendered the Audit since 1993 but the Committee has kept the effectiveness and independence of the audit process under regular review. The terms of engagement do not include any contractual obligations that would prevent the Board from appointing another firm as auditor were it considered to be in the best interests of the Group. The current lead audit partner was appointed in respect of the year ended 31 December 2011. The Financial Reporting Council (FRC) updated the UK Corporate Governance Code in October 2012 and introduced a new provision, on a comply or explain basis, requiring FTSE 350 companies to put their audit out to tender every ten years. The Committee deferred a decision to put the audit out to tender pending finalisation of new regulations by the European Commission on the auditing profession.

Non-Audit Services

The External Auditor is not prohibited from undertaking non-audit services that do not conflict with auditor independence provided the provision of the services does not impair the auditors objectivity or conflict with the their role as auditor and subject to having the required skills and competence to provide the services. The auditor is precluded from providing non-audit services that could compromise its independence or judgement.

Audit and Risk Committee Report

The Committee monitors and reviews the nature of non-audit services provided by the Auditors. An analysis of non-audit services provided by KPMG for 2013 and 2012 is disclosed in Note 2 on page 107. The Committee has undertaken a review of non-audit services provided during 2013 and is satisfied that these services were efficiently provided by the External Auditor with the benefit of their knowledge of the business and did not prejudice their independence and objectivity. The non-audit services included the provision of tax compliance services and submission of tax returns to the Revenue authorities in the UK, Ireland and Europe and advice on tax matters. KPMG is the Group Auditor and a substantial part of the non-audit services were provided by KPMG network firms in the UK and Europe.

Internal Control and Risk Management

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

A process for identifying, evaluating and managing significant risks faced by the Group, in accordance with the Guidance for Directors in the 2012 Code and the Turnbull guidance, has been in place throughout the accounting period and up to the date the financial statements were approved. These risks are regularly reviewed by the Board. Executive management is responsible for implementing strategy and for the continued development of the Group's businesses within parameters set down by the Board. Similarly, day to day management of the Group's businesses is devolved to operational management within clearly defined authority limits and subject to very tight reporting of financial performance. Group and operating company management are responsible for internal control including the identification and evaluation of significant risks and for implementation of appropriate internal controls to manage such risks. Group management reports to the Board on key risks and internal control issues including the way in which these issues are managed.

The preparation and issue of financial reports, including the consolidated annual and interim accounts is managed by Group Finance with oversight from the Audit Committee. The Group's financial reporting process is controlled using accounting policies and reporting formats issued by Group Finance to all reporting entities (including subsidiaries) in advance of each reporting period end. Group Finance supports all reporting entities with guidance in the preparation of financial information. The process is supported by a network of finance professionals throughout the Group, who have responsibility and accountability to provide information in keeping with agreed policies and procedures. The financial information for each entity is reviewed by the Group's senior management.

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

- Review, discussion and approval of the Group's strategy by the Board.
- Defined structures and authority limits for the operational and financial management of the Group and its businesses.
- A comprehensive system of reporting on trading including a comparison of actual results with budget and the prior year on a monthly and cumulative basis, operational issues and financial performance incorporating results and cash flows, working capital management, return on capital employed and other relevant measures of performance.
- Written reports from the Chief Executive Officer and the Chief Financial Officer that form part of papers considered by the Board at every board meeting.

Audit and Risk Committee Report

- Review and approval by the Board of budgets incorporating operating performance and cash flows.
- Board approval of major capital expenditure proposals and all acquisition proposals. Capital expenditure proposals below Board level are approved by the Finance Committee.
- Review by senior management and the Audit and Risk Committee of the Internal Audit Report findings, recommendations and follow up actions.

The internal audit function focuses on areas of greatest risk to the Group. It monitors compliance and considers the effectiveness of internal control throughout the Group. The Audit and Risk Committee reviews Internal Audit Reports and meets with the Head of Internal Audit in order to satisfy itself on the adequacy of the Group's risk management and internal control systems. In addition, the Audit and Risk Committee reviews KPMG Management Letter reports and meets with the KPMG Audit Partner to discuss the nature of the points raised. The Chairman of the Audit and Risk Committee reports to the Board on all significant matters considered by the Committee.

In the Board's view, the ongoing information it receives is sufficient to enable it to review the effectiveness of the Company's system of internal control. The Directors confirm that they have reviewed the effectiveness of internal control. In particular, they have during the year considered the significant risks affecting the business and the way in which these risks are managed, controlled and monitored.

The principal risks and uncertainties facing Grafton have been considered initially by the Audit and Risk Committee and also by the Board. It is not practical to document every risk that could affect the Group in this report. The risks identified below are those that could have a material adverse effect on the Group's prospects, its financial condition and the results of its operations. The actions taken to mitigate the risks described in the Principal Risks and Uncertainties section on pages 46 to 50, cannot provide assurance that a risk will not materialise and/or adversely affect the operating results and financial position of the Group.

The Group has a framework in place to ensure the development, maintenance, operation and review of risk management controls that fulfil the Boards corporate governance obligations and support the Group's strategic objectives. The Board is responsible for establishing and maintaining risk management controls and for evaluating their effectiveness. The Audit and Risk Committee oversees the effectiveness of the risk management procedures in place and the steps being taken to mitigate the Group's risks and reviews the design, completeness and effectiveness of the risk management framework. The Risk Management Committee, whose membership reflects a range of executive functions, skills, expertise, experience and levels, is responsible for the identification, reporting, mitigation and management of risk.

The risk management process is closely aligned with the overall strategic development of the Group which is influenced by economic growth, organic growth through implants, new formats and greenfield expansion and acquisition related growth in the UK and Belgium. Strategic projects are risk-assessed in conjunction with the commercial, financial and legal appraisal.

Roderick Ryan
Chairman of the Audit and Risk Committee

4 March 2014

Principal Risks and Uncertainties

Macro-Economic Conditions in the UK, Ireland and Belgium

Risk

Trading in the Group's businesses is influenced by macro-economic conditions in the UK, Ireland and Belgium. The Group's markets are cyclical in nature and a proportion of revenue is dependent on the willingness of households to incur discretionary expenditure on home improvement projects. Investments of this nature closely correlate with general economic conditions. A deterioration in economic conditions in the UK, Ireland and Belgium could result in lower demand in the Group's businesses.

The Group's products are distributed to mainly professional trades people engaged in residential, commercial and industrial maintenance and new-build projects. These markets are affected by trends in improvements, remodelling and maintenance and construction. Demand in these markets is also influenced by factors that include interest rates, the availability of credit, inflation, changes in property values, demographic trends, tax policy, employment levels and gross domestic product. Any negative movement in one or more of these factors could adversely affect demand in the Group's business.

Mitigation

The Group took significant action over the past five years in response to the downturn in its markets to increase the operating efficiency of its business which should leave it well positioned to benefit from a recovery. Exposure to the more resilient and less cyclical repair, maintenance and improvement (RMI) market has increased through expansion of the network of Selco stores particularly in the Greater London Area.

The merchanting branches in Ireland have been refocused on the RMI market. Branch showrooms have been upgraded and the product portfolio expanded to meet the needs of customers engaged in residential RMI projects which now account for a high proportion of revenue.

A highly cost efficient branch implant route to market model has been used to increase revenues through the existing branch network supported by an enhanced service to customers. Buildbase provides a plant, tool and equipment hire service to its customers from 100 Hirebase implants. Electricbase implants which supply a range of electrical products were trialled in 10 Buildbase stores during 2013 and Plumb Centre implants now provide a full range of plumbing and heating products in the Chadwicks and Heiton Buckley branches in Ireland.

The mitigation strategy also incorporates proactive cost control in response to changes in market conditions. An assessment of macro-economic, construction and residential market conditions informs the allocation of capital resources to new projects.

Competition in Merchanting, DIY and Mortar Markets

Risk

The Group faces volume and price competition in its markets. The Group competes with builders merchants and retailers of varying sizes, and faces competition from existing general and specialist merchants including the national builders merchanting chains in the UK together with retailers, regional merchants and independents. The Group also faces the risk of new entrants to its markets. Actions taken by the Group's competitors, as well as actions taken by the Group to maintain its own competitiveness and reputation for value for money, may exert pressure on product pricing, margins and profitability. Some of the Group's competitors may have access to greater financial resources, greater purchasing economies and a lower cost base, any of which may confer a competitive advantage that could adversely impact the Group's revenues, profits and margins.

Mitigation

The Group's businesses monitor gross margins and develop appropriate tactical and trading responses to changes in the competitive and pricing environment. Mitigation of this risk is achieved through ensuring a value proposition for customers through the review of customer pricing metrics, monitoring pricing developments in the market place and the active management of pricing. Promotional and marketing activity is also a feature of revenue and margin management. Procurement strategies are focused on reducing costs through supplier consolidation and sourcing from overseas markets. The Group maintains an open dialogue with suppliers in order to mitigate the impact on customers and Group profitability from commodity related cost pressures. The Group's businesses conduct surveys and review feedback from customers in order to improve the quality of the overall product and service proposition and to ensure that customer expectations are met.

Employee and Management Engagement, Retention and Skills

Risk

The Group has over 9,000 employees engaged in the operations and management of the portfolio of businesses. They are fundamental to the long term success and development of the business. Attracting and retaining employees with the relevant skills and experience and investing in training and development is essential to sustaining the existing operations and providing a platform for the longer term development of the Group. The Group is dependent on the successful recruitment, development and retention of talented executives to run the overall Group and its businesses. In addition, the Group's ability to continue to identify and develop opportunities is influenced by management's knowledge of and expertise in its markets.

Mitigation

The Group and its individual businesses are committed to high standards of employment practice and are recognised as good employers in the UK, Ireland and Belgium. Remuneration and benefits are regularly reviewed and are designed to be competitive with other companies in the sectors that the Group operates in and with market practice generally.

Significant resources and time are devoted to training and development. This includes programmes that are organised internally by Group businesses and also in conjunction with external bodies. Employee turnover is closely monitored and processes are in place to provide career development opportunities and actively manage succession planning throughout the business. The Group made a number of appointments in recent years in planning for the succession of key executives and to support its longer term development.

Principal Risks and Uncertainties

IT Systems and Infrastructure

Risk

The Group's businesses are dependent on IT systems and supporting infrastructure to trade. The failure of key systems could have a serious impact on the business and result in the loss of revenue and reduced profitability.

The rate and scale of IT change is increasing as the Group undertakes a programme to replace a number of heritage systems. These changes have the potential to disrupt operations.

Mitigation

Back-up facilities and business continuity plans are in place and tested regularly to ensure that interruptions to the business are prevented or minimised and that data is protected from unauthorised access.

The replacement and updating of systems and technologies will be supported by a full strategy and business case analysis and planning and risk analysis for each project. A Programme Board has been established to review progress at significant project milestones and to control costs. The Programme Board will be supported by a quality assurance team that will review governance processes to ensure that projects are on track to deliver the technical, functional and business solutions within the scope of individual projects.

Health and Safety

Risk

The prevention of injury or loss of life to employees, customers and third parties is an absolute priority for the Board and executive management. Health and safety risks in branch locations concern the manual handling of products, slips, trips and falls and incidents involving fork lift trucks and delivery vehicles. Outside of the branch locations the main health and safety risks relate to vehicles engaged in transferring building materials from branch locations to customers' sites.

Mitigation

Health and safety forms part of the agenda at all board meetings and statistics covering accident frequency rates, lost time, management of risks and the cost of accidents and incidents are reviewed by the Board on a regular basis.

The individual businesses invest significant resources in health and safety management and actively work to minimise health and safety risks. Accidents are monitored and corrective action taken when appropriate to reduce or eliminate the risk of recurrence. The Group has recruited additional health and safety expertise to facilitate an improvement in the management of health and safety risks.

Principal Risks and Uncertainties

Acquisition and Integration of New Businesses

Risk

Growth through acquisition was historically a key element to the Group's development strategy. The Group may not be able to continue to grow if it is unable to identify attractive targets, execute full and proper due diligence, raise funds on acceptable terms, complete acquisition transactions, integrate the operations of the acquired businesses and realise the anticipated levels of profitability, cash flows and return on invested capital.

Mitigation

Acquisitions are made in the context of the Group's overall strategy. The Group has a long established, experienced and skilled acquisition capability that has significant relevant experience in all aspects of acquisition transactions and in managing post acquisition integration. This process is underpinned by strategic and financial acquisition criteria and the close monitoring of performance post acquisition.

Defined Benefit Pension Schemes

Risk

Retirement benefits are principally provided under defined contribution style pension arrangements. The Group also operates a number of defined benefit pension schemes in the UK and Ireland. The assets and liabilities of these schemes may exhibit significant volatility attributable primarily to changes in asset valuations, changes in bond yields and longevity of scheme members. In addition to future service contributions, significant cash contributions may be required to eliminate past service deficits.

Mitigation

An investment strategy is in place under the stewardship of the pension scheme trustees, in consultation with the Group to protect scheme assets and optimise returns.

The Group's defined benefit pension schemes were restructured on a more sustainable long-term basis during 2013 following consultations between the Group, the Trustees and active members. The arrangements agreed were based on sharing the cost of funding the scheme deficits and providing for more sustainable future benefits at an affordable cost while also materially reducing the financial risks of the schemes to the businesses.

Principal Risks and Uncertainties

Tax

Risk

The Group's businesses are subject to tax in a number of jurisdictions and it seeks to organise its affairs in a tax efficient manner. The income statement charge for taxation requires estimates to be made in relation to certain tax matters where the ultimate outcome may not be certain and when such matters may not be determined for an extended period of time. The final determination of these matters could be materially different to the estimate included in the financial statements.

Mitigation

The amounts provided for tax are based on management's estimate having taken appropriate professional advice. The Group maintains an open dialogue with tax authorities as required and is vigilant in ensuring that it complies with tax legislation.

The Availability and Cost of Debt Finance

Risk

The Group's ability to access liquidity to fund its business in the longer term may be affected during periods of tight credit conditions or the absence of funds at a reasonable cost. The availability and cost of debt finance could limit the Group's flexibility in planning for and reacting to, competitive pressures and changes in its business and limit its ability to undertake organic developments, make strategic acquisitions and capitalise on business opportunities.

Mitigation

Debt facilities are managed to provide security of funding and take account of the strong cash generation of the business and the uncertain timing and nature of any acquisition spend. Significant undrawn bank facilities and cash resources are maintained to fund the Group's requirements at short notice.

Credit Risk Relating to Customers

Risk

The Group is exposed to the risk of default by customers who purchase products on credit. One of the key features of customer service in merchanting is the provision of short-term credit to customers with the Group carrying the associated credit risk.

Mitigation

The Group's exposure to customer credit risk is diversified over a large customer base and the incidence of default by customers is currently in line with long-term trend rates. Past-due receivables are monitored and actively managed on an on-going basis and bad debt provisions are made as required.

Report of the Remuneration Committee on Directors' Remuneration

Chairman's Annual Statement

Dear Shareholder,

On behalf of the Board, I am pleased to present the Report of the Remuneration Committee (the Committee) on Directors' Remuneration.

Although not required under the Irish Companies Acts, the Committee has taken the decision to prepare the Remuneration Report in accordance with the new UK regulations governing the disclosure and approval of remuneration of the Directors. This remuneration report has been split into three parts – (i) this Annual Statement, (ii) the Remuneration Policy Report which sets out the Group's policy for remunerating Executive Directors, and (iii) the Annual Report on Remuneration which sets out how Directors were remunerated in 2013 and how it is proposed to apply the policy in 2014. *This Annual Statement, the Remuneration Policy Report and the Annual Report on Remuneration will be subject to an advisory vote at the 2014 AGM.*

The remuneration policy adopted by the Board is to reward its Executive Directors competitively having regard to comparable companies. In setting the remuneration policy for the Executive Directors, the Committee takes into account the need to attract, retain and motivate executives of high calibre and ensure that executive management is provided with appropriate incentives to encourage enhanced long-term performance with the objective of aligning the interests of Executive Directors and shareholders. In determining such policy, the Remuneration Committee takes into account all factors which it considers necessary, including market practice, the changing nature of the business and markets in which it operates, the performance of the Group, the experience, responsibility and performance of the individuals concerned and remuneration practices elsewhere in the Group.

Performance Outcome for 2013

The key features of what was a very strong performance by the Group are summarised as follows:

- Revenue up 8% to £1.9 billion
- Underlying operating profit up 27% to £77.2 million from £61.0 million
- Group operating profit margin increased by 60 basis points to 4.1% from 3.5%
- Underlying profit before taxation up 35% to £64.9 million from £48.1 million
- Adjusted basic earnings per share up 48% to 22.3p
- 21% dividend increase that reflects the continuing improvement in the trading performance
- Strong cash generation from operations of £95.3 million and year-end gearing of 15%

Report of the Remuneration Committee on Directors' Remuneration

Chairman's Annual Statement (continued)

Remuneration for 2013

The Committee agreed in January 2013 not to award any basic salary increase to Executive Directors for 2013 having taken account of both external market developments and internal Group considerations at that time.

The annual bonus for 2013 was based on demanding financial performance targets and personal objectives. Financial performance targets accounted for three quarters of the overall bonus opportunity. Reflecting the strong performance as set out above, a bonus of 49.25 per cent of basic salary, out of a maximum possible award of 100 per cent of basic salary, was made to the Chief Executive Officer. The bonus award made to the former Finance Director was 43.40 per cent of basic salary out of a potential bonus opportunity of 80 per cent of basic salary.

The newly appointed Chief Financial Officer received a maximum bonus of 100 per cent of salary based on the achievement of personal objectives and this was pro-rated by reference to the period of his employment with the Group.

The performance conditions for Long Term Incentive Plan (LTIP) awards made in May 2011 were based on growth in earnings per share (EPS) and total shareholder return (TSR). Half of the awards to Executive Directors were based on relative TSR versus a peer group and as the Group's TSR performed strongly relative to the peer group 90.67 per cent of this half of the awards will vest in May 2014. The other half of the awards was based on the Group's EPS for the financial year ended 31 December 2013 being in the range of 37 cents to 45 cents and as the EPS for 2013 did not fall within this range this performance condition was not met and the awards for this part will not vest.

Board Changes in 2013

During 2013 as part of its responsibilities in relation to succession planning, the Committee determined an appropriate package for the new Chief Financial Officer and agreed arrangements for the retirement of the incumbent Finance Director. Mr. David Arnold joined the Group and the Board as Chief Financial Officer on 9 September 2013 and Mr. C. Ó Nualláin retired from the Group and the Board on the same date.

Mr. Arnold receives a basic salary of £380,000 per annum. The company contributes 20 per cent of his basic salary to a defined contribution pension scheme or makes a payment in lieu of pension through the payroll for the same amount. The potential opportunity under the bonus scheme is 100 per cent of basic salary. For 2013 the bonus was pro-rated by reference to the period from 9 September 2013, the date that Mr. Arnold commenced employment with the Group, to 31 December 2013 and was based on the satisfactory completion of personal objectives. The aggregate value of any allocation that may be granted under the Long Term Incentive Plan (LTIP) in any financial year is 100 per cent of basic salary save that in the first year of employment the allocation will be 125 per cent of salary.

The Board announced on 7 March 2013 that Mr. C. Ó Nualláin, Finance Director, would retire from the Board in January 2014 on reaching the age of 60. On 28 August 2013 the Board announced that his retirement date was brought forward to 9 September 2013 following the earlier than anticipated appointment of his successor. A termination payment was made to Mr. Ó Nualláin calculated by reference to the salary and benefits he would have received over the period from his date of departure on 9 September 2013 to 21 January 2014, his originally agreed retirement date. Mr. Ó Nualláin was paid a performance related bonus of 43.40 per cent of salary for the year as noted above and his entitlements under the LTIP scheme rules are set out later in this report.

Report of the Remuneration Committee on Directors' Remuneration
Chairman's Annual Statement (continued)

Remuneration Policy for 2014

The Remuneration Policy is set out on pages 54 to 61.

The salaries of Executive Directors are reviewed annually in January. When conducting this review, the Committee considers a range of factors including the performance of the Group, market conditions, the prevailing market rates for similar positions in comparable companies, the responsibilities, performance and experience of each executive Director, the level of salary increases implemented across the Group and the balance between the fixed and variable elements of the overall remuneration packages.

No basic salary increases have been awarded to the Chief Executive Officer since his appointment to the position in April 2011 and the Committee has agreed not to award a salary increase for 2014.

The maximum potential performance related pay award for the Chief Executive Officer was increased from 100 per cent to 120 per cent of basic salary with effect from 1 January 2014. This is in line with the Committee's original plan to increase the award following completion of a number of years service with the Group and brings the maximum potential award more into line with median awards made by FTSE 250 companies of comparable scale.

It is intended that LTIP awards will be granted in 2014 equivalent to 150 per cent of salary to Mr. Slark. Mr. Arnold will be granted an award equivalent to 125 per cent of salary which is in line with the contractual arrangements made when he was appointed to the position.

The Remuneration Committee plans to consult with major shareholders ahead of any significant future changes to the remuneration policy.

I recommend your support for the advisory resolution on Directors Remuneration at this year's Annual General Meeting.

Yours sincerely

C. M. Fisher,
Chairman of the Remuneration Committee

Report of the Remuneration Committee on Directors' Remuneration

Remuneration Policy Report

This part of the Directors' Remuneration Report sets out the remuneration policy for the Company and has been prepared in accordance with Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) and the disclosure requirements set out in the Listing Rules of the Financial Conduct Authority. The policy has been developed taking into account the principles of the UK Corporate Governance Code 2012 and describes the policy to be applied from 2014 onwards. The Policy Report will be put to an advisory non-binding shareholder vote at the 2014 AGM and the policy will take formal effect from that date.

Policy Overview

The objective of the remuneration policy is to provide remuneration packages for each Executive Director that will:

- attract, retain and motivate executives of high calibre;
- ensure that executive management is provided with appropriate incentives to encourage enhanced long-term performance;
- ensure that the overall package for each director is linked to the short and long term strategic objectives of the Group; and
- have a significant proportion of the potential remuneration package that is paid in equity, which is designed to ensure that executives have a strong alignment with shareholders.

When setting the levels of short-term and long-term variable remuneration and the balance of equity and cash within the package, consideration is given to discouraging unnecessary risk-taking whilst ensuring that performance hurdles are suitably challenging.

In determining such policy, the Remuneration Committee takes into account all factors which it considers necessary, including market practice, the changing nature of the business and markets in which it operates, the performance of the Group, the experience, responsibility and performance of the individuals concerned and remuneration practices elsewhere in the Group.

How the Views Of Shareholders are Taken Into Account

The Remuneration Committee considers the guidelines issued by bodies representing institutional shareholders and feedback from shareholders on the Group's remuneration policies and practices. The Committee also takes on board any shareholder feedback received at the AGM each year. This feedback, plus any additional feedback received during meetings with shareholders from time to time, is then considered as part of the Group's annual review of remuneration policy.

When any significant changes are made to the remuneration policy, the Remuneration Committee Chairman will inform major shareholders of these in advance and will offer a meeting to discuss these. The Remuneration Committee will engage with shareholders and give serious consideration to their views.

Details of votes cast for and against the resolution to approve last year's remuneration report and any matters discussed with shareholders during the year will be provided in the Annual Report on Remuneration.

How the Views of Employees are Taken into Account

The Company does not consult with employees on directors' remuneration. However, when setting the remuneration policy for Executive Directors the Remuneration Committee takes into account the pay and employment conditions of other employees in the Group.

Report of the Remuneration Committee on Directors' Remuneration

Remuneration Policy Report (continued)

The Remuneration Policy for Directors

The table below summarises the key aspects of the Group's future remuneration policy for Executive Directors.

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance targets
Base salary	To recruit and reward executives of a suitable calibre for the roles and duties required	Salaries of Executive Directors are reviewed annually in December and any changes made are effective from 1 January. When conducting this review and the level of increase, the Committee considers a range of factors including: • the performance of the Group; • market conditions; • the prevailing market rates for similar positions in UK and Irish companies of broadly comparable size and a number of industry specific peers; • the responsibilities, performance and experience of each executive Director; and • the level of salary increases implemented across the Group.	Details of the outcome of the most recent salary review are provided in the Annual Remuneration Report. No salary increases are being made for 2014. Generally, annual increases will be in line with employee increases but higher increases may be awarded on occasion where an individual is promoted or has been recruited on a below market rate or where there have been changes to individual responsibilities or in the size or complexity of the business.	Not applicable
Benefits	To provide market competitive benefits to ensure the well being of directors	Benefits may include company car, mobile telephone, life assurance, private medical cover and permanent health insurance. Relocation or other related expenses may be offered, as required.	The value of other benefits is based on the cost to the company and is not pre-determined. Relocation expenses must be reasonable and necessary.	Not applicable
Pension	To provide market competitive benefits	A company contribution to a money purchase pension scheme or provision of a cash allowance in lieu of pension.	A company pension contribution or payment in lieu of pension made through the payroll of up to 25% of basic salary.	Not applicable

Continued on next page.

Report of the Remuneration Committee on Directors' Remuneration

Remuneration Policy Report (continued)

Element	Purpose and link to strategy	Operation	Maximum opportunity/limit	Performance targets
Annual bonus	To encourage and reward delivery of the Group's annual financial and/ or strategic objectives	Bonus payments are determined by the Committee after the year end, based on performance against the targets set. Targets are reviewed annually. The bonus is payable in cash. An Executive Director is required to apply 30% of the annual bonus after statutory deductions for the purchase of shares in the Group until the shareholding is equivalent to at least 100 per cent of basic salary. Claw-back may be applied, at the discretion of the Committee, in the event of material misconduct, material misstatement of results, a calculation error and /or the use of incorrect or inaccurate information when calculating the bonus award.	The maximum award under the annual bonus plan is 120% of basic salary for the CEO and 100% of salary for the CFO and any Executive Directors appointed in the future (other than a CEO).	The bonus will be based on the achievement of an appropriate mix of mainly financial objectives but may also include an element for personal objectives. Financial measures which account for the majority of the bonus opportunity may include measures such as earnings per share, return on capital employed, cash flow and such other measures as determined from time to time by the Committee. Personal objectives that are relevant to an individual's specific areas of responsibility may be used. The metrics chosen and their weightings will be set out in the Annual Report on Remuneration. For financial measures, a sliding scale is set by the Committee. No bonus is payable if performance is below a minimum threshold and the bonus payable increases on a straight line basis thereafter with full bonus payable for achieving the upper point on the scale.
Long-Term Incentives ('LTIP')	To encourage and reward delivery of the Group's strategic objectives and provide alignment with shareholders through the use of shares	The 2011 LTIP is an incentive plan that is designed to reward Executive Directors and senior executives in a manner that aligns their interests with those of shareholders. An Executive Director nominated to participate in the plan is granted an award over "free shares" which vest subject to the achievement of performance conditions measured over three financial years and the Executive Director remaining employed in the Group. There is a claw-back provision under which the Remuneration Committee has the discretion to require the reduction of the vesting of awards or require the repayment of vested awards (within two years of the vesting of awards) in circumstances where the vesting arose as a result of information which has subsequently proved to be inaccurate or misleading in a material respect.	The total value of awards which may be granted under the LTIP rules in any financial year is 150% of basic salary. This may be increased to 200% of salary in exceptional circumstances. The Company's current policy is to award 150% of basic salary in the case of the CEO and 100% of basic salary in the case of the CFO and any Executive Directors appointed in the future subject to the allocation being up to 125% of basic salary in the first year of employment .	The vesting of LTIP awards made to Executive Directors is currently subject to EPS (earnings per share) and TSR (total shareholder return) performance conditions. The EPS (as defined in the scheme rules) condition will be subject to achieving EPS within a target range. 25% of this part of the award will vest if the lower target in the range is achieved. Where the EPS is between the lower and higher targets in the range, then between 25% and 100% of this part of the award will vest on a straight line basis. If the Group's TSR equals the median TSR of the peer group 25% of this part of the award will vest, with full vesting for upper quartile performance or better. Awards vest on a straight line basis for performance between the median and upper quartile. Notwithstanding the achievement of the TSR performance condition, no shares will vest unless the Committee considers that overall financial results have been satisfactory in the circumstances over the performance period. The Remuneration Committee has the authority to set appropriate metrics for each future award. The Committee believes that the share scheme should align management and shareholder interests and assist the Group in the recruitment and retention of senior executives.

Remuneration Policy Report (continued)

Element	Purpose and link to strategy	Operation	Maximum opportunity/limit	Performance targets
All-employee share plans	To encourage share ownership and align the interests of employees with shareholders	Executive Directors are entitled to participate in employee share schemes on the same basis as other employees. The Group currently operates the 2011 Approved SAYE Plan for UK employees and in Ireland the Group has in the past operated a Share Participation Scheme for its Irish employees.	The limits are set by the UK tax authorities from time to time. Currently this limit is £250 per month and is due to rise to £500 per month.	Not applicable
Share ownership guidelines	To increase the alignment of interests between Executive Directors and shareholders	An Executive Director is required to apply 30% of the annual bonus after statutory deductions for the purchase of shares in the Group until his/her shareholding is equivalent to at least 100 per cent of basic salary.	Minimum 100% of basic salary.	Not applicable
Chairman and Non-Executive Director fees	To attract and retain a high-calibre Chairman and Non-Executive Directors by offering a market competitive fee level	On the recommendation of the Chairman, the Board sets the level of remuneration of all Non-Executive Directors within an aggregate limit approved from time to time by shareholders. The Chairman's fee is set based on a recommendation from the Remuneration Committee. The level of fees paid seeks to recognise the time commitment, responsibility and skills required to contribute to the effectiveness of the Board.	Details of the outcome of the most recent fee review are provided in the Annual Remuneration Report.	Not applicable

Notes

1. For the annual bonus scheme, earnings per share is a measure of the Group's overall financial performance, return on capital ensures earnings are derived from the efficient use of capital and cash flow ensures earnings are readily converted into cash.

2. EPS and TSR are measures of the return to shareholders in terms of the value of their investment in the Group, dividends paid and the Group's performance.

Report of the Remuneration Committee on Directors' Remuneration
Remuneration Policy Report (continued)

Annual Bonus and LTIP Discretions

The Committee will operate the annual bonus and LTIP according to their respective rules and in accordance with the Listing Rules and applicable tax rules. A copy of the LTIP rules is available on request from the Company Secretary. The Committee, consistent with market practice, retains discretion over a number of areas relating to the operation and administration of these plans. These include (but are not limited to) the following (albeit with the level of award restricted as set out in the policy table above):

- Who participates in the plans;
- The timing of grant of awards;
- The size of awards;
- Setting the EPS performance targets condition in respect of each annual award;
- Discretion relating to the measurement of performance in the event of a change of control or reconstruction;
- Determination of a good leaver (in addition to any specified categories) for incentive plan purposes based on the rules of the plan and the appropriate treatment chosen;
- Adjustments required in certain circumstances (e.g. in the event of a de-merger, special dividend or an alteration to the capital structure of the Company including a capitalisation of reserves or rights issue); and
- The ability to adjust existing performance conditions for exceptional events so that they can still fulfil their original purpose.

Legacy Arrangements

For the avoidance of doubt, in approving the Policy Report which forms part of the non-binding advisory vote at the 2014 AGM, it is noted that the Group will honour any commitments entered into with current or former directors that have been disclosed previously to shareholders.

Differences in Remuneration Policy for Executive Directors Compared to Other Employees

The Committee is made aware of pay structures across the wider Group when setting the remuneration policy for Executive Directors. The Committee considers the general basic salary increase for the broader employee population when determining the annual salary review for the Executive Directors.

Overall, the remuneration policy for the Executive Directors is more heavily weighted towards variable pay than for other employees. This ensures that there is a clear link between the value created for shareholders and the remuneration received by the Executive Directors which recognises that Executive Directors should have the greatest potential to influence the Group's value creation for shareholders.

Approach to Recruitment and Promotions

The remuneration package for a new Director will be set in accordance with and subject to the limits set out in the Group's approved policy as set out in the table above, subject to such modifications as are set out below.

Report of the Remuneration Committee on Directors' Remuneration
Remuneration Policy Report (continued)

Salary levels for Executive Directors will be set in accordance with the Group's remuneration policy, taking into account the experience and calibre of the individual and his/her existing remuneration package. Where it is appropriate to offer a lower salary initially, a series of increases to the desired salary positioning may be made over subsequent years subject to individual performance and development in the role. Benefits will generally be provided in line with the approved policy, with relocation or other expenses provided if necessary. A pension contribution of up to 25 per cent of salary may be provided.

The structure of variable pay element will be in accordance with and subject to the limits set out in the Group's approved policy detailed above. Different performance measures may be set initially for the annual bonus in the year an Executive Director joins the Group taking into account the responsibilities of the individual and the point in the financial year that he or she joins the Board.

If it is necessary to buy-out incentive pay or benefit arrangements (which would be forfeited on leaving the previous employer) in the case of an external appointment, this would be provided for taking into account the form (cash or shares), timing and expected value (i.e. likelihood of meeting any existing performance criteria) of the remuneration being forfeited. Share awards may be used to the extent permitted under the Group's existing share plans and provisions under the Listing Rules where necessary.

In the case of an internal hire, any outstanding variable pay awarded in relation to the previous role will be allowed to pay out according to its terms of grant or adjusted as considered desirable to reflect the new role.

Fees for a new Chairman or Non-Executive Director will be set in line with the approved policy.

Service Contracts & Payments for Loss of Office

The Remuneration Committee determines the contractual terms for new Executive Directors, subject to appropriate professional advice to ensure that these reflect best practice.

The Group's policy is that the period of notice for Executive Directors will not exceed 12 months. The employment contracts of the CEO and the CFO may be terminated on six months notice by either side. In the event of a director's departure, the Group's policy on termination is as follows:

The Group will pay any amounts it is required to make in accordance with or in settlement of a director's statutory employment rights;

The Group will seek to ensure that no more is paid than is warranted in each individual case.

There is no entitlement to bonus paid following notice of termination unless expressly provided for in an Executive Director's employment contract but the Group reserves the right to pay a bonus for the notice period subject to performance conditions.

Report of the Remuneration Committee on Directors' Remuneration
Remuneration Policy Report (continued)

Following service of notice to terminate employment, the Company may place the executive on garden leave. During this time, the executive will continue to receive salary and benefits (or a sum equivalent to) until the termination of employment.

A director's service contract may be terminated without notice and without any further payment or compensation, except for sums accrued up to the date of termination, on the occurrence of certain events such as gross misconduct. If the Group terminates employment in lieu of notice in other circumstances, compensation payable is as provided for in employment contracts which is as follows:

- Gavin Slark - basic salary due for any unexpired notice period;
- David Arnold - basic salary together with benefits and bonus which would have been payable during the notice period or any unexpired balance thereof. Any bonus payable is subject to performance conditions.

Payments may be made in monthly instalments.

The Group may pay salary, benefits and pension in lieu of notice for a new director.

The treatment of unvested awards previously granted under the LTIP upon termination will be determined in accordance with the plan rules. As a general rule, LTIP awards will lapse upon a participant giving or receiving notice of his cessation of employment. However for certain good leaver reasons including death, ill health, injury, disability, redundancy, agreed retirement, their employing company or business being sold out of the Group, or any other reason at the Committee's discretion after taking into account the circumstances prevailing at the time, awards will vest on the normal vesting date subject to the satisfaction of performance conditions and pro-rating the award to reflect the reduced period of time between the commencement of the performance period and the Executive Director's cessation of employment as a proportion of the total performance period, unless the Committee regards it as inappropriate to pro-rate the award in the particular circumstances. Alternatively, the Committee can decide that the award will vest on the date of cessation, subject to the extent to which the performance conditions have been satisfied by reference to the date of cessation and pro-rated by reference to the date of cessation of employment. The Remuneration Committee can decide not to pro-rate an award if it regards it as inappropriate to do so in the particular circumstances.

Non-Executive Directors

All Non-Executive Directors have letters of appointment with the Company for an initial period of three years, unless otherwise terminated earlier by and at the discretion of either party upon one month's written notice or otherwise in accordance with the Group's Articles of Association and subject to annual re-appointment at the AGM.

The appointment letters for Non-Executive Directors provide that no compensation is payable on termination other than accrued fees and expenses.

Remuneration Scenarios for Executive Directors

The Group's normal policy results in a significant portion of remuneration received by Executive Directors being dependent on performance. The chart below shows how the total pay opportunities for 2014 for the Executive Directors vary under three performance scenarios – Below Expectation, In line with Expectation and Maximum.

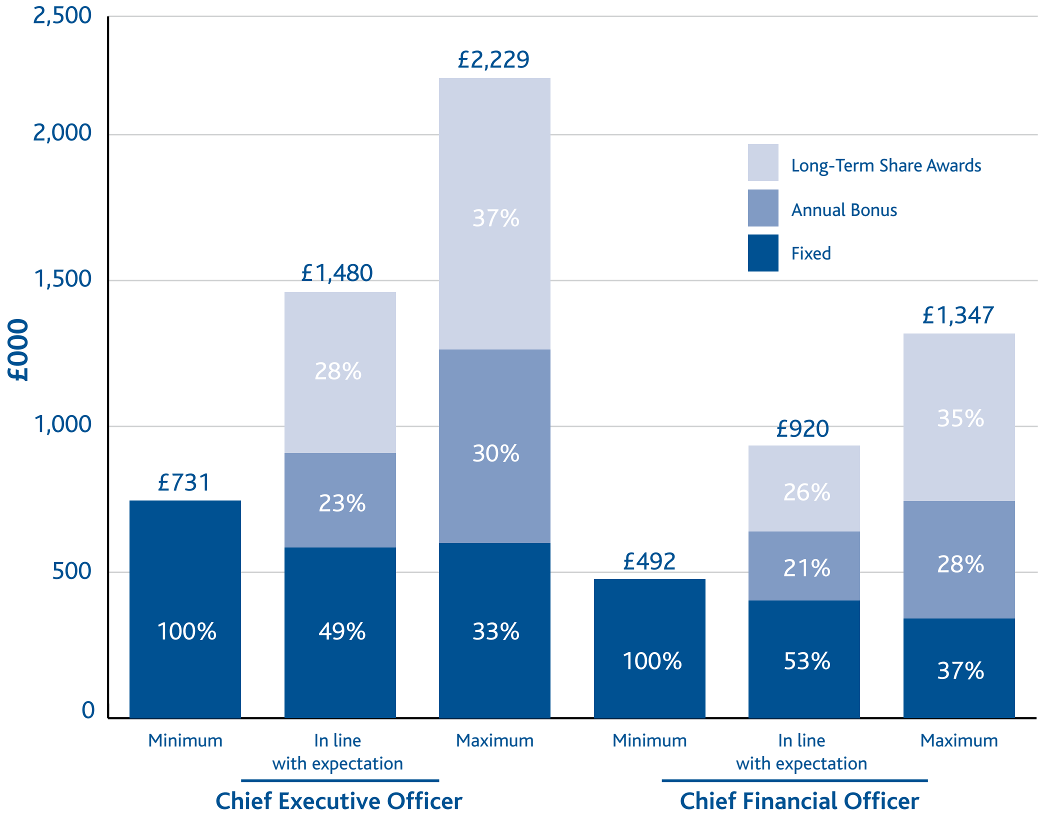


Chart labels show proportion of the total package comprised of each element

Assumptions:

Minimum = fixed pay only (salary + benefits + pension)
In line with Expectation (which is not target) = 50% vesting of the annual bonus and LTIP awards
Maximum = 100% vesting of the annual bonus and LTIP awards

No account has been taken of any share price increase.

Report of the Remuneration Committee on Directors' Remuneration

Annual Report on Remuneration

Although not required under the Irish Companies Acts, this report also includes the disclosures required by UK legislation contained in Part 3 of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, and the disclosures required by 9.8.6R of the Listing Rules.

Membership of the Remuneration Committee

The Committee comprises Mr. Charles M. Fisher, who chairs the Committee, Mr. Roderick Ryan and Ms. Annette Flynn all of whom are Non-Executive Directors that are determined by the Board to be independent. The Committee members have no personal financial interest, other than as shareholders, in matters to be decided, no potential conflicts of interests arising from cross directorships and no day-to-day involvement in running the business. The Non-Executive Directors are not eligible for pensions and do not participate in the Group's bonus or share schemes. The Committee's terms of reference which were revised during the year can be found on the company website.

The Chairman of the Board attends meetings of the Committee by invitation and participates in the deliberations of the Committee. The Committee also consults the CEO as appropriate. The Committee is also assisted in its work by the Company Secretary who also acts as secretary to the Committee. The Executive Directors and Company Secretary take no part in discussions relating to their own remuneration and benefits. New Bridge Street (a trading name of Aon Corporation) is the Committee's executive remuneration advisor and is a signatory to the Remuneration Consultants Group's Code of Conduct. During 2013 New Bridge Street were appointed by the Remuneration Committee to carry out a review of the remuneration packages of Executive Directors and the Company Secretary, the fees paid to Non-Executive Directors and other remuneration related work. New Bridge Street also advised on new UK regulations governing the disclosure and approval of directors' remuneration. The fees charged for the provision of these services were £25,000 and were charged on a time spent basis.

The Committee met seven times during 2013 and its schedule of work covered the following matters that fall within the scope of its duties and responsibilities:

- Considered and determined bonus awards under the 2012 bonus scheme
- Approval of 2013 LTIP awards and determined the earnings per share performance condition.
- Reviewed salaries for Executive Directors and the Company Secretary.
- Reviewed and determined that the conversion conditions were met in respect of basic share awards made in 2003 under the rules of the 1999 Grafton Group Share Scheme. The Committee also determined that the conditions for conversion of second tier awards made in 2003 were not met.
- Determined and agreed an appropriate remuneration package for the new Chief Financial Officer and agreed arrangements for the retirement of the former Finance Director.
- Reviewed Executive Directors salaries for 2014.
- Approved an updated terms of reference for the committee.

Report of the Remuneration Committee on Directors' Remuneration
Annual Report on Remuneration (continued)

Single Total Remuneration Figure of Director's Remuneration

The following table sets out the total remuneration for directors for the year ending 31 December 2013 and the prior year.

	Salary/Fees (a)		Bonus (b)		Pension (c)		Other Benefits (d)		Long term Incentive Plan (e)		Termination Payment		Total	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000	**2013 £'000**	2012 £'000	**2013 £'000**	2012 £'000	**2013 £'000**	2012 £'000	**2013 £'000**	2012 £'000	**2013 £'000**	2012 £'000
Executive Directors														
G. Slark	**555**	555	**273**	271	**128**	128	**48**	47	**520**	-	**-**	-	**1,524**	1,001
D. Arnold (i)	**119**	-	**119**	-	**24**	-	**11**	-	**-**	-	**-**	-	**273**	-
C. Ó Nualláin (ii)	**293**	406	**184**	324	**198**	273	**18**	20	**226**	-	**248**	-	**1,167**	1,023
	967	961	**576**	595	**350**	401	**77**	67	**746**	-	**248**	-	**2,964**	2,024
Non-Executive Directors														
M. Chadwick	**127**	122	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**127**	122
C. M. Fisher	**59**	57	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**59**	57
A. Flynn	**59**	57	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**59**	57
R. M. Jewson (iii)	**22**	57	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**22**	57
R. Ryan	**59**	57	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**59**	57
F. van Zanten (iv)	**38**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**38**	-
	364	350	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**364**	350
Total Remuneration	**1,331**	1,311	**576**	595	**350**	401	**77**	67	**746**	-	**248**	-	**3,328**	2,374

(i) Mr. D. Arnold joined the Board and the Group on 9 September 2013.

(ii) Mr. C. Ó Nualláin retired from the Board on 9 September 2013.

(iii) Mr. R. W. Jewson retired from the Board at the conclusion of the Annual General Meeting on 14 May 2013.

(iv) Mr. F. van Zanten joined the Board as a Non-Executive Director on 13 May 2013.

(v) Comparative figures included in the table above have been presented on a consistent basis with the current year. Further details on the valuation methodologies applied are set out in notes (a) to (f) below. These valuation methodologies are as required by the Regulations and are different from those applied within the financial statements which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The total expense relating to the directors recognised within the income statement is £490,000 (2012: £144,000) in respect of long-term incentives.

Notes to the Director's Remuneration Table:

(a) This is the amount of salaries and fees earned in respect of the financial year.

(b) This is the amount of bonus earned in respect of the financial year.

(c) This is the amount of pension payable in respect of the financial year by way of a company contribution to a pension scheme or a payment in lieu of pension made through the payroll.

(d) Benefits comprise permanent health and medical insurance and the provision of a company car (car allowance).

Report of the Remuneration Committee on Directors' Remuneration

Annual Report on Remuneration (continued)

(e) For the year ended 31 December 2013, this is the value of LTIP awards that will vest in May 2014. The value of the awards is based on the average share price for the three months to 31 December 2013. The vesting of these awards was subject to performance conditions over the period 1 January 2011 to 31 December 2013. No awards vested in respect of the year ended 31 December 2012.

(f) Mr. Ó Nualláin and the Non-Executive Directors were paid in euros. The increase in the sterling/euro exchange rate accounts for part of the increase in remuneration paid to Mr. Ó Nualláin. Fees paid to Non-Executive Directors during 2013 were at the same rate in euro as paid in 2012.

Salary and Fees

The Committee agreed in January 2013 not to award any basic salary increases to Executive Directors for 2013 having taken account of both external market developments and internal Group considerations at that time. Mr. Slark continued to be paid the same salary since his appointment to the Board on 1 April 2011 and the salary of Mr. Ó Nualláin was previously increased on 1 July 2007. Mr. Arnold's salary was paid at the rate of £380,000 per annum pro-rated for the period of employment from 9 September 2013 to 31 December 2013.

Non-Executive Directors fees were paid at the rate of £59,000 per annum, the same level since 2005. No additional fees were paid for chairing Board committees. The fee paid to the Chairman was £127,000, the same level since his appointment as Non-Executive Chairman on 1 July 2011.

Annual Bonus

The maximum bonus opportunity for Mr. G. Slark and Mr. C. Ó Nualláin was 100 per cent and 80 per cent of salary respectively. The maximum bonus opportunity was divided equally between three financial measures and personal objectives. As a retiree whose original agreed retirement date of 21 January 2014 was brought forward to 9 September 2013 following the earlier than anticipated appointment of his successor, Mr. Ó Nualláin was entitled to a bonus payment subject to the achievement of the 2013 financial measures and personal objectives.

The table below analyses the composition of the bonus awards for the year:

	Percentage of Basic Salary				
	Adjusted EPS	Cash flow	Return on Capital	Personal Objectives	Bonus Payable
G. Slark	15.63%	4.40%	9.22%	20.00%	49.25%
D. Arnold	-	-	-	100.00%*	100.00%*
C. Ó Nualláin	12.50%	3.52%	7.38%	20.00%	43.40%

**Pro-rated for period of employment*

The maximum bonus opportunity for Mr. Slark was 25 per cent of gross pay for each component and 20 per cent of gross pay for Mr. Ó Nualláin.

The financial targets were set at the beginning of the year by reference to the Group's budget for 2013. No bonus was payable if the performance achieved was below 90 per cent of target and the bonus payable increased on a straight line basis thereafter with the full bonus opportunity payable on achieving 125 per cent of target for each financial performance measure. The actual targets have not been disclosed as they are considered by the Board to be commercially sensitive information.

As highlighted earlier in this report, the Group performed strongly in 2013 against the background of a modest volume recovery in its UK market and stabilisation of trading conditions in Ireland following declines in each of the previous five years. Adjusted earnings per share increased by 48 per cent to 22.3 pence, cash generated from operations increased by 11 per cent to £95.3 million and return on capital employed increased to 7.8 per cent from 6.1 per cent.

Report of the Remuneration Committee on Directors' Remuneration
Annual Report on Remuneration (continued)

The CEO and former Finance Director were each given a number of different personal and strategic objectives related to their areas of responsibility and the priorities of the overall Group. The nature of these objectives were considered by the Board to be commercially sensitive but broadly covered medium term strategic planning for the overall Group, succession planning and development of an IT strategy. The Committee considered the extent to which these objectives were achieved and agreed a payment of 20 per cent of salary for Mr. Slark and 20 per cent of salary for Mr. Ó Nualláin out of a maximum opportunity of 25 per cent and 20 per cent of salary respectively.

Mr. D. Arnold commenced employment with the Group as Chief Financial Officer on 9 September 2013 and his bonus was pro-rated by reference to his period of employment from 9 September 2013 to 31 December 2013 and was based on the satisfactory completion of personal objectives. The Committee determined that Mr. Arnold should achieve his maximum bonus opportunity which amounted to 100 per cent of salary for the period from the 9 September 2013 to 31 December 2013.

Pension

Pension benefits comprise either a company contribution to an executive's personal pension plan, a company contribution to the Group defined contribution pension scheme or an allowance paid through the payroll in lieu of pension benefit.

Mr. Slark's pension benefit comprised a payment made to a defined contribution scheme and a taxable non-pensionable cash allowance. The total pension benefit was £128,000. Mr. Ó Nualláin was paid a taxable non-pensionable cash allowance of £198,000. No further amounts are payable by the company in respect of pension benefits for Mr. Ó Nualláin. The pension benefit for Mr. Arnold was based on an annual pension of 20 per cent of his salary and pro-rated for the period of employment.

Long Term Incentive Plan (LTIP)

The Remuneration Committee has the authority to set appropriate criteria for each award. The Committee believes that the LTIP should align management and shareholder interests and assist the Group in the recruitment and retention of senior executives.

Awards Granted with a Performance Period Covering the Three Years to End 2013

The performance conditions for LTIP awards made in May 2011 were based on growth in earnings per share EPS (as defined in the scheme) and total shareholder return (TRS). Half of the awards to Executive Directors were based on relative TSR versus a peer group. The other half was based on the Group's EPS for the financial year ended 31 December 2013.

The relative TSR performance over the three year period was at the 68th percentile i.e. between median and upper quartile performance. The proportion of this part of the award that will vest is 90.67 per cent.

The other half of the awards were based on the Group's EPS for the financial year ended 31 December 2013 being in the range of 37 cent to 45 cent (31.4p to 38.2p). The EPS for 2013 did not fall within this range and as this performance condition was not met the awards will not vest and will lapse. Therefore in aggregate 45.33 per cent of the 2011 LTIP awards will vest.

Report of the Remuneration Committee on Directors' Remuneration

Annual Report on Remuneration (continued)

LTIP Awards Granted During the Year Ended 31 December 2013

The following award was made during the year ended 31 December 2013:

	Number of Units	Share Price at Grant Date	Value of Award at Grant Date
Mr. G. Slark	196,792	£4.229	£832,256

Mr. Slark was granted an award on 16 April 2013 valued at 150 per cent of his base salary in the form of nil cost shares. Mr. Ó Nualláin was due to retire in January 2014 and was not granted an award in 2013. The first award to Mr. Arnold will be made in 2014.

The 2013 award to Mr. Slark will be subject to the achievement against two performance measures. Half of the awards will vest depending on the company's TSR performance over a three-year period commencing on 1 January 2013, with no opportunity to re-test. TSR will be compared to a peer group of 18 companies. Notwithstanding the achievement of the TSR performance condition, no shares will vest unless the Committee considers that the overall financial results have been satisfactory in the circumstances over the performance period.

Where the Company's TSR performance equals the median TSR performance of the peer group, then 25 per cent of the shares which are subject to the TSR Performance Condition shall vest. 100 per cent of the shares which are subject to the TSR Performance Condition shall vest if the Company's TSR performance is equal to or greater than the 75th percentile in the peer group. For TSR performance between the 50th and the 75th percentiles, between 25 per cent and 100 per cent of the shares which are subject to the TSR Performance Condition shall vest on a straight-line basis based on the Company's notional ranking compared against the Comparator Group.

Under the EPS Performance Condition for awards granted on 16 April 2013, the Company's EPS for the financial year ending 31 December 2015 must be equal to 34 cents per share if the award is to vest. If this target is achieved, then 25 per cent of the shares which are subject to the EPS Performance Condition shall vest. Where the Company's EPS for the financial year ending 31 December 2015 is equal to or greater than 40 cents per share, then 100 per cent of the shares which are subject to the EPS Performance Condition shall vest. Where the Company's EPS for the financial year ending 31 December 2015 is between the thresholds of 34 cents and 40 cents per share, then between 25 per cent and 100 per cent of the shares which are subject to the EPS Performance Condition shall vest on a straight-line basis.

Claw back provisions will apply.

Report of the Remuneration Committee on Directors' Remuneration
Annual Report on Remuneration (continued)

Awards Converted under the 1999 Grafton Group Share Scheme

Share Schemes

The Committee determined that the performance conditions for basic share awards made in October 2003 were met and Mr. Ó Nualláin converted his entitlements over 80,000 units at cost to him of €5.45 per unit. The Committee also determined that the conditions to convert second tier shares were not met and these awards lapsed.

Non-Executive Directors Remuneration

Non-Executive Directors receive fees for the role and are precluded from participating in performance related share or other incentive schemes.

Additional Information

Payments to Former Directors

There were no payments to former directors except for the payment of £65,000 to Mr. L. Martin for the provision of consultancy services to the Group during the year.

Report of the Remuneration Committee on Directors' Remuneration
Annual Report on Remuneration (continued)

Application of Remuneration Policy in 2014

Salaries

The salaries of Executive Directors were reviewed in December 2013. When conducting this review, the Committee considered a range of factors including the performance of the Group, market conditions, the prevailing market rates for similar positions in comparable companies, the responsibilities, performance and experience of each executive Director, the level of salary increases implemented across the Group and the balance between the fixed and variable elements of the overall remuneration packages. No basic salary increases have been awarded to the Chief Executive Officer since his appointment to the position in April 2011 and the Committee agreed not to award a salary increase for 2014. His salary will remain, therefore, at £555,000. In view of the recent appointment of the Chief Financial Officer his salary for 2014 will be £380,000 as provided for in his contract of employment.

Chairman and Non-Executive Directors' Fees

Fees are payable in euro and will remain unchanged in euro from the 2013 levels being the euro equivalent of £127,000 for the Chairman and £59,000 for Non-Executive Directors.

Pension and Benefits

Mr. Slark and Mr. Arnold will receive pension contributions/salary supplements in lieu of pension of £128,040 and 20 per cent of salary respectively in line with the arrangements in place in 2013.

Annual Bonus

The maximum potential performance related pay award for the Chief Executive Officer was increased from 100 per cent to 120 per cent of basic salary with effect from 1 January 2014. This is in line with the Committee's original plan to increase the award following completion of a number of years service with the Group and brings the maximum potential award more into line with median awards made by FTSE 250 companies of comparable scale.

The maximum bonus opportunity for Mr. Arnold is 100 per cent of salary.

The financial targets for 2014 are return on capital employed, cash flow and adjusted earnings per share for the year. The targets were set out by reference to the Group's budget for 2014. The fourth component is a set of different personal objectives for Mr. Slark and Mr. Arnold. An equal weighting applies for each component. The maximum bonus opportunity for Mr. Slark is 30 per cent of gross pay for each component and 25 per cent of gross pay for Mr. Arnold. For financial measures, a sliding scale is set by the Committee. No bonus is payable if performance is below a minimum threshold. The bonus payable increases on a straight line basis thereafter with full bonus payable for achieving the upper point on the scale. The financial targets and personal objectives are deemed to be commercially sensitive and have not been disclosed.

The annual bonus is payable in cash subject to part investment in shares in accordance with the Group's share ownership guidelines as set out in the Policy Table.

Clawback provisions will operate as set out in the Policy Report.

Report of the Remuneration Committee on Directors' Remuneration
Annual Report on Remuneration (continued)

Long-term Incentives

The maximum current annual award limit under the LTIP is 150 per cent of salary and it is intended that awards will be granted in 2014 at 150 per cent of salary to Mr. Slark and 125 per cent of salary to Mr. Arnold. The proposed award to Mr. Slark is consistent with the award made in 2013 and Mr. Arnold's contract of employment provided for an award of 100 per cent of salary save that in the first year of employment the award would be 125 per cent of salary.

Clawback provisions will operate as set out in the Policy Report.

Consistent with the conditions applying to the 2013 awards, half of the 2014 awards will be subject to a relative TSR measure against a bespoke peer group of UK and Irish companies. The companies will be selected on the basis that their activities are similar to Grafton or that they operate in sectors that are related to the Group's activities. The other half will be subject to EPS growth targets within a range which will be determined by the Committee following the announcement of full year results for 2013. The Committee will set EPS targets that are sufficiently challenging following a review of internal and external forecasts and other relevant information. The performance period for both tranches will be the three financial years 1 January 2014 to 31 December 2016.

- TSR – No part of this award vests if performance is below median, 25% vests for achieving median, with 100 per cent vesting for upper quartile performance with straight line vesting in between. Notwithstanding the achievement of the TSR performance condition, no shares will vest unless the Committee considers that overall financial results have been satisfactory in the circumstances over the performance period.
- EPS – The extent to which the proposed award vests will depend on the EPS outcome in 2016. The performance condition will be between two thresholds. No part of this award will vests if adjusted EPS is less than the lower threshold, 25 per cent will vest at the lower threshold, with full vesting if the higher threshold or better is achieved. Vesting will be on a straight line basis between both thresholds.

Loss of Office Payments

The Board announced on 7 March 2013 that Mr. Ó Nualláin, Finance Director, would retire from the Board in January 2014 on reaching the age of 60. On 28 August 2013 the Board announced that his retirement date was brought forward to 9 September 2013 following the earlier than anticipated appointment of his successor. Mr. Ó Nualláin was paid salary and benefits up to 21 January 2014, his originally agreed retirement date. An allowance in lieu of pension was paid for the year to 31 December 2013. Any future entitlements under the Long Term Incentive Plan (LTIP) and under the 1999 Grafton Group Share Scheme are subject to the rules of these schemes.

Mr. Ó Nualláin has agreed to be available to provide consultancy services to the Group in 2014/15.

Report of the Remuneration Committee on Directors' Remuneration

Annual Report on Remuneration (continued)

Relative Importance of Spend on Pay

The following table sets out the percentage change in dividends and overall spend on employee pay in the 2013 financial year compared with the prior year.

	2013 £m	2012 £m	**Percentage change**
Dividends	**19,643**	16,369	+20.0%
Employee remuneration costs	**268,633**	257,501	+4.3%

Percentage Change in CEO Pay

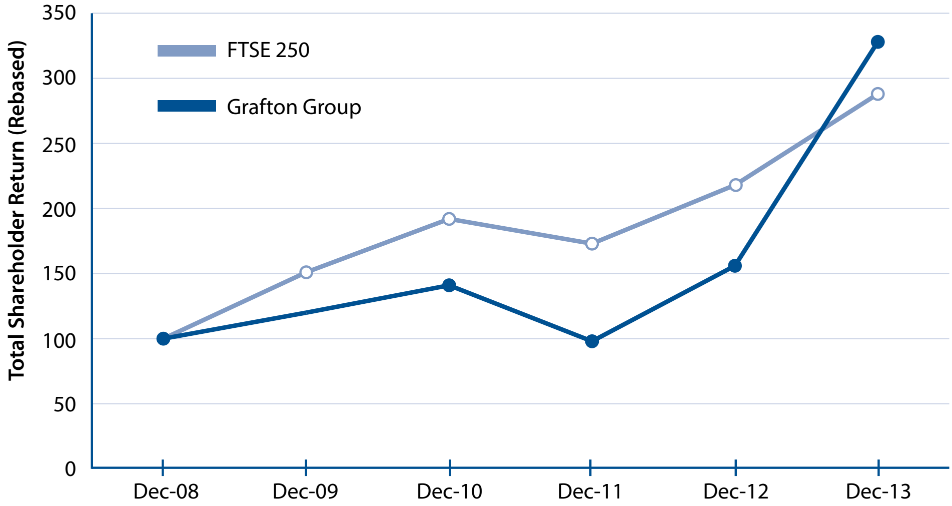
	2013	2012	**% change**
Chief Executive (£000s)			
- Salary	**555**	555	-
- Benefits	**48**	47	+2.1%
- Bonus	**273**	271	+0.7%
Average employee (£)			
- Salary, benefits and bonus	**25,962**	25,048	+3.6%

The table above shows the percentage year-on-year change in the value of salary, benefits and annual bonus for the Chief Executive between the current and previous year compared to that of the average employee.

Report of the Remuneration Committee on Directors' Remuneration
Annual Report on Remuneration (continued)

Performance Graph and Single Figure Table

Total Shareholder Return
Source: Datastream (Thompson Reuters)



This graph compares the TSR performance of Grafton Group plc, assuming dividends are re-invested, with the TSR performance of the FTSE 250 over the period 31 December 2008 to 31 December 2013. The other points plotted show the TSR performance at intervening financial year-ends.

The table below shows the total remuneration figure for the CEO position over the same five year period.

	2009	2010	2011	2012	2013
CEO single total figure of remuneration (£'000)	589	570	1,151	1,001	1,524
Annual bonus payout relative to maximum	0%	0%	15.82%	48.90%	49.25%
LTIP vesting	N/A	N/A	N/A	N/A	45.33%

Statement of Shareholder Voting at the AGM
At last year's AGM, the Directors' Remuneration Report received the following votes from shareholders:

	Total Number of Votes	% of Votes Cast
For	144,468,222	86.75
Against	22,063,758	13.25
Total	**166,531,980**	**100.00**

(i) The number of votes withheld was 5,382,442. A vote withheld is not a vote under Irish law and is not counted in the calculation of the percentage votes for and against a resolution.

Report of the Remuneration Committee on Directors' Remuneration
Annual Report on Remuneration (continued)

Directors' and Secretary's Interests

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

Director	**31 December 2013 Grafton Units***	31 December 2012 Grafton Units*
M. Chadwick	**19,436,079**	22,079,441
G. Slark	**47,000**	37,000
D. Arnold	**4,000**	N/A
A. Flynn	**11,700**	11,700
R. Ryan	**25,000**	25,000
C. M. Fisher	**20,000**	20,000
C. Ó Nualláin	**N/A**	1,141,759
R.W. Jewson	**N/A**	42,204

On 31 December 2013 Mr. M. Chadwick held a non-beneficial interest in 2,490,330 (31 December 2012: 2,490,330) Grafton Units in his capacity as an executor of an estate.

Mr. C. Rinn, Secretary, had a beneficial interest in 303,396 Grafton Units at 31 December 2013 (31 December 2012: 263,396).

There have been no changes in the interests of the Directors between 31 December 2013 and the date of this report.

To further align the interests of senior management with those of shareholders, Executive Directors are subject to share ownership guidelines. Executive Directors are required to accumulate a holding of ordinary shares in the Company to the value of 100 per cent of their salary. Directors are required to apply 30 per cent of their annual bonus after statutory deductions for the purchase of shares in the Group until this share ownership requirement is fulfilled.

* *At 31 December 2013 and at 31 December 2012, a Grafton Unit comprised one ordinary share of 5 cents each and seventeen 'A' ordinary shares of 0.001 cent each in Grafton Group plc and one 'C' ordinary share of Stg0.0001p in Grafton Group (UK) plc.*

Report of the Remuneration Committee on Directors' Remuneration

Annual Report on Remuneration (continued)

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

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

	Number of Units							Period over which Grafton Units may be acquired	
	1 January 2013	Converted to Grafton Units	Lapsed	31 December 2013	Basic	Second Tier	Price €		
C. Ó Nualláin	160,000	(80,000)	(80,000)	-	-	-	-	-	-
	160,000	-	-	160,000	87,500	72,500	6.20	May 2009	Apr 2014
	120,000	-	-	120,000	60,000	60,000	8.11	Oct 2010	Oct 2015
	120,000	-	-	120,000	60,000	60,000	11.50	Oct 2011	Oct 2016
	120,000	-	-	120,000	60,000	60,000	8.48	Sep 2012	Sep 2017
	120,000	-	-	120,000	60,000	60,000	1.66	Apr 2012	Mar 2019
	800,000	(80,000)	(80,000)	640,000	327,500	312,500			

Mr. C. Ó Nualláin exercised rights to acquire 80,000 Grafton Units at a price of €5.45 each and rights over a further 80,000 units lapsed. The share price at the date of exercise was €6.99.

Mr. C. Rinn had an interest to acquire 396,500 (31 December 2012: 476,500) Grafton Units at 31 December 2013 at prices ranging between €1.66 and €11.50 subject to the rules of the 1999 Grafton Group Share Scheme. In October 2013 he exercised rights to acquire 40,000 Grafton Units at a price of €5.45 each and rights over a further 40,000 units lapsed. The share price at the date of exercise was €6.99.

The closing price of a Grafton Unit on 31 December 2013 was 647p (31 December 2012: 312p) and the price range during the year was between 320p and 655p (2012: 194p and 312p).

Under the terms of the 1999 Grafton Group Share Scheme, shares were subject to the performance conditions set out below:

Basic shares which cannot be converted before the expiration of five years, unless the Remuneration Committee agrees to a shorter period which shall not be less than three years, and may be converted any time after that to the end of their contractual life provided the Company's earnings per share has grown at not less than the rate of growth in the Consumer Price Index plus 5 per cent compounded during that period. Basic shares granted after 8 May 2008 cannot be converted before the expiration of three years.

Report of the Remuneration Committee on Directors' Remuneration

Annual Report on Remuneration (continued)

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

The share scheme had a ten year life for the award of entitlements. This period expired in 2009 and was replaced in 2011 by the Long Term Incentive Plan (LTIP).

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

Directors' and Secretary's Interests under the 2011 Long Term Incentive Plan (LTIP)

The grant of awards over Grafton Units to the Directors and Secretary under the LTIP are shown below:

		Number of Units					
	Grant Date	1 January 2013	Granted	31 Dec 2013	EPS Condition	TSR Condition	Vesting Date
G. Slark	25 May 2011	184,000	-	184,000	92,000	92,000	25 May 2014
	18 April 2012	211,000		211,000	105,500	105,500	18 April 2015
	16 April 2013	-	196,792	196,792	98,396	98,396	16 April 2016
		395,000	196,792	591,792	295,896	295,896	
C. Ó Nualláin	25 May 2011	80,000	-	80,000	40,000	40,000	25 May 2014
	18 April 2012	80,000	-	80,000	40,000	40,000	18 April 2015
		160,000		160,000	80,000	80,000	
C. Rinn	25 May 2011	40,000	-	40,000	20,000	20,000	25 May 2014
	18 April 2012	50,000	-	50,000	25,000	25,000	18 April 2015
	16 April 2013	-	33,000	33,000	16,500	16,500	16 April 2016
		90,000	33,000	123,000	61,500	61,500	

The Group's long-term incentive share scheme expired in April 2009. Consequently, no long-term incentive awards were made during 2010. Shareholder approval was granted at the 2011 Annual General Meeting (AGM) held on 4 May 2011 for the introduction of a new Long-Term Incentive Plan (LTIP) and the first awards under the plan were made on 25 May 2011. A second award under the LTIP was made on 18 April 2012 and a third award was made on 16 April 2013.

Report of the Remuneration Committee on Directors' Remuneration
Annual Report on Remuneration (continued)

In the case of awards that were issued in 2011, 2012 and 2013 to the Company's Executive Directors and the Secretary, the Performance Conditions are dependent on the growth in the Company's EPS (earnings per share) and the Company's TSR (total shareholder return) performance (the "EPS Performance Condition" and the "TSR Performance Condition", respectively). The vesting of 50 per cent of the shares which are the subject of awards granted to the Company's Executive Directors and Secretary are subject to the EPS Performance Condition and the remaining 50 per cent are subject to the TSR Performance Condition. EPS is the adjusted earnings per share figure shown in the Company's Annual Report. TSR represents the change in share price of a listed/quoted company over a period, plus dividends, expressed as a plus or minus percentage of the opening value. For this reason, both EPS and TSR are accepted as a good measure of how well shareholders are doing in terms of the value of their investment in the Company when taking into account the Company's share price, any dividends paid and Company performance.

On behalf of the Board

C.M Fisher,
Chairman of the Remuneration Committee

4 March 2014

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare Group and Parent Company Financial statements each year. Under that law, the directors are required to prepare the Group Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and have elected to prepare the Company Financial Statements in accordance with IFRSs as adopted by the European Union, and as applied in accordance with the Companies Acts, 1963 to 2013.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit and loss for that period.

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

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State that the Group Financial Statements comply with IFRS as adopted by the European Union as applied in accordance with the Companies Acts, 1963 to 2013; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

The Directors are also required by the Transparency (Directive 2004/109/EC) Regulations 2007 and the Interim Transparency Rules of the Irish Financial Services Regulatory Authority to include a management report containing a fair review of the business and a description of the principal risks and uncertainties facing the Group.

The Directors are responsible for keeping proper books of account which disclose with reasonable accuracy at any time the financial position of the Company, and which enable them to ensure that the Financial Statements of the Group are prepared in accordance with applicable IFRS as adopted by the European Union and comply with the provision of the companies Acts, 1963 to 2013, and as regards to the Group Financial Statements Article 4 of IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the website (www.graftonplc.com). Legislation in Ireland concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of Directors' Responsibilities

Responsibility Statement as required by the Transparency Directive and the 2012 UK Corporate Governance Code

Each of the directors, whose names and functions are listed on page 7 of this Annual Report, confirm that, to the best of each person's knowledge and belief:

- The Group Financial Statements, prepared in accordance with IFRSs as adopted by the European Union and the Parent Company Financial Statements prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position of the Group and Parent Company at 31 December 2013 and of the profit of the Group and the loss of the Parent Company for the year then ended;
- The Report of the Directors contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Group and Parent Company and that a fair description of the principal risks and uncertainties faced by the Group and Parent Company is provided on pages 46 to 50; and
- The Annual Report and financial statements, taken as a whole, provides the information necessary to assess the Group's performance, business model and strategy and is fair, balanced and understandable.

On behalf of the Board

G. Slark
D. Arnold

Independent Auditor’s Report
to the Members of Grafton Group plc

Opinions and Conclusions Arising from our Audit

1. Our Opinion on the Financial Statements is Unmodified

We have audited the financial statements of Grafton Group plc for the year ended 31 December 2013 as set out on pages 84 to 180, which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group and Company Balance Sheets, the Group and Company Cash Flow Statements, the Group and Company Statements of Changes in Equity, the Group and Company accounting policies and the related notes. Our audit was conducted in accordance with International Standards on Auditing (ISAs) (UK and Ireland).

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group’s affairs as at 31 December 2013 and of its profit for the year then ended;
- the Company balance sheet gives a true and fair view, in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Acts 1963 to 2013, of the state of the company’s affairs as at 31 December 2013; and
- the financial statements have been properly prepared in accordance with the Companies Acts 1963 to 2013 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

2. Our Assessment of Risks of Material Misstatement

The risks of material misstatement detailed in this section of this report are those risks that we have deemed, in our professional judgement, to have had the greatest effect on: the overall audit strategy; the allocation of resources in our audit; and directing the efforts of the engagement team. Our audit procedures relating to these risks were designed in the context of our audit of the financial statements as a whole. Our opinion on the financial statements is not modified with respect to any of these risks, and we do not express an opinion on these individual risks.

In arriving at our audit opinion above on the Group financial statements, the risks of material misstatement that had the greatest effect on our Group audit were as follows:

Net retirement benefit obligations (£7.1 million)

Refer to page 41 (Audit and Risk Committee Report), page 99 (accounting policy) and pages 152 to 157 (financial disclosures)

The Risk

The Group operates a number of defined benefit pension schemes in Ireland and the UK. The total net deficit in the Group’s defined benefit pension schemes has reduced from £51.4 million at 31 December 2012 to £7.1 million at 31 December 2013 following a restructuring of the schemes giving rise to a past service credit of £18.5 million and a settlement gain of £16.9 million recognised in the Group income statement. Details of the changes made to the Group’s defined benefit pension schemes are provided in Note 31. The calculation of the past service credit and the settlement gain was performed by the Group’s actuary. The remaining deficit on the Group’s balance sheet at 31 December 2013 is sensitive to a number of actuarial assumptions as set out in Note 31. There is a risk that the valuation of the Group’s defined benefit pension obligations at 31 December 2013 may not accurately reflect the new pension arrangements in place or that the calculation of the income statement impact of those changes could be misstated.

Our Response

Our audit procedures included reviewing correspondence between the company and the Trustees of the defined benefit pension schemes, minutes of meetings of Trustees and correspondence with the Group's actuary and the Irish Pensions Board in relation to the changes made to the defined benefit pension schemes. We also involved a KPMG actuarial specialist to assist us in evaluating the methodology applied by the Group's actuary in the calculation of the past service credit and settlement gain and in the evaluation of the assumptions made by the Group's actuary, in particular those relating to the discount rate, inflation rate and mortality. We compared the Group's assumptions to externally derived data as well as our own assessments in relation to these and other key inputs and applied sensitivities in assessing whether the assumptions used by the Group are reasonable. We also confirmed the assets in the defined benefit pension schemes with the relevant investment managers.

Valuation of investment properties (£19.9 million) and properties held for sale (£11.4 million)

Refer to page 41 (Audit and Risk Committee Report), pages 95 and 96 (accounting policy) and pages 118 to 122 (financial disclosures)

The Risk

The Group has a number of vacant properties where there is a risk that the carrying value may be higher than their market value due to the lack of demand for such properties and lack of liquidity in the commercial property market, particularly in Ireland. The fair value of the Group's vacant properties is largely determined based on internal valuations performed by the Group's Property Team.

Our Response

Our audit procedures in this area included, among others, an assessment of the Group's strategy in relation to vacant properties and the Group's process for the valuation of such properties. We discussed and challenged the valuation process, significant assumptions and critical judgements with the Group Property Team. We also benchmarked the key assumptions made by the Group in relation to commercial property valuations and rental yields to external market data, where available. We performed audit procedures to assess the integrity of information provided by the Group in relation to rental income, comparable property transactions and offers from third parties.

Valuation of inventory (£246.2 million)

Refer to page 42 (Audit and Risk Committee Report), page 96 (accounting policy) and page 123 (financial disclosures)

The Risk

The Group has a significant investment in inventory at 31 December 2013. There is judgement involved in assessing the level of inventory provision required in respect of slow moving inventory, therefore, there is a risk that slow moving inventory has not been adequately provided for.

Our Response

Our audit procedures included, among others, assessing the ageing of inventory in the Group's main trading subsidiaries based on system generated reports. We used Computer Assisted Audit Techniques to analyse the level of aged inventory in each of these businesses by reference to historical sales data and compared that analysis with provisions made by the Group in respect of slow moving inventory at 31 December 2013.

Completeness and Accuracy of Rebate Income and Valuation of Rebate Receivables

Refer to page 42 (Audit and Risk Committee Report)

The Risk

Rebates from suppliers represent a significant source of income for the Group each year. The nature of the arrangements in place means that a large proportion of the rebates due to the Group are not collected until after the year end. As the calculation of rebate income in the year and the rebate receivable at year end involves the use of assumptions and estimates, there is a risk over the completeness and accuracy of rebate income and the valuation of the year end balance.

Our Response

Our audit procedures included, among others, examining management's rebate income and rebate receivable calculations, recalculating the rebate income and rebate receivable on a sample basis by reference to purchase reports and supplier rebate agreements and assessing the reasonableness of any assumptions and estimates made by management in the calculation of rebate income and rebate receivables. We tested, on a sample basis, the receipt of cash or rebate credit notes from suppliers during the year and post year end.

We also reviewed the work performed by Internal Audit in relation to rebate receivable balances at year end.

Valuation of Goodwill (£481.0 million)

Refer to page 41 (Audit and Risk Committee Report), page 94 (accounting policy) and pages 116 to 117 (financial disclosures)

The Risk

There is a risk that the carrying value of the Group's goodwill balance may not be recovered from future cash flows. As detailed in the summary of significant accounting policies on page 94, an impairment review of goodwill is performed annually. There is inherent uncertainty involved in preparing forecasts and discounted future cash flow reports for this purpose and significant judgement is involved in relation to the assumptions used in the Group's goodwill impairment model.

Our Response

In this area, our audit procedures included, among others, interrogating the Group's goodwill impairment model, evaluating the assumptions and methodologies used by the Group, in particular those relating to revenue growth, gross profit margins and the discount rate and terminal growth rate applied to the cash flows in the model. We compared the Group's assumptions to externally derived data as well as our own assessment in relation to key inputs into the model. We reviewed the sensitivity analysis performed by Group finance management and performed our own sensitivity analysis around the key assumptions. We considered the difference between the market capitalisation of the Group and the book value of the Group's net assets which indicated that the market capitalisation exceeded the book value by £633.0 million at 31 December 2013.

3. Our Application of Materiality and an Overview of the Scope of our Audit

Materiality is a term used to describe the acceptable level of precision in financial statements. The concept of materiality is applied in planning and performing the audit and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming our opinion on them. In accordance with ISAs (UK and Ireland), we identify a monetary amount, "materiality for the financial statements as a whole", based on our judgement as to the quantitative misstatement or omission that might reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

The materiality for the Group financial statements as a whole was set at £3.0 million. This has been determined using a benchmark of Group profit before taxation, pension credits and property impairment which we have determined, in our professional judgement, to be one of the principal benchmarks within the financial statements relevant to members of the Company in assessing financial performance.

We agreed with the Audit Committee to report to it all corrected and uncorrected misstatements we identified through our audit in excess of £83,000, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

The structure of the Group's finance function is such that certain transactions and balances are accounted for by the central Group finance team, with the remainder accounted for in the operating units. The Group audit team performed audit procedures, including those in relation to the significant risks set out above, on those transactions and balances accounted for at Group level. In relation to the Group's operating units, audits for Group reporting purposes were performed at the key reporting components in Ireland, the United Kingdom, Belgium and Poland. Our audits covered 99.9% of total Group revenue, 99.8% of Group profit before taxation and 99.8% of Group total assets.

The audits undertaken for Group reporting purposes at the key reporting components of the Group were all performed to local materiality levels. These local materiality levels were set individually for each subsidiary and agreed with the Group audit team.

Detailed audit instructions were sent to the auditors in all of these locations. These instructions covered the significant audit areas to be covered by these audits (which included the relevant risks of material misstatement detailed above) and set out the information required to be reported to the Group audit team. A member of the Group Audit Engagement Team, including the Group Audit Engagement Partner, attended the audit closing meetings for each of the principal subsidiaries at which the results of the subsidiary audit were discussed with local and Group management. Members of the Group Audit Team also participated at the closing meetings for all other subsidiaries.

4. We have Nothing to Report in Respect of the Matters on which we are Required to Report by Exception

ISAs (UK and Ireland) require that we report to you if, based on the knowledge we acquired during our audit, we have identified information in the Annual Report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified any inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider the Annual Report is fair, balanced and understandable and provides information necessary for shareholders to assess the entity's performance, business model and strategy; or
- the Audit and Risk Committee Report does not appropriately disclose those matters that we communicated to the Audit Committee.

The Listing Rules of the UK Listing Authority require us to review:

- the Directors' Statement, set out on page 39, in relation to going concern;
- the part of the Directors' Report on Corporate Governance on page 33 relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and

In addition, the Companies Acts require us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by law are not made.

5. Our Conclusions on Other Matters on which we are Required to Report by the Companies Acts 1963 to 2013 are set out Below

We have obtained all the information and explanations which we consider necessary for the purposes of our audit.

The Company balance sheet is in agreement with the books of account and, in our opinion, proper books of account have been kept by the company.

In our opinion the information given in the Directors' Report is consistent with the financial statements and the description in the Directors' Statement on Corporate Governance of the main features of the internal control and risk management systems in relation to the process for preparing the Group financial statements is consistent with the Group financial statements.

The net assets of the Company, as stated in the Company balance sheet, are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2013 a financial situation which, under Section 40(1) of the Companies (Amendment) Act, 1983, would require the convening of an extraordinary general meeting of the company.

Basis of our report, responsibilities and restrictions of use

As explained more fully in the Statement of Directors' Responsibilities set out on page 76, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group and Company financial statements in accordance with applicable law and International Standards on Auditing (ISAs) (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors.

An audit undertaken in accordance with ISAs (UK and Ireland) involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing our audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications of our report.

Independent Auditor's Report
to the Members of Grafton Group plc

Whilst an audit is conducted in accordance with ISAs (UK and Ireland) is designed to provide reasonable assurance of identifying material misstatements or omissions it is not guaranteed to do so. Rather the auditor plans the audit to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements does not exceed materiality for the financial statements as a whole. This testing requires us to conduct significant audit work on a broad range of assets, liabilities, income and expense as well as devoting significant time of the most experienced members of the audit team, in particular the engagement partner responsible for the audit, to subjective areas of accounting and reporting.

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

Cliona Mullen, for and on behalf of

KPMG

Chartered Accountants, Statutory Audit Firm
1 Stokes Place, St. Stephen's Green, Dublin 2, Ireland

4 March 2014

Group Income Statement
For the year ended 31 December 2013

	Notes	Total 2013 £'000	Restated* Total 2012 £'000
Revenue	1	**1,899,768**	1,760,779
Operating costs	2	**(1,849,717)**	(1,722,856)
Operating income	2	**29,964**	-
Operating profit		**80,015**	37,923
Finance expense	6	**(13,660)**	(14,664)
Finance income	6	**1,366**	1,801
Profit before tax		**67,721**	25,060
Income tax (charge)/credit	8	**(5,622)**	6,583
Profit after tax for the financial year		**62,099**	31,643
Profit attributable to:			
Owners of the Company		**62,179**	31,643
Non-controlling interests		**(80)**	-
Profit after tax for the financial year		**62,099**	31,643
Earnings per ordinary share - basic	10	**26.79p**	13.64p
Earnings per ordinary share - diluted	10	**26.67p**	13.64p

**IAS 19 (Revised) 'Employee Benefits' has been adopted as required by IFRSs as adopted by the EU for the year ended 31 December 2013. The comparatives for the year ended 31 December 2012 have been restated (Please refer to Note 34).*

On behalf of the Board

G. Slark
D. Arnold
Directors

4 March 2014

Group Statement of Comprehensive Income
For the year ended 31 December 2013

	Notes	2013 £'000	Restated 2012* £'000
Profit after tax for the financial year		**62,099**	31,643
Other comprehensive income			
Items that may be reclassified subsequently to the income statement			
Currency translation effects			
- on foreign currency net investments		**1,176**	(2,053)
- on foreign currency borrowings and derivatives designated as net investment hedges		**908**	220
Fair value movement on cash flow hedges:			
- Effective portion of changes in fair value of cash flow hedges		**(66)**	(185)
- Net change in fair value of cash flow hedges transferred from equity		**577**	635
Deferred tax on cash flow hedges	25	**(63)**	(54)
		2,532	(1,437)
Items that will not be reclassified to the income statement			
Remeasurement gain/(loss) on Group defined benefit pension schemes	31	**7,442**	(27,458)
Deferred tax on Group defined benefit pension schemes	25	**(1,032)**	3,961
Deferred tax on capital gains tax rate increase	25	**-**	(459)
		6,410	(23,956)
Total other comprehensive income		**8,942**	(25,393)
Total comprehensive income for the financial year		**71,041**	6,250
Total comprehensive income attributable to:			
Owners of the Company		**71,121**	6,250
Non-controlling interests		**(80)**	-
Total comprehensive income for the financial year		**71,041**	6,250

**IAS 19 (Revised) 'Employee Benefits' has been adopted as required by IFRSs as adopted by the EU for the year ended 31 December 2013. The comparatives for the year ended 31 December 2012 have been restated (Please refer to Note 34).*

On behalf of the Board

G. Slark
D. Arnold
Directors

4 March 2014

Group Balance Sheet
As at 31 December 2013

	Notes	2013 £'000	2012 £'000	2011 £'000
ASSETS				
Non-current assets				
Goodwill	11	**481,020**	476,166	473,060
Intangible assets		**-**	-	1,872
Property, plant and equipment	12	**413,401**	458,335	471,847
Investment properties	12	**19,861**	-	-
Deferred tax assets	25	**17,666**	26,877	30,347
Retirement benefit assets	31	**718**	-	-
Derivative financial instruments	21	**835**	2,196	4,453
Other financial assets	13	**124**	144	127
Total non-current assets		**933,625**	963,718	981,706
Current assets				
Properties held for sale	12	**11,352**	14,452	13,558
Inventories	15	**246,220**	249,332	226,548
Trade and other receivables	16	**307,822**	271,303	269,839
Derivative financial instruments	21	**835**	1,097	4,698
Cash and cash equivalents	19	**151,099**	128,027	112,431
Total current assets		**717,328**	664,211	627,074
Total assets		**1,650,953**	1,627,929	1,608,780
EQUITY				
Equity share capital	17	**8,302**	8,283	8,277
Share premium account	17	**206,554**	204,614	204,238
Capital redemption reserve	18	**621**	621	621
Revaluation reserve	18	**13,978**	20,660	21,285
Shares to be issued reserve	18	**2,875**	2,072	2,275
Cash flow hedge reserve	18	**98**	(350)	(746)
Foreign currency translation reserve	18	**66,346**	64,262	66,095
Retained earnings		**575,419**	517,239	522,804
Treasury shares held	17	**(3,897)**	(3,897)	(3,897)
Equity attributable to owners of the Company		**870,296**	813,504	820,952
Non-controlling interests	18	**4,051**	4,131	-
Total equity		**874,347**	817,635	820,952
LIABILITIES				
Non-current liabilities				
Interest-bearing loans and borrowings	19	**272,610**	272,991	271,665
Provisions	22	**22,663**	25,285	27,402
Retirement benefit obligations	31	**7,840**	51,391	28,033
Derivative financial instruments	21	**-**	32	352
Deferred tax liabilities	25	**30,746**	36,056	33,305
Total non-current liabilities		**333,859**	385,755	360,757
Current liabilities				
Interest-bearing loans and borrowings	19	**13,863**	22,700	37,680
Trade and other payables	23	**410,011**	383,160	352,211
Current income tax liabilities		**8,201**	11,056	28,642
Derivative financial instruments	21	**33**	481	617
Provisions	22	**10,639**	7,142	7,921
Total current liabilities		**442,747**	424,539	427,071
Total liabilities		**776,606**	810,294	787,828
Total equity and liabilities		**1,650,953**	1,627,929	1,608,780

On behalf of the Board

G. Slark
D. Arnold
Directors

4 March 2014

Group Cash Flow Statement
For the year ended 31 December 2013

	Notes	2013 £'000	Restated* 2012 £'000
Profit before taxation		**67,721**	25,060
Finance income	6	**(1,366)**	(1,801)
Finance expense	6	**13,660**	14,664
Operating profit		**80,015**	37,923
Depreciation	12	**31,463**	32,048
Intangible amortisation		**-**	1,817
Share-based payments charge		**1,396**	618
Non-cash movement in operating provisions	22	**1,717**	761
Claims paid on insurance and other provisions	22	**(4,875)**	(2,462)
Non-cash movement on asset impairment	12	**27,160**	1,980
Profit on sale of property, plant and equipment		**(718)**	(433)
Non-cash decrease in pension liabilities (net of pension provision)		**(29,964)**	-
Contributions to pension schemes in excess of IAS 19 charge		**(4,320)**	(5,054)
(Increase)/decrease in working capital	26	**(6,607)**	18,540
Cash generated from operations		**95,267**	85,738
Interest paid		**(12,025)**	(13,367)
Income taxes paid		**(6,321)**	(3,279)
Cash flows from operating activities		**76,921**	69,092
Investing activities			
Inflows			
Proceeds from sale of property, plant and equipment		**2,184**	1,976
Interest received		**753**	1,664
Sale of financial assets	13	**20**	-
		2,957	3,640
Outflows			
Acquisition of subsidiary undertakings and businesses	27	**(4,032)**	(14,760)
Net cash acquired with subsidiary undertakings		**-**	4,204
Deferred acquisition consideration paid	22	**(1,889)**	(1,646)
Purchase of financial assets	13	**-**	(7)
Purchase of property, plant and equipment	12	**(24,670)**	(22,974)
		(30,591)	(35,183)
Cash flows from investing activities		**(27,634)**	(31,543)
Financing activities			
Inflows			
Proceeds from the issue of share capital		**1,959**	383
Proceeds from borrowings		**34,407**	20,887
		36,366	21,270
Outflows			
Repayments of borrowings		**(34,282)**	-
Dividends paid	9	**(17,684)**	(14,698)
Movement on finance lease liabilities		**(570)**	(521)
Redemption of loan notes payable net of derivatives		**(11,124)**	(28,262)
		(63,660)	(43,481)
Cash flows from financing activities		**(27,294)**	(22,211)
Net increase in cash and cash equivalents		**21,993**	15,338
Cash and cash equivalents at 1 January		**128,027**	112,431
Effect of exchange rate fluctuations on cash held		**1,079**	258
Cash and cash equivalents at 31 December		**151,099**	128,027
Cash and cash equivalents are broken down as follows:			
Cash at bank and short-term deposits		**151,099**	128,027

**IAS 19 (Revised) 'Employee Benefits' has been adopted as required by IFRSs as adopted by the EU for the year ended 31 December 2013. The comparatives for the year ended 31 December 2012 have been restated (Please refer to Note 34).*

Group Statement of Changes in Equity

	Equity share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Revaluation reserve £'000	Shares to be issued reserve £'000	Cash flow hedge reserve £'000	Foreign currency translation reserve £'000	Retained earnings £'000	Treasury shares £'000	Total £'000	Non-controlling interests £'000	Total equity £'000
Year to 31 December 2013												
At 1 January 2013	**8,283**	**204,614**	**621**	**20,660**	**2,072**	**(350)**	**64,262**	**517,239**	**(3,897)**	**813,504**	**4,131**	**817,635**
Profit after tax for the financial year	-	-	-	-	-	-	-	**62,179**	-	**62,179**	**(80)**	**62,099**
Total other comprehensive income												
Remeasurement gain on pensions (net of tax)	-	-	-	-	-	-	-	**6,410**	-	**6,410**	-	**6,410**
Movement in cash flow hedge reserve(net of tax)	-	-	-	-	-	**448**	-	-	-	**448**	-	**448**
Currency translation effect on foreign currency net investments	-	-	-	-	-	-	**1,176**	-	-	**1,176**	-	**1,176**
Currency translation effect on foreign currency borrowings and derivatives designated as net investment hedges	-	-	-	-	-	-	**908**	-	-	**908**	-	**908**
Total other comprehensive income	-	-	-	-	-	**448**	**2,084**	**6,410**	-	**8,942**	-	**8,942**
Total comprehensive income	-	-	-	-	-	**448**	**2,084**	**68,589**	-	**71,121**	**(80)**	**71,041**
Transactions with owners of the Company recognised directly in equity												
Dividends paid (Note 9)	-	-	-	-	-	-	-	**(17,684)**	-	**(17,684)**	-	**(17,684)**
Issue of Grafton Units (net of issue expenses)	**19**	**1,940**	-	-	-	-	-	-	-	**1,959**	-	**1,959**
Share based payments charge	-	-	-	-	**1,396**	-	-	-	-	**1,396**	-	**1,396**
Transfer from shares to be issued reserve	-	-	-	-	**(593)**	-	-	**593**	-	-	-	-
Transfer from revaluation reserve	-	-	-	**(6,682)**	-	-	-	**6,682**	-	-	-	-
	19	**1,940**	-	**(6,682)**	**803**	-	-	**(10,409)**	-	**(14,329)**	-	**(14,329)**
At 31 December 2013	**8,302**	**206,554**	**621**	**13,978**	**2,875**	**98**	**66,346**	**575,419**	**(3,897)**	**870,296**	**4,051**	**874,347**
Year to 31 December 2012												
At 1 January 2012	8,277	204,238	621	21,285	2,275	(746)	66,095	522,804	(3,897)	820,952	-	820,952
Profit after tax for the financial year	-	-	-	-	-	-	-	31,643	-	31,643	-	31,643
Total other comprehensive income												
Remeasurement loss on pensions (net of tax)	-	-	-	-	-	-	-	(23,497)	-	(23,497)	-	(23,497)
Deferred tax on capital gains tax rate increase	-	-	-	(459)	-	-	-	-	-	(459)	-	(459)
Movement in cash flow hedge reserve (net of tax)	-	-	-	-	-	396	-	-	-	396	-	396
Currency translation effect on foreign currency net investments	-	-	-	-	-	-	(2,053)	-	-	(2,053)	-	(2,053)
Currency translation effect on foreign currency borrowings and derivatives designated as net investment hedges	-	-	-	-	-	-	220	-	-	220	-	220
Total other comprehensive income	-	-	-	(459)	-	396	(1,833)	(23,497)	-	(25,393)	-	(25,393)
Total comprehensive income	-	-	-	(459)	-	396	(1,833)	8,146	-	6,250	-	6,250
Transactions with owners of the Company recognised directly in equity												
Dividends paid (Note 9)	-	-	-	-	-	-	-	(14,698)	-	(14,698)	-	(14,698)
Issue of Grafton Units (net of issue expenses)	6	376	-	-	-	-	-	-	-	382	-	382
Share based payments charge	-	-	-	-	618	-	-	-	-	618	-	618
Transfer from shares to be issued reserve	-	-	-	-	(821)	-	-	821	-	-	-	-
Transfer from revaluation reserve	-	-	-	(166)	-	-	-	166	-	-	-	-
	6	376	-	(166)	(203)	-	-	(13,711)	-	(13,698)	-	(13,698)
Acquisition of subsidiary with a non-controlling interest	-	-	-	-	-	-	-	-	-	-	4,131	4,131
At 31 December 2012	8,283	204,614	621	20,660	2,072	(350)	64,262	517,239	(3,897)	813,504	4,131	817,635

Accounting Policies

Statement of Compliance

The consolidated and Company Financial Statements of Grafton Group plc have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

The Company Financial Statements have been prepared in accordance with IFRSs as adopted by the European Union (EU) and as applied in accordance with the Companies Acts, 1963 to 2013. The Company has taken advantage of the exemption in Section 148(8) of the Companies Act 1963 from presenting to its members the Company Statement of Comprehensive Income and related notes as the Company publishes Company and Group Financial Statements together.

The IFRSs applied in these financial statements were those effective for accounting periods ending on 31 December 2013 and the early adoption of the amendment to IAS 36 Impaiment of Assets (Amended).

The accounting policies adopted are consistent with those of the previous year except for (i) a new accounting policy on Investment Property set out in these Accounting Policies, (ii) the change in the Group's presentation currency from euro to sterling and (iii) the following new and amended IFRSs and International Financial Reporting Interpretations Committee (IFRIC) interpretations adopted by the Group as of 1 January 2013 that are effective for the Group's financial year ending on 31 December 2013 and that had no significant impact on the results or financial position of the Group for the year ended 31 December 2013 other than as set out below:

- IAS 19 (Amendment) - Employee Benefits (2011) was effective for the Group from 1 January 2013 and has had an impact on the results and financial position of the Group.

  Amended IAS19 - Employee Benefits (endorsed by the EU in June 2012) changes a number of disclosure requirements for post-employment benefits and restricts the options currently available on how to account for defined benefit pension plans. This standard is effective for annual periods beginning on or after 1 January 2013 with retrospective application required. Under the amended IAS19, the expected return on assets and interest cost on scheme liabilities is replaced by a single net finance income/expense figure which is required to be calculated using the liability discount rate rather than using an assumed long term expected rate of return for calculating the expected return on assets. In addition all past service costs and credits are required to be recognised immediately. Note 34 discloses the impact of these changes on the financial statements for the prior year ended 31 December 2012.

- Amendment to IAS 1 - Presentation of Items of Other Comprehensive Income (OCI). This amendment introduces a requirement for entities to group items of OCI on the basis of whether they are potentially re-classifiable to profit or loss subsequently. This amendment has resulted in some presentation changes but has not had a significant impact on the Group's financial statements.

- IFRS 13 - Fair Value Measurement. IFRS 13 explains how to measure fair value and enhances fair value disclosures. This standard has not had a significant impact on the Group's financial statements.

- IFRS 7 (Amendment) - Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments. This amendment enhances current disclosures about offsetting financial assets and financial liabilities. This amendment has not had a significant impact on the Group's financial statements.

The following standards and interpretations were also effective for the Group from 1 January 2013 but did not have a material effect on the results or financial position of the Group.

IAS 16 (Amendment)	Property, Plant & Equipment
IAS 32 (Amendment)	Financial Instruments: Presentation
IAS 12 (Amendment)	Income Tax

The IASB and IFRIC have issued the following Standards and Interpretations that are not yet effective for the Group:

- IFRS 10 – Consolidated Financial Statements. (Effective date: financial year beginning 1 January 2014). IFRS 10 replaces all of the guidance on control and consolidation in IAS 27 and SIC 12. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. The core principle that a consolidated entity presents a parent and its subsidiaries as a single entity remains the same, as does the mechanics for consolidation. This standard is not expected to have any significant impact on the Group's financial statements.
- IFRS 11 - Joint Arrangements. (Effective date: financial year beginning 1 January 2014). IFRS 11 removes the existing accounting policy choice of proportionate consolidation for jointly controlled entities. IFRS 11 makes equity accounting mandatory for participants in joint ventures. This standard will impact the Group financial statements as the Group currently has adopted an accounting policy of proportionate consolidation for jointly controlled entities. On adoption of IFRS 11 the Group will be required to equity account for its interest in jointly controlled entities.
- IFRS 12 - Disclosure of Interest in Other Entities. (Effective date: financial year beginning 1 January 2014). IFRS 12 requires entities to disclose information about the nature, risks and financial effects associated with the entity's interest in subsidiaries, associates, joint arrangements and unconsolidated structured entities. This standard will not have a significant impact on the Group's financial statements.
- Amendment to IAS 32 - Offsetting financial assets and financial liabilities. (Effective date: financial year beginning 1 January 2014). This amendment clarifies some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. This amendment will not have a significant impact on the Group's financial statements.
- IFRS 9 - Financial Instruments: Recognition and Measurement. (Effective date: financial year beginning 1 January 2015). IFRS 9 is the first step in the process to replace IAS 39 Financial Instruments: recognition and measurement. IFRS 9 introduces new requirements for classifying and measuring financial assets. The impact of the standard on the Group's financial statements has not yet been determined.

There are no other IFRS or IFRIC interpretations that are effective subsequent to the Grafton 2013 financial year-end that would have a material impact on the Group.

Basis of Preparation

The Group is presenting its results in sterling for the first time having previously reported in euro. This change should help to provide a clearer understanding of the Group's financial performance as three quarters of its revenue has for some time been generated in sterling.

In changing the Group's presentational currency from euro to sterling, the Group's 2012 income statement and cashflow have been retranslated into sterling using the average exchange rate for the year which is deemed to approximate actual exchange rates at date of transactions. The Group's balance sheets for 2012 and 2011 have been retranslated from euro into sterling at the closing rate of exchange on the balance sheet date.

The euro sterling exchange rates for the years 2013, 2012 and 2011 are set out below:

	2013	2012	2011
€/£ exchange rate – average rates	**0.8493**	0.8109	0.8679
€/£ exchange rate – closing rates	**0.8337**	0.8161	0.8353

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

The preparation of consolidated financial statements in accordance with IFRS as adopted by the EU requires management to make certain estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expense. Management believes that the estimates and assumptions made are reasonable based on the information available to it at the time that those estimates and assumptions are made. The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant in relation to the consolidated financial statements are set out in Note 33 and relate primarily to provisions for liabilities including onerous lease provisions, accounting for defined benefit pension schemes, asset impairment provisions, goodwill impairment, fair value of investment properties and current taxation.

Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and all subsidiaries drawn up to 31 December each year together with the Group's interest in joint ventures.

The financial year-end of the Group's subsidiaries and joint venture are coterminous.

Subsidiaries

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

Joint Ventures

The Group's share of results and net assets of joint ventures, which are entities in which the Group holds an interest on a long-term basis and which are contractually jointly controlled by the Group and one or more other partners, are accounted for on the basis of proportionate consolidation from the date on which joint control is obtained and until joint control ceases. The Group combines its share of the joint ventures individual income and expenses, assets and liabilities and cash flows on a line by line basis with similar items in the consolidated financial statements.

Investment in Associates

Associates are those entities in which the Group has a participating interest and over which the Group has significant influence, but not control, of the financial and operating policies. The equity method is used to account for associates. This is a method of accounting whereby the investment is initially recognised at cost and adjusted for post-acquisition changes in the Group's share of net assets, less any impairment in value. The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the carrying amount is reduced to nil and the Group does not recognise further losses, except to the extent that the Group has incurred obligations in respect of its associates.

Transactions Eliminated on Consolidation

Intra-group balances and transactions, and any unrealised gains and income and expenses arising from such transactions, are eliminated in preparing the consolidated financial statements. Transactions with joint ventures and associates are similarly eliminated to the extent of the Group's interest in the equity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Accounting Policies

Revenue Recognition

Revenue comprises the fair value of consideration receivable for goods and services supplied to external customers in the ordinary course of the Group's activities and excludes inter-company revenue and value added tax.

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

Segment Reporting

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

Foreign Currency Translation

Functional and Presentation Currency

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

Transactions and Balances

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated to the relevant functional currency at the rate of exchange ruling at the balance sheet date. All currency translation differences on monetary assets and liabilities are taken to the income statement except for the effective portion designated as a hedge of a net investment in a foreign operation which is recognised in other comprehensive income.

Foreign Operations

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

Movements since 1 January 2004, the date of transition to IFRS, are recognised in the currency translation reserve and are reclassified to the income statement on disposal of the related business.

Share Capital and Share Premium

The company's share capital and share premium has been translated from euro into sterling at historic rates of exchange at the dates of transactions.

Accounting Policies

Exceptional Items

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

Property profit is not disclosed as a separate line item on the face of the Income Statement. Where a material profit arises on the disposal of property, this will be identified in the financial statements.

Finance Expense

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

Finance Income

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

Business Combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

For acquisitions made on or after 1 January 2010, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in the income statement.

The consideration transferred does not include amounts related to the settlement of the pre-existing relationships. Such amounts are generally recognised in the income statement.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in the income statement.

Accounting Policies

Goodwill

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

Goodwill in jointly controlled entities is accounted for on the basis of proportionate consolidation and is included in the goodwill caption in the consolidated balance sheet, net of any impairments. Goodwill acquired is allocated, at acquisition date, to the cash generating units expected to benefit from synergies related to the acquisition. Goodwill is measured at cost less accumulated impairment losses. The cash generating units represent the lowest level within the Group at which goodwill is monitored for internal management purposes. These units are no larger than the operating segments determined in accordance with IFRS 8: Operating Segments.

Goodwill is subject to impairment testing on an annual basis and at any time during the year if an indicator of impairment exists.

Where the recoverable amount of a cash generating unit is less than the carrying amount, an impairment loss is recognised. Impairment losses arising in respect of goodwill are not reversed once recognised.

Where a subsidiary is sold, any goodwill arising on acquisition, net of any impairments, is included in determining the profit or loss arising on disposal.

Intangible Assets (Other than Goodwill)

An intangible asset, other than goodwill, is recognised to the extent that it is probable that the expected future economic benefits attributable to the asset will flow to the Group and that its fair value can be measured. The asset is deemed to be identifiable when it is separable (i.e. capable of being divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability) or when it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the Group or from other rights and obligations.

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

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

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

Property, Plant and Equipment

Property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses. The Group's freehold properties in Ireland were revalued to fair value in 1998 and are measured on the basis of deemed cost being the revalued amount at the date of that revaluation less accumulated depreciation. The valuations were deemed to be cost for the purposes of transition to IFRS as adopted by the EU. Freehold property acquired is subject to a fair value adjustment at the date of acquisition.

Accounting Policies

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

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

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

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

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

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

Investment Properties

Investment property is initially measured at cost and subsequently at fair value with any change therein recognised in profit or loss.

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss. When investment property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

When the use of a property changes from owner occupied or held for sale to investment property, the property is remeasured to fair value and reclassified accordingly. Any gain on this remeasurement is recognised in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in Other Comprehensive Income and presented in the revaluation reserve. Any loss is recognised in profit or loss.

Accounting Policies

Assets Held for Sale

Non-current assets that are expected to be recovered principally through sale rather than continuing use and meet the IFRS 5 criteria are classified as held for sale. These assets are shown in the balance sheet at the lower of their carrying amount and fair value less any costs to sell. Impairment losses on initial classification as non-current assets held for sale and subsequent gains or losses on re-measurement are recognised in the income statement.

Investments

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

Where investments are actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date. Where it is impracticable to determine fair value in accordance with IFRS 13, unquoted equity investments are recorded at historical cost and are included within financial assets on this basis in the Group balance sheet. They are assessed for impairment annually.

Leases

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

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

Inventories

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

Accounting Policies

Trade and Other Receivables and Payables

Trade and other receivables and payables are stated at amortised cost (less any impairment losses), which approximates to fair value given the short-term nature of these assets and liabilities.

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

Cash and Cash Equivalents

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

Derivative Financial Instruments and Hedging Activities

Derivative financial instruments, principally interest rate and currency swaps, are used in certain circumstances to hedge the Group's exposure to foreign exchange and interest rate risks arising from its financing activities.

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

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

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

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

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

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

(i) Fair Value Hedge

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

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

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

(ii) Cash Flow Hedges

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

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

(iii) Hedge of Net Investment in Foreign Operation

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and presented in the foreign currency translation reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within finance income or finance expense. Cumulative gains and losses remain in equity until disposal or partial disposal of the net investment in the foreign operation at which point the related differences are reclassified to the income statement as part of the overall gain or loss on sale.

Interest-Bearing Loans and Borrowings

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

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

Provisions

A provision is recognised on a discounted basis when the Group has a present (either legal or constructive) obligation as a result of a past event and it is probable that a transfer of economic benefits will be required to settle the obligations and a reliable estimate can be made of the amount required to settle the obligation. A provision for restructuring is recognised when the Group has approved a restructuring plan and the restructuring has commenced. A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable costs of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

Retirement Benefit Obligations

Obligations to the defined contribution pension plans are recognised as an expense in the income statement as service is received from the relevant employees. The Group has no legal or constructive obligation to pay further contributions in the event that these plans do not hold sufficient assets to provide retirement benefits.

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

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

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

Share-Based Payment Transactions

The 2011 Long-Term Incentive Plan (LTIP), the 1999 Grafton Group Share Scheme for Senior Executives and the SAYE Scheme for UK employees should enable employees to acquire shares in the Company subject to the conditions of these schemes. New units are issued to satisfy obligations under the 1999 Grafton Group Share Scheme and the SAYE scheme. Entitlements under the LTIP may be satisfied by the issue of units or by a market purchase of units. The fair value of share entitlements at the grant date is recognised as an employee expense in the income statement over the vesting period with a corresponding increase in equity. The fair value is determined by an external valuer using a binomial model. Share entitlements granted by the Company are subject to certain non-market based vesting conditions. Non-market vesting conditions are not taken into account when estimating the fair value of entitlements as at the grant date. The expense for share entitlements shown in the income statement is adjusted to reflect the number of awards for which the related non-market based vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related non-market based vesting conditions at the vesting date.

The proceeds received by the Company on the vesting of share entitlements are credited to share capital and share premium when the share entitlements are converted or issued.

Income Tax

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

Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income.

Current tax is based on taxable profit and represents the expected tax payable for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes certain items that are not tax deductible including property depreciation. The Group's liability for current tax is calculated using rates that have been enacted or substantially enacted at the balance sheet date. The Group's income tax charge reflects various allowances and reliefs and planning opportunities available in the tax jurisdictions in which the Group operates. The determination of the Group's charge for income tax in the income statement requires estimates to be made, on the basis of professional advice, in relation to certain matters where the ultimate outcome may not be certain and where an extended period may be required before such matters are determined. The estimates for income tax included in the financial statements are considered appropriate but no assurance can be given that the final determination of these matters will not be materially different to the estimates included in the financial statements.

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

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

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

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

Accounting Policies

Share Capital

Ordinary Shares

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

Repurchase of Share Capital

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

Dividends

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

Earnings per Share

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

Notes to the Group Financial Statements

1. Segment Information

IFRS 8 Operating Segments requires operating segments to be identified on the basis of internal reports that are regularly reviewed by the Chief Operating Decision Maker in order to allocate resources to the segments and to assess their performance. Three operating segments have been identified, Merchanting, Retailing and Manufacturing.

The Merchanting Segment is engaged in the distribution of building and plumbing materials primarily to professional trades people engaged in residential repair, maintenance and improvement projects and also in residential and other new build construction from a network of 556 branches in Britain, Ireland and Belgium.

The Retailing Segment operates Ireland's largest DIY and home improvement business from a network of 38 stores that supply mainly retail customers with a wide range of products for the home and garden, and a kitchen retail business that trades from 7 stores.

The Manufacturing segment comprises the largest manufacturer of dry mortar in Britain operating from 9 plants and a plastics manufacturing business in Ireland.

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

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

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

1. Segment Information (continued)

Group Income Statement

	Continuing operations – year ended 31 December							
	Merchanting		Retailing		Manufacturing		Group	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000	**2013 £'000**	2012 £'000	**2013 £'000**	2012 £'000
Segment revenue	**1,694,881**	1,564,458	**167,889**	161,783	**44,698**	40,676	**1,907,468**	1,766,917
Less: Inter-segment revenue-manufacturing	-	-	-	-	**(7,700)**	(6,138)	**(7,700)**	(6,138)
	1,694,881	1,564,458	**167,889**	161,783	**36,998**	34,538	**1,899,768**	1,760,779
Segment operating profit/(loss)	**81,750**	66,723	**1,165**	208	**3,945**	1,658	**86,860**	68,589
Pension credit	**29,964**	-	**-**	-	**-**	-	**29,964**	-
Property impairment	**(24,749)**	-	**-**	-	**(2,411)**	-	**(27,160)**	-
Restructuring costs	**-**	(10,819)	**-**	(8,515)	**-**	(1,887)	**-**	(21,221)
Segment operating profit/(loss) after exceptional items	**86,965**	55,904	**1,165**	(8,307)	**1,534**	(229)	**89,664**	47,368

	Group	
	2013 £'000	2012* £'000
Reconciliation to consolidated operating profit		
Segment operating profit after non-recurring items	**89,664**	47,368
Central activities	**(9,649)**	(7,628)
Intangible amortisation	**-**	(1,817)
Operating profit	**80,015**	37,923
Finance expense	**(13,660)**	(14,664)
Finance income	**1,366**	1,801
Profit before tax	**67,721**	25,060
Income tax	**(5,622)**	6,583
Profit after tax for the financial year	**62,099**	31,643

**IAS 19 (Revised) 'Employee Benefits' has been adopted as required by IFRSs as adopted by the EU for the year ended 31 December 2013. The comparatives for the year ended 31 December 2012 have been restated (Please refer to Note 34).*

Notes to the Group Financial Statements

1. Segment Information (continued)

Group Balance Sheet

	Continuing operations – as at 31 December							
	Merchanting		Retailing		Manufacturing		Group	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000	**2013 £'000**	2012 £'000	**2013 £'000**	2012 £'000
Segment assets	**1,375,099**	1,353,922	**64,545**	73,264	**40,032**	42,402	**1,479,676**	1,469,588

	2013 £'000	2012 £'000
Reconciliation of total assets		
Deferred tax assets	**17,666**	26,877
Retirement benefit assets	**718**	-
Other financial assets	**124**	144
Derivative financial instruments	**1,670**	3,293
Cash and cash equivalents	**151,099**	128,027
Total assets in the Group balance sheet	**1,650,953**	1,627,929

	Merchanting 2013 £'000	Merchanting 2012 £'000	Retailing 2013 £'000	Retailing 2012 £'000	Manufacturing 2013 £'000	Manufacturing 2012 £'000	Group 2013 £'000	Group 2012 £'000
Segment liabilities	**392,757**	362,470	**40,399**	44,928	**10,157**	8,189	**443,313**	415,587

	2013 £'000	2012 £'000
Reconciliation of total liabilities		
Interest bearing loans and borrowings (current and non-current)	**286,473**	295,691
Retirement benefit obligations	**7,840**	51,391
Deferred tax liabilities	**30,746**	36,056
Current tax liabilities	**8,201**	11,056
Derivative financial instruments (current and non-current)	**33**	513
Total liabilities in the Group balance sheet	**776,606**	810,294

1. Segment Information (continued)

Other Segment Information

	Continuing operations – year ended 31 December							
	Merchanting		Retailing		Manufacturing		Total Group	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000	**2013 £'000**	2012 £'000	**2013 £'000**	2012 £'000
Capital expenditure	**23,833**	20,650	**283**	2,165	**554**	159	**24,670**	22,974
Depreciation	**25,261**	24,602	**3,771**	4,354	**2,431**	3,092	**31,463**	32,048
Impairment of property, plant and equipment	**24,749**	324	**-**	1,656	**2,411**	-	**27,160**	1,980
Onerous lease provisions (exceptional charge)	**-**	892	**-**	872	**-**	-	**-**	1,764
Intangible amortisation	**-**	1,415	**-**	370	**-**	32	**-**	1,817

Geographic Analysis

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

	Belgium		Ireland*		UK		Group	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000	**2013 £'000**	2012 £'000	**2013 £'000**	2012 £'000
Segment revenue (continuing operations)	**58,849**	30,798	**414,031**	394,925	**1,426,888**	1,335,056	**1,899,768**	1,760,779
Capital expenditure	**1,305**	1,048	**1,871**	3,827	**21,494**	18,099	**24,670**	22,974
Segment assets	**39,210**	28,011	**234,716**	277,577	**724,730**	687,834	**998,656**	993,422
Goodwill							**481,020**	476,166
							1,479,676	1,469,588

**Includes Poland which is immaterial*

2. Operating Costs and Income

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

	2013 £'000	2012 £'000
Non-recurring items (Note 3):		
Pension scheme		
Pension scheme credit	**(29,964)**	-
Property impairment		
Property impairment - UK and Ireland	**27,160**	-
Restructuring costs		
Restructuring costs	**-**	21,221
Total non-recurring items (Note 3)	**(2,804)**	21,221
Decrease/(increase) in inventories	**5,231**	(17,979)
Purchases and consumables	**1,293,863**	1,219,491
Staff costs before non-recurring items (Note 5)	**268,633**	257,501
Auditor's remuneration - Group and subsidiaries	**734**	692
Depreciation	**31,463**	32,048
Lease rentals and other hire charges	**53,244**	49,788
Intangible amortisation	**-**	1,817
Profit on disposal of property, plant and equipment	**(718)**	(433)
Selling, distribution and administrative expenses	**170,107**	158,710
	1,819,753	1,722,856

2. Operating Costs and Income (continued)

The following services were provided by KPMG, the Group's Auditor:

	2013 £'000	2012 £'000
Audit services (i)		
- Group Auditor - KPMG Ireland	**418**	407
- Other network firm - KPMG	**119**	106
	537	513
Other assurance services (ii)		
- Group Auditor - KPMG Ireland	**166**	152
- Other network firm - KPMG	**31**	27
	197	179
Auditor's remuneration - Group and subsidiaries (i) & (ii)	**734**	692
Tax advisory services		
- Group Auditor - KPMG Ireland	**181**	333
- Other network firm - KPMG	**351**	354
	532	687
Total		
- Group Auditor - KPMG Ireland	**765**	892
- Other network firm - KPMG	**501**	487
	1,266	1,379

Other assurance services relate to the statutory audits of subsidiary companies in the UK, Ireland and Europe except for £21,000 in 2013 (2012: £24,000) that relates to the audit of pension funds.

Notes to the Group Financial Statements

3. Non-Recurring Operating Income and Operating Costs

	2013 £'000	2012 £'000
Pension scheme		
Pension service credit	**(18,534)**	-
Settlement gain	**(16,932)**	-
Settlement contribution liability	**5,014**	-
Net settlement gain	**(11,918)**	-
Professional fees	**488**	-
Pension scheme credit	**(29,964)**	-
Property impairment		
- Irish properties	**23,180**	-
- UK properties	**3,980**	-
	27,160	-
Restructuring costs:		
Redundancy costs	**-**	8,904
Other restructuring costs	**-**	1,134
Impairment of plant and equipment (Note 12)*	**-**	1,559
	-	11,597
Onerous lease provision (Note 22)	**-**	1,764
Current asset impairment	**-**	1,630
Cost of Atlantic Home Care Limited examinership	**-**	8,767
Release of onerous lease provision relating to Atlantic Home Care Limited	**-**	(2,537)
Total	**(2,804)**	21,221

Pension scheme credit

The past service credit of £18.5 million arose due to the implementation of a permanent pensionable salary freeze in the United Kingdom and a pensionable salary freeze in Ireland for five years, together with an alignment of the normal retirement age and the State pension age in Ireland. The net settlement gain of £11.9 million arose due to the settlement of transfer values in respect of deferred members.

Property impairment

A strategic review of freehold properties gave rise to a non-cash impairment charge of £27.2 million to the Income Statement. The impairment charge related mainly to properties located in the Republic of Ireland.

Restructuring costs

The 2012 restructuring costs of £21.2 million relate primarily to (i) redundancy costs in the merchanting and manufacturing segments, (ii) costs related to the Atlantic Home Care Limited examinership, (iii) fixed asset and other asset impairments in the merchanting and DIY retailing businesses. The cost of the Atlantic Home Care Limited examinership comprises landlord compensation on termination of leases, examinership fees, redundancies and asset impairment relating to two stores that closed.

*Total impairment costs for property, plant and equipment were £1,980,000 (Note 12) including £421,000 arising from the Atlantic Home Care Limited examinership.

4. Directors' Remuneration, Pension Entitlements and Interests

Directors' remuneration, pension entitlements and interests in shares and share entitlements are presented in the Report of the Remuneration Committee on Directors' Remuneration on pages 51 to 75.

5. Employment

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

	2013	2012
Merchanting	**7,746**	7,838
Retailing	**1,216**	1,107
Manufacturing	**144**	142
Holding company	**21**	20
	9,127	9,107

The aggregate remuneration costs of employees were:	£'000	£'000
Wages and salaries	**236,952**	228,115
Social welfare	**23,564**	22,594
Share based payments charge	**1,396**	618
Defined benefit pension (Note 31)	**1,709**	1,153
Defined contribution pension and related costs	**5,012**	5,021
Staff costs before non-recurring items	**268,633**	257,501
Past service credit and settlement gain - non-recurring (Note 31)	**(35,466)**	-
Settlement contribution liability (Note 3)	**5,014**	-
Professional fees (Note 3)	**488**	-
Termination payments	**-**	9,361
Charged to operating profit	**238,669**	266,862
Net finance cost on pension scheme obligations*	**1,403**	1,359
Charged to income statement	**240,072**	268,221
Remeasurement (gain)/loss on pension schemes*	**(7,442)**	27,458
Total employee benefit cost	**232,630**	295,679

**IAS 19 (Revised) 'Employee Benefits' has been adopted as required by IFRSs as adopted by the EU for the year ended 31 December 2013. The comparatives for the year ended 31 December 2012 have been restated (Please refer to Note 34).*

5. Employment (continued)

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

Key Management

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

	2013	2012
Number of Individuals	**8**	8

	2013 £'000	2012 £'000
Short-term employee benefits	**2,396**	2,364
Share-based payment charge/(credit)	**552**	174
Termination benefits	**248**	-
Retirement benefits expense	**409**	458
Charged to operating profit	**3,605**	2,996

Notes to the Group Financial Statements

6. Finance Expense and Finance Income

	2013 £'000	Restated# 2012 £'000
Finance expense:		
Interest on bank loans and overdrafts	**10,256***	10,831*
Interest on loan notes	**413***	1,151*
Net change in fair value of cash flow hedges transferred from equity	**577**	635
Interest on finance leases	**278**	287
Net finance cost on pension scheme obligations	**1,403#**	1,359#
Fair value movement on hedged financial liabilities	**-**	294
Fair value movement on fair value hedges	**-**	(128)
Fair value movement on derivatives (cross-currency interest rate swaps not in hedging relationship)	**1**	217
Ineffective portion of changes in fair value of cash flow hedges	**10**	18
Foreign exchange loss	**722**	-
	13,660	14,664
Finance income:		
Foreign exchange gain	**(537)**	(688)
Interest income on bank deposits	**(829)***	(1,113)*
	(1,366)	(1,801)
Net finance expense recognised in income statement	**12,294**	12,863
**Net bank/loan note interest of £9.8 million (2012: £10.9 million)*		
# Restated as required by IFRS following the adoption of IAS 19 (Revised) 'Employee Benefits'		
Amounts relating to items not at fair value through income statement		
- Total finance expense on financial liabilities	**13,072**	13,628
- Total finance income on financial assets	**(1,366)**	(1,801)
Recognised directly in other comprehensive income		
Currency translation effects on foreign currency net investments	**1,176**	(2,053)
Currency translation effects on foreign currency borrowings and derivatives designated as net investment hedges	**908**	220
Effective portion of changes in fair value of cash flow hedges	**(66)**	(185)
Net change in fair value of cash flow hedges transferred to income statement	**577**	635
	2,595	(1,383)

#IAS 19 (Revised) 'Employee Benefits' has been adopted as required by IFRSs as adopted by the EU for the year ended 31 December 2013. The comparatives for the year ended 31 December 2012 have been restated (Please refer to Note 34).

7. Foreign Currencies

The Group has for the first time presented its results in sterling. The results and cash flows of the subsidiaries with euro functional currencies have been translated into sterling using the average exchange rate for the year. The balance sheets of subsidiaries with euro functional currencies have been translated into sterling at the rate of exchange ruling at the balance sheet date.

The average sterling/euro rate of exchange for the year ended 31 December 2013 was Stg84.93p (Year ended 31 December 2012: Stg81.09p). The sterling/euro exchange rate at 31 December 2013 was Stg83.37p (31 December 2012: Stg81.61p).

8. Income Tax

(a) Income tax recognised in income statement	2013 £'000	Restated* 2012 £'000
Current tax expense/(credit)		
Irish corporation tax	**(1,899)**	(1,415)
UK and other corporation tax	**5,239**	7,789
Release of corporation tax provision	**-**	(18,651)
Taxation credit on exceptional items	**-**	(805)
	3,340	(13,082)
Deferred tax expense		
Irish deferred tax expense relating to the origination and reversal of temporary differences	**(1,294)**	199
Recognition of previously unrecognised tax losses	**(8,546)**	-
Deferred tax resulting from change in tax rates	**(833)**	1,838
UK deferred tax expense relating to the origination and reversal of temporary differences	**12,955**	4,462
	2,282	6,499
Total income tax expense/(credit) in income statement	**5,622**	(6,583)

**IAS 19 (Revised) 'Employee Benefits' has been adopted as required by IFRSs as adopted by the EU for the year ended 31 December 2013. The comparatives for the year ended 31 December 2012 have been restated (Please refer to Note 34).*

Taxation

The effective rate of tax on underlying profit, which excludes the pension scheme credit and property impairment charge, was 20.4 per cent (2012: 27.5 per cent). This reflects the mix of profits between the UK, Ireland and Belgium and the disallowance of a tax deduction for certain items of expenditure including depreciation on buildings and incorporates the impact on deferred tax assets and liabilities of a reduction in the UK rate of corporation tax by 3 per cent to 20 per cent over the period to 1 April 2015. The effective rate of 20.4 per cent excludes a once-off credit of £8.5 million (2012: Nil) due to the recognition of a deferred tax asset for trading losses carried forward in the Irish business.

A taxation credit of £3.8 million arose on the property impairment and a taxation charge of £4.7 million arose on the pension credit.

Taxation paid in 2013 of £6.3 million (2012: £3.3 million) reflected the availability of tax allowances and various reliefs carried forward from prior years.

The amount shown for current taxation includes a liability for tax uncertainties and is based on the Directors best probability weighted estimate of the probable outflow of economic resources that will be required. As with all estimates, the actual outcome may be different to the current estimate.

The 2012 taxation credit of £6.6 million includes an exceptional credit of £19.5 million mainly arising from the UK Revenue agreeing the Group's entitlement to tax deductions against which a corporation tax provision of £18.7 million was prudently retained due to the uncertainty concerning the outcome. This was released to the Income Statement during the year. A taxation credit of £0.8 million arose on exceptional items.

8. Income Tax (continued)

(b) Reconciliation of effective tax rate

	2013 £'000	2012 £'000
Profit before tax	**67,721**	25,060
Profit before tax multiplied by the standard rate of tax of 12.5% (2012: 12.5%)	**8,465**	3,133
Effects of:		
Expenses not deductible for tax purposes	**2,809**	3,910
Differences in effective tax rates on overseas earnings	**4,030**	2,693
Losses for which no deferred tax asset was recognised	**2,262**	3,136
Effect of change in tax rates	**(833)**	1,838
Deferred tax recognised on prior year losses	**(8,546)**	-
Release of corporation tax provision	**(323)**	(18,651)
Other differences	**(2,242)**	(2,642)
Total income tax expense/(credit) in income statement	**5,622**	(6,583)

(c) Deferred tax recognised in other comprehensive income

	2013 £'000	2012 £'000
Property, plant and equipment	**-**	459
Actuarial movement on pension schemes	**1,032**	(3,961)
Financing – cash flow hedge	**63**	54
	1,095	(3,448)

At 31 December 2013 the Group recognised deferred tax assets of £8.5 million (2012: £Nil) on tax losses carried forward. The tax losses arose in the Irish tax jurisdiction and their utilisation is dependent on future profits. The Directors have concluded that a forecast period of 5 years is the appropriate timescale over which to consider whether it is more likely than not that the Irish sub-group will earn sufficient future profits to utilise the losses carried forward.

Deferred income tax liabilities have not been recognised for any taxes that would be payable on the unremitted earnings of certain subsidiaries as it is probable that any temporary differences will not reverse in the foreseeable future.

9. Dividends

	2013 £'000	2012 £'000
Group		
Interim dividend of 4.5p (5.5 cent) per Grafton Unit – paid 12 April 2013	**10,825**	-
Interim dividend of 3.0p (3.5 cent) per Grafton Unit – paid 4 October 2013	**6,859**	-
Interim dividend of 4.75 cent per Grafton Unit – paid 13 April 2012	**-**	9,154
Interim dividend of 2.5p (3.0 cent) per Grafton Unit – paid 5 October 2012	**-**	5,544
	17,684	14,698

The payment in 2013 of a second interim dividend for 2012 of 4.5 pence (5.50 cent) on the 'C' Ordinary shares in Grafton Group (UK) plc from UK-sourced income amounted to £10.8 million. A 2013 interim dividend of 3.0 pence (3.5 cent) per share was paid on 4 October 2013 on the 'C' Ordinary shares in Grafton Group (UK) plc from UK-sourced income and amounted to £6.9 million.

The Board has agreed to pay a second interim dividend of 5.5 pence 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 14 March 2014 (the 'Record Date') and the cash consideration will be paid on 11 April 2014. A liability in respect of this second interim dividend has not been recognised at 31 December 2013, as there was no present obligation to pay the dividend at the year-end. The dividend payable on 11 April 2014 will be recognised in 2014.

10. Earnings per Share - Group

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

	2013 £'000	2012 £'000
Numerator for basic, adjusted and diluted earnings per share:		
Profit after tax for the financial year	**62,099**	31,643
Non-controlling interest	**80**	-
Numerator for basic and diluted earnings per share	**62,179**	31,643
Intangible amortisation	**-**	1,817
Deferred tax relating to intangible amortisation	**-**	(227)
Non-recurring pension credit	**(29,964)**	-
Tax relating to non-recurring pension credit	**4,729**	-
Property impairment	**27,160**	-
Deferred tax relating to property impairment	**(3,774)**	-
Recognition of a deferred tax asset	**(8,546)**	-
Taxation credit	**-**	(18,651)
Non-recurring restructuring costs	**-**	21,221
Tax relating to non-recurring restructuring costs	**-**	(805)
Numerator for adjusted earnings per share	**51,784**	34,998

Denominator for basic and adjusted earnings per share:	**Number of Grafton Units**	Number of Grafton Units
Weighted average number of Grafton Units in issue	**232,112,552**	231,951,127
Effect of potential dilutive Grafton Units	**987,480**	-
Denominator for diluted earnings per share	**233,100,032**	231,951,127
Earnings per share (pence)		
- Basic	**26.79**	13.64
- Diluted	**26.67**	13.64
Adjusted earnings per share (pence)		
- Basic	**22.31**	15.09
- Diluted	**22.22**	15.09

The weighted average potential employee share entitlements over 4,927,300 Grafton Units (2012: 7,202,110) which are currently anti-dilutive are not included in the above calculation for diluted earnings per share and adjusted diluted earnings per share.

11. Goodwill

Goodwill	**2013 £'000**	2012 £'000
Cost		
At 1 January	**476,166**	473,060
Arising on acquisitions (Note 27)	**1**	11,736
Deemed disposal arising from joint venture becoming a subsidiary undertaking	**-**	(3,703)
Translation adjustment	**4,853**	(4,927)
At 31 December	**481,020**	476,166

Goodwill Acquired During the Year

Goodwill acquired during the year in the amount of £1,000 (2012: net £8,033,000) was allocated to the Merchanting segment.

Cash-Generating Units

The Board has determined, for the purposes of IFRS 8 Operating Segments, that three operating segments exist, Merchanting, Retailing and Manufacturing. Goodwill is reviewed for internal management purposes at operating segment level determined in accordance with IFRS 8 Operating Segments.

	2013 £'000	2012 £'000
Merchanting	**477,435**	472,657
Retailing	**3,585**	3,509
	481,020	476,166

Impairment Testing

Goodwill is subject to impairment testing on an annual basis at 31 December and additionally during the year if an indicator of impairment is considered to exist. No impairment charge was recognised by the Group in 2013 (2012: Nil).

Impairment Testing Methodology

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

11. Goodwill (continued)

Estimated future cashflows were determined by reference to the budget for 2014 and management reviewed forecasts for each of the following years from 2015 to 2018 inclusive. A long-term perpetuity growth rate was applied in respect of the years after 2018. The estimates of future cash flows were based on consideration of past experience together with an assessment of the future prospects for the Group's Merchanting and Retailing businesses. This involved making assumptions concerning revenue trends, gross profit margins, overheads and operating profit margins.

The key assumptions used in the value in use calculations are the revenue growth rate, the discount rate and the perpetuity growth rate. The discount rate used was based on the Group's weighted average cost of capital adjusted to reflect a risk premium. The weighted average cost of capital reflects an assumed equity return, based on the risk free rate for ten year Government bonds adjusted for an equity risk premium and the after-tax cost of debt. The discount rate applied was 8.75 per cent (2012: 8.75 per cent).

In determining a terminal value, it was assumed that cash flows after the first five years will increase at a nominal growth rate in perpetuity of 3 per cent (2012: 3 per cent). The rate assumed was based on an assessment of the likely long term growth prospects for the merchanting and retailing segments.

Significant Goodwill Amounts

The most significant cash generating unit (group of units) accounting for the majority of the carrying amount of goodwill is Merchanting.

	2013 £'000	2012 £'000
Carrying amount of goodwill	**477,435**	472,657
Basis on which recoverable amount assessed	**Value in use**	Value in use
Discount rate	**8.75%**	8.75%

Sensitivity Analysis

The value in use calculations are sensitive to changes in assumptions, particularly relating to revenue growth, the discount rate and the nominal growth rate in perpetuity. Sensitivity analysis was performed based on changes in each of these factors. A reduction in the revenue growth rate by 2 percentage points would not give rise to impairment. Similarly, an increase in the discount rate from 8.75 per cent to 10 per cent would not give rise to impairment. A reduction in the nominal growth rate in perpetuity from 3 per cent to 2 per cent would not give rise to impairment.

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

Management identified the discount rate as a key assumption that could cause the carrying amount to exceed the recoverable amount. If the discount rate was changed to 18.25 per cent, the estimated recoverable amount would be equal to the carrying amount.

Allowing for reasonable possible change in any of the other key assumptions would not give rise to an impairment.

12. Property, Plant and Equipment, Properties held for Sale and Investment Properties

12. (a) Property, Plant and Equipment

	Freehold land and buildings £'000	Leasehold buildings £'000	Plant machinery and motor vehicles £'000	Total £'000
Cost				
At 1 January 2012	**370,735**	**77,168**	**258,944**	**706,847**
Additions	1,891	3,565	17,518	22,974
Reclassifications	947	(947)	-	-
Acquisitions (Note 27)	3,315	630	4,122	8,067
Deemed disposal arising from joint venture becoming a subsidiary undertaking	(1,760)	(414)	(2,236)	(4,410)
Disposals	(75)	(1,202)	(30,470)	(31,747)
Reclassification to properties held for sale	(4,030)	-	-	(4,030)
Reclassification from properties held for sale	3,288	-	-	3,288
Exchange adjustment	(2,923)	(537)	(686)	(4,146)
At 1 January 2013	**371,388**	**78,263**	**247,192**	**696,843**
Additions	**706**	**269**	**23,695**	**24,670**
Acquisitions (Note 27)	**2,711**	**500**	**449**	**3,660**
Disposals	**(410)**	**(430)**	**(8,416)**	**(9,256)**
Reclassification to properties held for sale	**(7,569)**	**(155)**	**-**	**(7,724)**
Reclassification to investment properties	**(43,145)**	**-**	**-**	**(43,145)**
Exchange adjustment	**3,161**	**526**	**2,720**	**6,407**
At 31 December 2013	**326,842**	**78,973**	**265,640**	**671,455**
Depreciation				
At 1 January 2012	**38,179**	**28,029**	**168,792**	**235,000**
Charge for year	4,927	3,840	23,281	32,048
Reclassifications	644	(644)	-	-
Impairment charge (Note 3)	-	895	1,085	1,980
Disposals	(43)	(1,221)	(28,930)	(30,194)
Reclassification to properties held for sale	(277)	-	-	(277)
Reclassification from properties held for sale	526	-	-	526
Exchange adjustment	(115)	(157)	(303)	(575)
At 1 January 2013	**43,841**	**30,742**	**163,925**	**238,508**
Charge for year	**5,001**	**3,840**	**22,622**	**31,463**
Impairment charge (Note 3)	**25,448**	**-**	**-**	**25,448**
Disposals	**(66)**	**(270)**	**(7,930)**	**(8,266)**
Reclassification to properties held for sale	**(3,411)**	**(64)**	**-**	**(3,475)**
Reclassification to investment properties	**(28,496)**	**-**	**-**	**(28,496)**
Exchange adjustment	**341**	**193**	**2,338**	**2,872**
At 31 December 2013	**42,658**	**34,441**	**180,955**	**258,054**
Net book amount				
At 31 December 2013	**284,184**	**44,532**	**84,685**	**413,401**
At 31 December 2012	327,547	47,521	83,267	458,335

12. Property, Plant and Equipment, Properties held for Sale and Investment Properties (continued)

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

Property, plant and equipment included leased assets as follows:

	Plant, machinery & motor vehicles		**Leasehold properties**	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000
Cost	**193**	3,087	**6,382**	6,271
Accumulated depreciation	**(87)**	(2,931)	**(2,656)**	(2,344)
Net book amount	**106**	156	**3,726**	3,927
Depreciation charge for year	**45**	57	**276**	266

The Group repaid finance leases amounting to £0.6 million (2012: £0.5 million) and entered new leases during the year of £Nil (2012: £Nil).

12. (b) Properties Held for Sale

	Cost £'000	**Accumulated Depreciation £'000**	**Net Book Value £'000**
At 1 January 2012	**14,652**	**(1,094)**	**13,558**
Transfers from property, plant and equipment	4,030	(277)	3,753
Transfers to property, plant and equipment	(3,288)	526	(2,762)
Translation adjustment	(106)	9	(97)
At 31 December 2012	**15,288**	**(836)**	**14,452**
Transfers from property, plant and equipment	**7,724**	**(3,475)**	**4,249**
Impairment Charge	**-**	**(1,712)**	**(1,712)**
Transfers to investment property	**(5,798)**	**586**	**(5,212)**
Disposals	**(553)**	**77**	**(476)**
Translation adjustment	**97**	**(46)**	**51**
At 31 December 2013	**16,758**	**(5,406)**	**11,352**

The Group identified 27 (2012: 16) properties held for sale of which 26 (2012: 13) are located in the United Kingdom and 1 (2012: 3) in Ireland. These properties are shown in the balance sheet at the lower of their carrying amount and fair value less any disposal costs. 12 properties are included at a fair value of £4.8 million.

Properties held for sale are not used in the course of business and are available for immediate sale in their present condition subject to terms that are usual and customary for properties of this nature. The individual properties were being actively marketed at the year end and the Group is committed to its plan to sell these properties.

12. Property, Plant and Equipment, Properties held for Sale and Investment Properties (continued)

12. (c) Investment Properties

	Cost £'000	Accumulated Depreciation £'000	Net Book Value £'000
At 1 January 2013	-	-	-
Transfers from property, plant and equipment	43,145	(28,496)	14,649
Transfers from assets held for resale	5,798	(586)	5,212
At 31 December 2013	**48,943**	**(29,082)**	**19,861**

Following completion of a review of its estate in 2013 the Group identified 19 properties as investment properties. These properties are being held pending a recovery in the property market or with a view to enhancing their development potential by securing alternative use planning. Three of the investment properties are located in the United Kingdom and 16 in Ireland.

Investment properties of £19.9 million which are separately classified in non-current assets are carried at fair value in the financial statements. An internal review undertaken by the Group Property Director was used to determine fair values. The valuation techniques used were the market value of comparable transactions recently completed or on the market. In cases where there are no recent precedent transactions, valuations were based on estimated rental yields and consultations with external agents who have knowledge of local property markets.

12. (d) Fair Value Hierarchy – Properties held for Sale Carried at fair Value and Investment Properties

As noted in the Group's accounting policies on page 95 and 96, properties held for sale are held at the lower of cost and fair value and investment properties are carried at fair value. Fair value is defined as the price that would be received if the asset was sold in an orderly transaction between market participants based on the asset's highest and best use. Valuations are reviewed each year by the Directors with movements in fair value recognised in the income statement.

The Group undertook an exercise to review its property portfolio during the year. Properties held for sale comprise land and buildings in a number of locations across Ireland and the UK. Investment property, comprising land and buildings located in Ireland and the UK, is held for capital appreciation and or rental income and is not occupied by the Group. This also includes parts of properties owned by the Group which are sublet to third parties. Properties held for sale comprise properties that are held at a cost of £6.5 million and properties held at a fair value of £4.8 million. Included within investment properties are properties that are held at a fair value of £19.9 million.

In general, valuations have been undertaken having regard to comparable market transactions between informed market participants. Due to the reduced or very limited activity levels for transactions for properties of a similar nature in Ireland and the UK the valuations of a number of properties were determined internally with reference to local knowledge, valuation techniques and the exercise of judgement following consultation with property advisers with recent experience of the location and nature of the properties being valued.

The property valuations are derived from data which is not widely publicly available and involves a degree of judgement. For these reasons, the valuations of the Group's property portfolio are classified as level 3 as defined by IFRS 13.

12. Property, Plant and Equipment, Properties held for Sale and Investment Properties (continued)

The following is a summary of valuation methods used in relation to the Group's properties held for sale and investment properties which are carried at fair value:

Properties Held for Sale	Comparable market transactions £'000	Offers from third parties £'000	Total 2013 £'000
Merchanting segment	4,137	709	4,846

Investment Properties	Comparable market transactions £'000	Other methods £'000	Total 2013 £'000
Merchanting segment	14,722	2,013	16,735
Manufacturing segment	3,126	-	3,126
Total	17,848	2,013	19,861

The following table shows a reconciliation from the opening balance to the closing balance for level 3 fair values:

	Properties held for sale 2013 £'000	Investment properties 2013 £'000
Balance at beginning of year	14,452	-
Transfers from property, plant and equipment	4,249	14,649
Transfers to investment property	(5,212)	-
Transfers from properties held for sale	-	5,212
Disposals in year	(476)	-
Foreign exchange movement	51	-
Impairment charge	(1,712)	-
Balance at end of year	**11,352**	**19,861**
Recorded at fair value	4,846	19,861
Recorded at cost	6,506	-
Total	**11,352**	**19,861**

Notes to the Group Financial Statements

12. Property, Plant and Equipment, Properties held for Sale and Investment Properties (continued)

Following the review of the Group's property portfolio during the year a number of properties held for sale and recorded at fair value were transferred to investment property. A number of properties were transferred from property, plant and equipment to properties held for sale and a number of properties were transferred to investment properties. The estimated fair value of certain properties in Ireland and in the UK fell below cost resulting in an impairment charge of £1.7 million (2012: £Nil) relating to properties held for sale. A number of these properties impaired during the year remain in properties held for sale at the year end, while others were transferred to investment properties at their fair value. A further impairment charge of £25.5 million (2012: £Nil) was incurred in respect of property transferred from property, plant and equipment to properties held for sale or investment properties at their fair value. The total impairment charge relating to properties at fair value in the year was £27.2 million (2012: £Nil) as disclosed in Note 3.

Valuation Techniques and Significant Unobservable Inputs

The following tables show the valuation techniques used in measuring the fair value of properties held for sale and investment properties and the significant unobservable inputs used. Where market transactions are present, the comparable market transaction method is used for land and buildings held for sale or capital appreciation.

Properties Held for Sale

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Comparable market transactions - price per square metre: The value is based on comparable market transactions after discussion with independent agents and/or other information sources.	*UK - Regional (excluding major cities)* • Comparable warehouse market prices of £105 - £360 per square metre. • Comparable industrial development land prices of £50,000 - £250,000 per acre.	*The estimated fair value would increase/(decrease) if:* • Comparable market prices per square metre were higher/(lower)
Offers from third parties: This valuation is used for properties that have formal offer documentation received by the Group from third parties intending to purchase with a reasonable possibility of a sale being concluded	*UK - Regional (excluding major cities)* • Offer price range for warehouse property of between £113 and £740 per square metre. • Offer price range for land and sites of between £140,000 and £250,000 per acre.	*The estimated fair value would increase/(decrease) if:* • Final offer price increased/ (decreased)

Investment Properties

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Comparable market transactions - price per square metre: The value is based on comparable market transactions after discussion with independent registered property appraisers and/or other information sources.	*Ireland - Urban* • Comparable minimum office market prices of £460 per square metre. • Comparable minimum warehouse market prices of £220 per square metre. • Comparable agricultural land market prices of £12,500 per acre. • Comparable industrial or development land prices of £67,000 - £190,000 per acre. *Ireland - Regional* • Comparable market prices of £150 - £540 per square metre. • Comparable market prices of development land £42,000 - £417,000 per acre. *UK - Regional (excluding major cities)* • Comparable warehouse market price of £270 per square metre. • Comparable development site priced at £250,000 per acre. *UK - Urban (major cities)* • Based on comparable industrial development land prices.	*The estimated fair value would increase/(decrease) if:* • Comparable market prices per square metre were higher/ (lower)

Notes to the Group Financial Statements

13. Other Financial Assets

	Other Investments £'000
At 1 January 2012	124
Additions	7
Acquired with subsidiary undertakings	25
Deemed disposal arising from joint venture becoming a subsidiary undertaking	(15)
Translation adjustment	3
At 31 December 2012	**144**
Disposals	**(20)**
Translation adjustment	**-**
At 31 December 2013	**124**

Other investments represent sundry equity investments at cost which approximates fair value.

14. Joint Ventures

Navan Retail Developments Limited

The Group has a fifty per cent interest in Navan Retail Developments Limited, a joint venture company, whose principal activity was the development of a retail park in Navan, Co. Meath. The joint venture is accounted for using proportionate consolidation accounting. The Group income statement includes no revenue (2012: £Nil) and operating costs of £0.6 million (2012: £1.1 million) relating to the joint venture. Net liabilities of £0.4 million (2012: net assets of £0.2 million) are included for Navan Retail Developments Limited in the consolidated financial statements. These are represented by net current liabilities of £0.4 million (2012: net current assets of £0.2 million) and a deficit of £0.4 million (2012: reserves of £0.2 million) which reflects the net loss that the Group has recognised in the income statement.

The registered office of Navan Retail Developments Limited is c/o Grafton Group plc, Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18.

15. Inventories

	2013 £'000	2012 £'000
Raw materials	**1,046**	1,212
Finished goods	**7,446**	5,603
Goods purchased for resale	**237,728**	242,517
	246,220	249,332

The inventory provision at 31 December 2013 was £20.9 million (31 December 2012: £19.4 million).

Notes to the Group Financial Statements

16. Trade and Other Receivables

	2013 £'000	2012 £'000
Amounts falling due within one year:		
Trade receivables	**200,411**	184,652
Other receivables	**107,411**	86,651
	307,822	271,303

The carrying amount of trade and other receivables represents the maximum credit exposure.

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

	Carrying Amount	
	2013 £'000	2012 £'000
Ireland	**49,449**	48,430
Belgium	**10,592**	11,168
United Kingdom	**247,781**	211,705
	307,822	271,303

Credit risk is well diversified over a broad customer base with only a small number of accounts with balances in excess of £100,000 that collectively account for a small proportion of total trade receivables.

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

	Gross Value 2013 £'000	Impairment 2013 £'000	Carrying Amount 2013 £'000	Gross Value 2012 £'000	Impairment 2012 £'000	Carrying Amount 2012 £'000
Not Past Due	**252,015**	**-**	**252,015**	217,538	-	217,538
Past Due						
0-30 days	**38,276**	**(691)**	**37,585**	40,215	(1,063)	39,152
30-60 days	**24,326**	**(6,330)**	**17,996**	23,108	(8,669)	14,439
+60 days	**3,459**	**(3,233)**	**226**	2,859	(2,685)	174
	66,061	**(10,254)**	**55,807**	66,182	(12,417)	53,765
	318,076	**(10,254)**	**307,822**	283,720	(12,417)	271,303

Movement in Impairment Provision

	2013 £'000	2012 £'000
At 1 January	**12,417**	12,758
Written-off during year	**(3,720)**	(4,566)
Additional provision	**1,391**	4,381
Translation adjustment	**166**	(156)
At 31 December	**10,254**	12,417

Notes to the Group Financial Statements

17. Share Capital and Share Premium

Group and Company	2013 €'000	2012 €'000
Authorised:		
Equity shares		
300 million ordinary shares of 5c each	**15,000**	15,000
30 billion 'A' ordinary shares of 0.001c each	**300**	300
	15,300	15,300

	Issue Price	Number of Shares	2013 Nominal Value €'000	2012 Nominal Value €'000
Issued and fully paid:				
Ordinary shares				
At 1 January		**232,498,613**	**8,261**	8,255
Issued under UK SAYE scheme		**8,694**	**1**	6
Grafton Group Share Scheme				
Date options and entitlements to acquire shares granted				
November 2003	€5.45	**426,300**	**18**	-
At 31 December		**232,933,607**	**8,280**	8,261
'A' ordinary shares				
At 1 January		**3,952,476,421**	**22**	22
'A' ordinary shares issued in year		**7,394,898**	**-**	-
At 31 December		**3,959,871,319**	**22**	22
Total nominal share capital issued			**8,302**	8,283

Share Premium

Group	2013 €'000	2012 €'000
At 1 January	**204,614**	204,238
Premium on issue of shares under UK SAYE scheme	**21**	376
Premium on issue of shares under Grafton Group Share Scheme	**1,944**	-
Cost of share issues	**(25)**	-
At 31 December	**206,554**	204,614

17. Share Capital and Share Premium (continued)

Grafton Units Issued During 2013

The number of Grafton Units issued during the year under the Group's Executive Share Schemes and the UK SAYE scheme was 434,994 (2012: 159,429) and the total consideration received amounted to £1,984,000 (2012: £382,000). Costs relating to the issues were £25,000 (2012: £Nil).

Grafton Units

At 31 December 2013 and at 31 December 2012, a Grafton Unit comprised one ordinary share of 5 cent and seventeen 'A' ordinary shares of 0.001 cent each in Grafton Group plc and one 'C' ordinary share of Stg0.0001p in Grafton Group (UK) plc.

Ordinary Shares

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

'A' Ordinary Shares

At 31 December 2013, there were seventeen 'A' Ordinary shares per Grafton Unit.

All 'A' ordinary shares purchased from 2004 to 2009 were cancelled.

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

'C' Ordinary Shares (in Grafton Group (UK) plc)

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

Treasury Shares

The Group holds 500,000 (2012: 500,000) Grafton Units at a cost of £3,897,000 (2012: £3,897,000) as treasury shares.

18. Group Statement of Changes in Equity

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

The revaluation reserve was created as a result of a revaluation of Irish properties in 1998.

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

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

The foreign currency translation reserve arises from the currency effect on translation of the investment in subsidiaries with euro functional currencies as adjusted for foreign currency borrowings and derivatives designated as net investment hedges.

Non-Controlling Interests

The Group acquired a controlling interest in YouBuild NV (formerly BMC Groep NV), a Belgian builders merchanting business referred to in Note 27, on 31 October 2012. This company is now accounted for as a subsidiary undertaking with a non-controlling interest.

Prior to 31 October 2012 the Group's interest in YouBuild NV was proportionally consolidated. The Group's shareholding increased from 53 per cent to 58 per cent in May 2012 and to 65 per cent on 31 October 2012 when a controlling interest was acquired and YouBuild NV was accounted for as a subsidiary with a non-controlling interest.

19. Interest-Bearing Loans and Borrowings

	2013 £'000	2012 £'000
Non-current liabilities		
Sterling bank loans	**40,456**	40,657
Euro bank loans	**215,879**	202,578
2005 unsecured senior US dollar loan notes	**6,668**	13,867
2005 unsecured senior US dollar loan notes (Stg)	**5,878**	11,758
Finance leases	**3,729**	4,131
	272,610	272,991
Current liabilities		
Sterling bank loans	**181**	161
Euro bank loans	**631**	9,063
2005 unsecured senior US dollar loan notes	**6,735**	6,997
2005 unsecured senior US dollar loan notes (Stg)	**5,880**	5,879
Vendor loan notes	**-**	3
Finance leases	**436**	597
	13,863	22,700

The small decrease in non-current interest bearing loans and borrowings and the decrease in current interest bearing loans and borrowings reflects changes in the maturity profile of the Group's debt at 31 December 2013 and debt repaid and drawn during the year including a partial repayment of 2005 unsecured senior US dollar loan notes.

19. Interest-Bearing Loans and Borrowings (continued)

2005 Unsecured Senior US Dollar Loan Notes

In June 2005, the Group completed a US$325.0 million debt financing at fixed interest rates ranging from 4.68 per cent to 4.88 per cent in the US Private Placement Market and issued unsecured senior loan notes maturing between 2008 and 2015. US$250.0 million of the US dollar proceeds were swapped into sterling using a cross currency interest rate derivative which also changed the interest rate payable on the loan notes to sterling rates based on six month LIBOR rates plus a margin. The balance of US$75.0 million was received in sterling and the interest rate payable on the amount outstanding is currently variable by reference to three month LIBOR rates.

Maturity of Financial Liabilities

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

	Bank loans 2013 £'000	**Loan notes 2013 £'000**	**Finance leases 2013 £'000**	**Total 2013 £'000**	Bank loans 2012 £'000	Loan notes 2012 £'000	Finance leases 2012 £'000	Total 2012 £'000
Due within one year	**812**	**12,615**	**436**	**13,863**	9,224	12,879	597	22,700
Between one and two years	**777**	**12,546**	**389**	**13,712**	70,274	12,813	397	83,484
Between two and three years	**254,870**	**-**	**389**	**255,259**	1,096	12,812	397	14,305
Between three and four years	**515**	**-**	**389**	**904**	170,375	-	397	170,772
Between four and five years	**173**	**-**	**389**	**562**	838	-	397	1,235
After five years	**-**	**-**	**2,173**	**2,173**	652	-	2,543	3,195
	257,147	**25,161**	**4,165**	**286,473**	252,459	38,504	4,728	295,691
Derivatives				**(1,637)**				(2,780)
Gross Debt				**284,836**				292,911
Cash and short-term deposits				**(151,099)**				(128,027)
Net debt				**133,737**				164,884
Shareholders' equity				**870,296**				813,504
Gearing				**15%**				20%

19. Interest-Bearing Loans and Borrowings (continued)

The following table indicates the effective interest rates at 31 December 2013 in respect of interest bearing financial assets and financial liabilities and the periods during which they re-price. The effective interest rate and timing of re-pricing were adjusted for the effect of derivatives.

	Effective Interest Rate	Total £'000	6 months or less £'000	6 to 12 months £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000
Sterling deposits	0.35%	40,106	40,106	-	-	-	-
Euro deposits	0.36%	19,246	19,246	-	-	-	-
US dollar deposits	0.10%	993	993	-	-	-	-
Cash at bank	0-0.5%	90,754	90,754	-	-	-	-
Cash and cash equivalents		151,099	151,099	-	-	-	-
Floating rate debt:							
Euro loans	2.90%	(199,836)	(199,836)	-	-	-	-
Sterling loans	3.30%	(40,637)	(40,637)	-	-	-	-
Total floating rate debt		(240,473)	(240,473)	-	-	-	-
Fixed rate debt:							
Euro loans	5.65%	(16,674)	(16,674)	-	-	-	-
Finance leases	6.00%	(4,165)	(218)	(218)	(389)	(1,167)	(2,173)
Total fixed rate debt		(20,839)	(16,892)	(218)	(389)	(1,167)	(2,173)
Floating rate loan notes:							
US dollar loan notes 2005	1.15%	(13,403)	(13,403)	-	-	-	-
US dollar loan notes 2005 (Stg)	1.06%	(11,758)	(11,758)	-	-	-	-
Total loan notes		(25,161)	(25,161)	-	-	-	-
Derivatives		1,637	1,637	-	-	-	-
Total Net Debt		(133,737)	(129,790)	(218)	(389)	(1,167)	(2,173)

Borrowing Facilities

The Group had an undrawn committed borrowing facility at 31 December 2013 of £111.6 million (2012: £79.7 million) in respect of which all conditions precedent were met, with £30.0 million expiring in 2014 and £81.6 million expiring in 2016.

19. Interest-Bearing Loans and Borrowings (continued)

The following table indicates the effective interest rates at 31 December 2012 in respect of interest bearing financial assets and financial liabilities and the periods in which they re-price. The effective interest rate and timing of re-pricing were adjusted for the effect of derivatives.

	Effective Interest Rate	Total £'000	6 months or less £'000	6 to 12 months £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000
Sterling deposits	0.54%	55,975	55,975	-	-	-	-
Euro deposits	1.09%	6,832	6,832	-	-	-	-
US dollar deposits	0.50%	977	977	-	-	-	-
Cash at bank	0%-0.7%	64,242	64,242	-	-	-	-
Cash and cash equivalents		128,026	128,026	-	-	-	-
Floating rate debt:							
Euro loans	2.86%	(178,997)	(178,997)	-	-	-	-
Sterling loans	3.31%	(40,818)	(40,818)	-	-	-	-
Total floating rate debt		(219,815)	(219,815)	-	-	-	-
Fixed rate debt:							
Euro loans	5.55%	(32,644)	(16,322)	-	(16,322)	-	-
Finance leases	6.00%	(4,727)	(597)	-	(397)	(1,192)	(2,541)
Total fixed rate debt		(37,371)	(16,919)	-	(16,719)	(1,192)	(2,541)
Floating rate loan notes:							
US dollar loan notes 2005	1.21%	(20,864)	(20,864)	-	-	-	-
US dollar loan notes 2005 (Stg)	1.05%	(17,637)	(17,637)	-	-	-	-
Vendor loan notes	1.00%	(3)	(3)	-	-	-	-
Total loan notes		(38,504)	(38,504)	-	-	-	-
- Derivatives		2,780	2,812	-	(32)	-	-
Total Net Debt		(164,884)	(144,400)	-	(16,751)	(1,192)	(2,541)

Notes to the Group Financial Statements

20. Financial Instruments and Financial Risk

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

At 31 December 2013

	Available for sale £'000	**Cashflow hedge £'000**	**Fair value through profit and loss £'000**	**Loans and receivables £'000**	**Liabilities at amortised cost £'000**	**Total carrying value**	**Fair value £'000**
Other financial assets*	**124**	**-**	**-**	**-**	**-**	**124**	**-**
Trade and other receivables*	**-**	**-**	**-**	**307,822**	**-**	**307,822**	**-**
Cash and cash equivalents*	**-**	**-**	**-**	**151,099**	**-**	**151,099**	**-**
Cross-currency interest rate swaps	**-**	**-**	**1,670**	**-**	**-**	**1,670**	**1,670**
	124	**-**	**1,670**	**458,921**	**-**	**460,715**	**1,670**
Interest rate swaps	**-**	**(33)**	**-**	**-**	**-**	**(33)**	**(33)**
Euro bank loans	**-**	**-**	**-**	**-**	**(216,510)**	**(216,510)**	**(216,510)**
Sterling bank loans	**-**	**-**	**-**	**-**	**(40,637)**	**(40,637)**	**(40,637)**
Finance leases	**-**	**-**	**-**	**-**	**(4,165)**	**(4,165)**	**(4,165)**
Trade and other payables*	**-**	**-**	**-**	**-**	**(410,011)**	**(410,011)**	**-**
2005 unsecured senior US dollar loan notes	**-**	**-**	**-**	**-**	**(25,161)**	**(25,161)**	**(24,761)**
At 31 December 2013	**-**	**(33)**	**-**	**-**	**(696,484)**	**(696,517)**	**(286,106)**

At 31 December 2012

	Available for sale £'000	Cashflow hedge £'000	Fair value through profit and loss £'000	Loans and receivables £'000	Liabilities at amortised cost £'000	Total carrying value £'000	Fair value £'000
Other financial assets*	144	-	-	-	-	144	-
Trade and other receivables*	-	-	-	271,303	-	271,303	-
Cash and cash equivalents*	-	-	-	128,027	-	128,027	-
Cross-currency interest rate swaps	-	-	3,293	-	-	3,293	3,293
	144	-	3,293	399,330	-	402,767	3,293
Interest rate swaps	-	(513)	-	-	-	(513)	(513)
Euro bank loans	-	-	-	-	(211,641)	(211,641)	(211,641)
Sterling bank loans	-	-	-	-	(40,818)	(40,818)	(40,818)
Finance leases	-	-	-	-	(4,728)	(4,728)	(4,728)
Trade and other payables*	-	-	-	-	(383,160)	(383,160)	-
2005 unsecured senior US dollar loan notes	-	-	-	-	(38,502)	(38,502)	(37,661)
Vendor loan notes	-	-	-	-	(2)	(2)	(2)
At 31 December 2012	-	(513)	-	-	(678,851)	(679,364)	(295,363)

**The Group has availed of the exemption under IFRS 13 Fair Value Measurement for additional disclosures where the carrying value closely approximates fair value.*

20. Financial Instruments and Financial Risk (continued)

Fair Value

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Set out below is an analysis of financial instruments carried at fair value, by valuation method. The different levels in the fair value hierarchy have been defined as follows:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within level 1 that are observable, either directly or indirectly.
- Level 3: inputs that are not based on observable market data.

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

Trade and other receivables/trade and other payables

For receivables and payables with a remaining life of less than six months or demand balances, fair value is the amount that is payable contractually less an impairment provision where appropriate.

Cash and cash equivalents, including short-term bank deposits

For short term bank deposits and cash and cash equivalents, all of which have a remaining maturity of less than three months, the carrying amount is a reasonable approximation of fair value.

Other financial assets

Certain of the Group's financial assets are comprised of investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured. Such investments are measured at cost less provision for impairment where appropriate and applicable.

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

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

Interest bearing loans and borrowings

For floating rate interest bearing loans and borrowings with a contractual repricing date of less than six months, the nominal amount is deemed to reflect fair value. For loans with repricing dates of greater than six months, the fair value is calculated based on the present value of the expected future principal and interest cash flows discounted at interest rates effective at the balance sheet date and adjusted for credit spread.

Finance lease liabilities

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

20. Financial Instruments and Financial Risk (continued)

The following table shows the fair values of financial assets and liabilities including their level in the fair value hierarchy. It does not include fair value information for financial assests and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	2013 Total £'000	2013 Level 1 £'000	2013 Level 2 £'000	2013 Level 3 £'000
Assets measured at fair value				
At fair value through profit or loss				
Cross currency interest rate swaps	1,670	-	1,670	-
Liabilities measured at fair value				
Designated as hedging instruments				
Interest rate swaps	(33)	-	(33)	-
Liabilities not measured at fair value				
Liabilities at amortised cost				
Euro bank loans	(216,510)	-	(216,510)	-
Sterling bank loans	(40,637)	-	(40,637)	-
Finance leases	(4,165)	-	(4,165)	-
2005 unsecured senior US dollar Loan Notes	(24,761)	-	(24,761)	-
	(286,073)	-	(286,073)	-

	2012 Total £'000	2012 Level 1 £'000	2012 Level 2 £'000	2012 Level 3 £'000
Assets measured at fair value				
At fair value through profit or loss				
Cross currency interest rate swaps	3,293	-	3,293	-
Liabilities measured at fair value				
Designated as hedging instruments				
Interest rate swaps	(513)	-	(513)	-
Liabilities not measured at fair value value				
Liabilities at amortised cost				
Euro bank loans	(211,641)	-	(211,641)	-
Sterling bank loans	(40,818)	-	(40,818)	-
Finance leases	(4,728)	-	(4,728)	-
2005 unsecured senior US dollar Loan Notes	(37,661)	-	(37,661)	-
	(294,848)	-	(294,848)	-

20. Financial Instruments and Financial Risk (continued)

Level 2 Fair Values

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Financial assets and liabilities measured at fair value			
Cross currency interest swaps and interest rate swaps	The fair values are based on broker quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments	Not applicable	Not applicable
Financial assets and liabilities not held at fair value			
Other financial liabilities*	Discounted cash flows	Not applicable	Not applicable

**Other financial liabilities include Euro bank loans, Sterling bank loans, finance leases and 2005 unsecured senior US dollar loan notes*

Risk Exposures and Group Treasury Policy

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

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

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

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

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

The Board and the Audit and Risk Committee have reviewed the process for identifying, evaluating and managing the significant risks affecting the business.

20. Financial Instruments and Financial Risk (continued)

Credit Risk

Credit risk arises from credit granted to customers. Credit risk also arises on cash and cash equivalents, derivative financial instruments and cash and deposits with banks and financial institutions.

Exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed regularly. New customers are subject to initial credit checks that include trade and bank references. New customers are generally subject to restricted credit limits prior to developing a credit history. Due to the established nature of the businesses a high proportion of customers have long-standing trading relationships with Group companies. These established customers are reviewed regularly for financial strength and the appropriateness of their credit limit.

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

Cash and short term bank deposits are invested with a range of banks, all with original maturities of less than 3 months at 31 December 2013.

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

The maximum exposure to credit risk at 31 December 2013 and 31 December 2012 was:

	2013 £'000	2012 £'000
Trade and other receivables	**307,822**	271,303
Cash and cash equivalents	**151,099**	128,027
Cross currency interest rate swaps	**1,670**	3,293
	460,591	402,623

Additional disclosures in relation to the Group's exposure to credit risk arising from trade and other receivables is set out in Note 16.

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

	Carrying Amount	
	2013 £'000	2012 £'000
Domestic banks	**59,903**	45,633
United Kingdom banks	**89,481**	80,845
Belgian banks	**1,715**	1,549
	151,099	128,027

The cash on deposit is primarily held with Bank of Ireland, HSBC, Ulster Bank, Barclays and Lloyds TSB.

20. Financial Instruments and Financial Risk (continued)

Foreign Currency Risk Management

Transactional foreign exchange risk arises from foreign currency transactions, assets and liabilities. Group operations manage foreign exchange trading risks against the functional currency. The majority of trade conducted by the Group's Irish and Belgian businesses is in euro. Sterling is the principal currency for the Group's UK businesses. Currency risks are regularly monitored and managed by utilising spot and forward foreign currency contracts as appropriate for settling liabilities arising from the purchase of goods for resale in non-functional currencies. The majority of transactions entered into by Group entities are denominated in functional currencies and no significant level of hedging is required.

A portion of the Group's net worth is denominated in euro reflecting profit after tax reserves retained in euro denominated trading and finance companies which gives rise to translation differences on conversion to sterling.

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

As referred to later in this note under hedging, part of the dollar borrowings under the Group's 2005 US notes are exposed to spot foreign exchange movements at the balance sheet date. The impact of the movement in the spot rate is taken to the income statement.

Sensitivity Analysis

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

	Equity £'000	Profit after tax £'000
31 December 2013		
10% strengthening of sterling currency against the euro	**(11,600)**	**1,800**
31 December 2012		
10% strengthening of sterling currency against the euro	(10,100)	2,600

Hedging

The Group has exposure to changes in interest rates on certain debt instruments and has hedged an element of this risk by entering into interest rate swaps. The nominal value of contracts outstanding is £20,000,000 and the period hedged was from January 2009 to January 2014.

The Group classified interest rate swaps as cash flow hedges and stated them at their fair value. The fair value of these swaps at 31 December 2013 was a liability of £0.03 million (31 December 2012: a liability of £0.51 million). A net credit of £511,000 (31 December 2012: a credit of £450,000) was recorded in the cash flow hedge reserve in other comprehensive income and the balance of £10,000 (31 December 2012: £18,000), being the ineffective portion of the hedge, was taken to the Group Income Statement (Note 6).

20. Financial Instruments and Financial Risk (continued)

The Group has exposure to fair value risk and US dollar fluctuations through its fixed rate US dollar Private Placement loan notes. The Group's policy is to hedge this exposure to currency and fair value movements. This was initially achieved by entering into a number of cross currency interest rate swaps that swapped the debt into floating rate sterling.

The Group originally designated its cross currency interest rate swaps (CCIRS) as both a hedge of its fair value exposure to interest rate fair value and currency risk associated with its fixed rate firm commitment in its US$ Senior Notes and a hedge of the Group's exposure to foreign currency risk arising on its net investment hedge in operations in the UK. Certain CCIRS fell out of hedge accounting at 30 June 2011 as noted below. The fair value of these swaps at 31 December 2013 was an asset of £1,670,000 (31 December 2012: £3,293,000) and was reflected in current assets (£835,000) and non-current assets (£835,000).

To the extent that the CCIRS were designated in a fair value relationship, movements in fair value have been recognised in the income statement as set out in Note 6.

Effectiveness testing performed on the Group's hedging relationships at 31 December 2011 revealed that two of the Group's cross currency interest rate swaps were ineffective. As a result, hedge accounting ceased with effect from 30 June 2011, the last reporting date on which the hedges were proven to be effective.

The effect of ceasing to hedge account in respect of these two cross currency interest rate swaps is that all fair value movements on the two swaps from 30 June 2011 were reflected in the income statement while the associated US dollar loans are now accounted for at spot rate on the balance sheet with the impact of the movement in the spot rate taken to the income statement. The cumulative fair value adjustment recognised on the loans at 30 June 2011 is amortised to the income statement over the remaining term of the borrowings. The net income statement impact in the current year, being the difference between the amounts recorded and the amounts that would have been recorded had the hedge remained effective, was a credit of £0.4 million (2012: charge of £0.6 million) to finance income and expense.

Interest Rate Risk

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

Cash Flow Sensitivity Analysis for Variable Rate Instruments

A reduction of 100 basis points in interest rates at the reporting date would have increased profit before tax and equity by £1.3 million (2012: £1.6 million) on the basis of the Group's net debt of £133.7 million. An increase of 100 basis points, on the same basis, would have an equal and opposite effect.

20. Financial Instruments and Financial Risk (continued)

Capital Management

The capital structure of the Group comprises share capital, reserves and net debt.

The overall approach is to optimise shareholder value by leveraging the balance sheet to an appropriate level having regard to economic and trading conditions in the Group's markets, the level of internal cash generation, credit conditions generally and interest rates payable.

The Group's capital structure is kept under ongoing review and the debt component is actively managed with a view to maintaining diversified sources of funding, significant undrawn facilities and cash deposits.

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

The principal bank covenants are a net debt to equity ratio limit of 85 per cent, EBITDA interest cover of 4 times and a minimum shareholders' equity of £0.7 billion at 31 December 2013.

At 31 December 2013 the net debt to equity ratio was 17 per cent and shareholders' equity was £0.8 billion both as defined for covenant purposes. Adjusted EBITDA for the year was £108.7 million and EBITDA interest cover for 2013 was 10.7 times.

Funding and Liquidity

The Group has cash resources at its disposal through the holding at the year end of deposits and cash balances of £151.1 million (31 December 2012: £128.0 million) which together with undrawn bank facilities of £111.6 million and cash-flow from operations should provide flexibility in financing its operations.

The following are the undiscounted contractual maturities of financial liabilities, including interest payments.

31 December 2013

	Carrying Amount £'000	Contractual Cash Flow* £'000	Within 1 Year £'000	Between 1 and 2 Years £'000	Between 2 and 5 Years £'000	Greater Than 5 Years £'000
Non-Derivative Financial Liabilities						
Bank loans	**257,147**	**281,982**	**9,022**	**8,855**	**264,065**	**40**
US dollar loan notes	**25,161**	**25,467**	**12,922**	**12,545**	**-**	**-**
Finance lease liabilities	**4,165**	**12,981**	**865**	**663**	**1,928**	**9,525**
Trade and other payables	**410,011**	**410,011**	**410,011**	**-**	**-**	**-**
Derivative Financial Instruments						
Cross-currency swaps not in hedge relationship						
- Outflow		**11,953**	**6,006**	**5,947**	**-**	**-**
- Inflow	**(1,670)**	**(13,586)**	**(6,951)**	**(6,635)**	**-**	**-**
Interest rate swaps used for hedging	**33**	**135**	**135**	**-**	**-**	**-**
	694,847	**728,943**	**432,010**	**21,375**	**265,993**	**9,565**

**Includes interest based on the rates in place at 31 December 2013*

20. Financial Instruments and Financial Risk (continued)

31 December 2012

	Carrying Amount £'000	Contractual Cash Flow* £'000	Within 1 Year £'000	Between 1 and 2 Years £'000	Between 2 and 5 Years £'000	Greater Than 5 Years £'000
Non-Derivative Financial Liabilities						
Bank loans	252,459	281,127	17,396	77,718	185,343	670
US dollar loan notes	38,501	39,247	13,466	13,083	12,698	-
Vendor loan notes	3	3	3	-	-	-
Finance lease liabilities	4,728	13,862	858	816	1,964	10,224
Trade and other payables	383,160	383,160	383,160	-	-	-
Derivative Financial Instruments						
Cross-currency swaps not in hedge relationship						
- Outflow	-	18,036	6,080	6,014	5,942	-
- Inflow	(3,293)	(21,337)	(7,436)	(7,112)	(6,789)	-
Interest rate swaps used for hedging	513	669	559	110	-	-
	676,071	714,767	414,086	90,629	199,158	10,894

*Includes interest based on the rates in place at 31 December 2012.

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

31 December 2013

	Carrying Amount £'000	**Expected Cash Flow £'000**	**6 Months or Less £'000**	**6 to 12 Months £'000**	**1 to 2 Years £'000**	**2 to 3 Years £'000**	**3 to 4 Years £'000**	**4 to 5 Years £'000**
Interest rate swaps	**(33)**	**(135)**	**(135)**	**-**	**-**	**-**	**-**	**-**

31 December 2012

	Carrying Amount £'000	Expected Cash Flow £'000	6 Months or Less £'000	6 to 12 Months £'000	1 to 2 Years £'000	2 to 3 Years £'000	3 to 4 Years £'000	4 to 5 Years £'000
Interest rate swaps	(513)	(669)	(330)	(229)	(110)	-	-	-

21. Derivatives

	2013 £'000	2012 £'000
Included in non-current liabilities:		
Fair value of interest rate swaps	-	(32)
Included in current liabilities:		
Fair value of interest rate swaps	**(33)**	(481)
	(33)	(513)
Included in non-current assets:		
Fair value of cross currency swaps	**835**	2,196
Included in current assets:		
Fair value of cross currency swaps	**835**	1,097
	1,670	3,293

The decrease in derivatives (current and non-current) at 31 December 2013 is mainly due to one interest rate swap ending during the year and movements in the fair values of the remaining cross-currency and interest rate swaps.

Nature of derivative instruments as at 31 December 2013

	Contract Period	Nature of instrument	Notional payable amount of contracts outstanding	Notional receivable amount of contracts outstanding	Fair value asset £'000	Fair value liability £'000
Cross Currency Swap*	June 2005 to June 2015	Fixed Rate USD $ to floating Stg £	USD$21,428,574	STG£11,799,874	1,670	-

	Hedge Period	Nature of hedging instrument	Notional payable amount of contracts outstanding	Notional receivable amount of contracts outstanding	Fair value asset £'000	Fair value liability £'000
Interest Rate Swap	Jan 2009 to Jan 2014	Floating interest rate to fixed interest rate	€20,000,000	€20,000,000	-	(33)

**Not in hedge relationship*

21. Derivatives (continued)

Nature of derivative instruments as at 31 December 2012

	Contract Period	Nature of instrument	Notional payable amount of contracts outstanding	Notional receivable amount of contracts outstanding	Fair value asset £'000	Fair value liability £'000
Cross Currency Swap*	June 2005 to June 2015	Fixed Rate USD $ to floating Stg £	US$32,142,859	STG£17,699,811	3,293	-

	Hedge Period	Nature of hedging instrument	Notional payable amount of contracts outstanding	Notional receivable amount of contracts outstanding	Fair value asset £'000	Fair value liability £'000
Interest Rate Swap	Jan 2009 to Jan 2014	Floating interest rate to fixed interest rate	€40,000,000	€40,000,000	-	(513)

**Not in hedge relationship*

22. Provisions

	2013 £'000	2012 £'000
Non-current liabilities		
Insurance provision	**7,412**	7,125
Onerous lease provision	**9,614**	12,181
Dilapidations provision	**4,370**	3,561
Pension settlement contributions	**1,267**	-
Other provisions	**-**	2,418
	22,663	25,285
Current liabilities		
Insurance provision	**3,374**	3,861
Onerous lease provision	**1,562**	-
Pension settlement contributions	**3,735**	-
Deferred acquisition consideration	**1,760**	3,077
WEEE provision	**208**	204
	10,639	7,142

22. Provisions (continued)

Provisions	Insurance 2013 £'000	Insurance 2012 £'000	Onerous leases 2013 £'000	Onerous leases 2012 £'000	Dilapidations 2013 £'000	Dilapidations 2012 £'000	Pension settlement contribution 2013 £'000	Pension settlement contribution 2012 £'000
At 1 January	**10,986**	13,090	**12,181**	15,547	**3,561**	2,873	**-**	-
Exceptional charge	**-**	-	**-**	1,764	**-**	-	**5,502**	-
Charge in year	**5,506**	670	**535**	752	**1,051**	747	**-**	-
Exceptional release	**-**	-	**-**	(2,538)	**-**	-	**-**	-
Released	**(2,881)**	-	**(1,799)**	(2,991)	**(244)**	(46)	**-**	-
Paid during the year	**(3,015)**	(2,462)	**-**	-	**-**	-	**(401)**	-
Foreign exchange	**190**	(312)	**259**	(353)	**2**	(13)	**(99)**	-
At 31 December	**10,786**	10,986	**11,176**	12,181	**4,370**	3,561	**5,002**	-
Non-current	**7,412**	7,125	**9,614**	12,181	**4,370**	3,561	**1,267**	-
Current	**3,374**	3,861	**1,562**	-	**-**	-	**3,735**	-

Provisions (continued)	Deferred Consideration 2013 £'000	Deferred Consideration 2012 £'000	WEEE 2013 £'000	WEEE 2012 £'000	Other 2013 £'000	Other 2012 £'000	Total 2013 £'000	Total 2012 £'000
At 1 January	**3,077**	3,604	**204**	209	**2,418**	-	**32,427**	35,323
Arising on prior year acquisitions (Note 27)	**713**	-	**-**	-	**-**	-	**713**	-
Acquisitions (Note 27)	**-**	1,145	**-**	-	**-**	-	**-**	1,145
Exceptional charge	**-**	-	**-**	-	**-**	-	**5,502**	1,764
Charge in year	**-**	-	**-**	-	**-**	2,403	**7,092**	4,572
Exceptional release	**-**	-	**-**	-	**-**	-	**-**	(2,538)
Released	**(153)**	-	**-**	-	**(1,011)**	-	**(6,088)**	(3,037)
Paid during the year	**(1,889)**	(1,646)	**-**	-	**(1,459)**	-	**(6,764)**	(4,108)
Foreign exchange	**12**	(26)	**4**	(5)	**52**	15	**420**	(694)
At 31 December	**1,760**	3,077	**208**	204	**-**	2,418	**33,302**	32,427
Non-current	**-**	-	**-**	-	**-**	2,418	**22,663**	25,285
Current	**1,760**	3,077	**208**	204	**-**	-	**10,639**	7,142

Insurance Provision

The insurance provision relates to actual obligations under the self-insurance elements of the Group's overall insurance arrangements which are subject to limits in respect of individual claims. This provision was based on an independent actuarial valuation. The provision principally covers the combined public and employer liability claims for the Group's businesses. The Group has third party insurance cover above specific limits for individual claims and has an overall maximum aggregate payable for all claims for any one year. Given the nature of personal injury claims the timing of cash outflows can vary significantly. The outflow arising from the payment of claims in the next year is expected to be at a similar level to the previous year. Based on historical experience, it is the Directors best estimate that the balance of claims which are provided for at 31 December 2013 will be paid over a two to six year period.

22. Provisions (continued)

The incurred but not reported (IBNR) element of the insurance provision is classified as non-current as the normal cycle for settlement of such claims is likely to be more that 12 months from the year end.

For specific claims if a claim is no longer being challenged by the Group, such claims are classified as current liabilities at year end. The Group no longer has an unconditional right to defer payment and it is only the timing of the payment that is uncertain.

On-going claims in legal process are classified as non-current liabilities at year end as the Group still has an unconditional right to defer settlement since it can generally determine the extent and duration of the legal process unless the company expects to settle it within 12 months.

Onerous Lease Provision

The onerous lease provision covers the expected cost to the Group of onerous property leases based on the net present value of the relevant branch's budgeted and forecast cashflows. These branches are unable to derive economic benefit from the leased property. The timing of outflows is over the remaining life of the relevant lease. Changes in trading patterns from year to year may impact forecast cashflows and alter the amount and timing of outflows.

Expected reimbursements in the form of sub-lease rental income are taken into account in respect of certain properties which can be sublet.

Dilapidations Provision

The dilapidations provision covers the cost of returning certain Group properties back to the landlord at the end of the lease term based on the terms of the lease which sets out the conditions and work required to be undertaken on the return of the property. The timing of the outflows will match the ending of the relevant leases which ranges from 2 to 20 years.

Pension Settlement Contribution

An amount of £5.0 million will be payable over the next three years as a result of the settlement of transfer values with the deferred members of the Chadwicks and Heiton Buckley defined benefit pension schemes which were closed in 2013.

Deferred Consideration

The deferred acquisition consideration is payable over the period from January to December 2014.

WEEE

The WEEE provision covers the estimated cost of disposing of the Group's computer and electronic equipment at the end of their useful life.

Other

During the year £1.0 million and £0.5 million of the opening other provision at 31 December 2012 was utilised on the settlement of an outstanding claim relating to a property lease and another separate legal case. The balance of the provision not required has been released back to the income statement.

23. Trade and Other Payables

	2013 £'000	2012 £'000
Trade payables	**318,254**	289,082
Accruals	**68,908**	72,070
Social welfare	**3,091**	3,335
Employee income tax	**3,404**	3,215
Value added tax	**16,354**	15,458
	410,011	383,160

24. Obligations under Finance Leases

	2013			2012		
	Minimum lease payments £'000	**Interest £'000**	**Principal £'000**	Minimum lease payments £'000	Interest £'000	Principal £'000
Committed finance lease obligations:						
Within one year	**690**	**254**	**436**	858	260	598
Between one and five years	**2,571**	**1,015**	**1,556**	2,780	1,027	1,753
Later than five years	**9,720**	**7,547**	**2,173**	10,224	7,847	2,377
	12,981	**8,816**	**4,165**	13,862	9,134	4,728

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

25. Deferred Taxation

Recognised deferred tax assets and liabilities	Assets 2013 £'000	Liabilities 2013 £'000	Net (assets)/ liabilities 2013 £'000	Assets 2012 £'000	Liabilities 2012 £'000	Net (assets)/ liabilities 2012 £'000
Property, plant and equipment	**(7,316)**	**29,255**	**21,939**	(19,391)	34,643	15,252
Financing	**(6)**	**-**	**(6)**	(64)	-	(64)
Other items	**(745)**	**1,491**	**746**	-	1,413	1,413
Tax value of losses forward	**(8,763)**	**-**	**(8,763)**	-	-	-
Pension	**(836)**	**-**	**(836)**	(7,422)	-	(7,422)
(Assets)/liabilities	**(17,666)**	**30,746**	**13,080**	(26,877)	36,056	9,179

The reduction in the deferred tax asset reflects the utilisation of tax allowances and reliefs for which deferred tax assets were previously recognised partly offset by the recognition of deferred tax assets in respect of trading losses in the Irish trading entities as set out in Note 8.

At 31 December 2013, there were unrecognised deferred tax assets in relation to capital losses of £4.7 million (31 December 2012: £4.1 million), trading losses of £0.9 million (31 December 2012: £9.3 million) and deductible temporary differences of £5.0 million (31 December 2012: £4.1 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. Deferred tax assets were not recognised in respect of certain trading losses and deductible temporary differences as these arose in entities that have incurred losses in recent years where the Directors have no certainty as to when there will be sufficient taxable profits in the relevant entities against which they can be utilised.

Analysis of Net Deferred Tax (asset)/liability

	Balance 1 Jan 13 £'000	Recognised in profit or loss £'000	Recognised in other comprehensive income £'000	Foreign exchange retranslation £'000	Arising on acquisitions £'000	Balance 31 Dec 13 £'000
Property, plant and equipment	**15,252**	**6,141**	**-**	**546**	**-**	**21,939**
Financing	**(64)**	**-**	**63**	**(5)**	**-**	**(6)**
Other items	**1,413**	**(696)**	**-**	**27**	**2**	**746**
Tax value of losses carried forward	**-**	**(8,927)**	**-**	**164**	**-**	**(8,763)**
Pension	**(7,422)**	**5,764**	**1,032**	**(210)**	**-**	**(836)**
	9,179	**2,282**	**1,095**	**522**	**2**	**13,080**

25. Deferred Taxation (continued)

	Balance 1 Jan 12 £'000	Recognised in profit or loss £'000	Recognised in other comprehensive income £'000	Foreign exchange retranslation £'000	Arising on acquisitions £'000	Balance 31 Dec 12 £'000
Property, plant and equipment	14,694	(1,801)	459	29	1,871	15,252
Intangible assets	235	(228)	-	(7)	-	-
Financing	(6,107)	5,963	54	26	-	(64)
Other items	(1,732)	1,944	-	1,152	49	1,413
Pension	(4,132)	621	(3,961)	50	-	(7,422)
	2,958	6,499	(3,448)	1,250	1,920	9,179

26. Movement in Working Capital

	Inventory £'000	**Trade and other receivables £'000**	**Trade and other payables £'000**	**Total £'000**
At 1 January 2012	226,548	269,839	(352,211)	144,176
Translation adjustment	(1,758)	(1,233)	2,464	(527)
Interest accrual and other movements	-	851	460	1,311
Acquisitions (Note 27)	11,745	17,010	(9,090)	19,665
Deemed disposal arising from joint venture becoming a subsidiary undertaking (Note 27)	(5,182)	(7,618)	4,190	(8,610)
Movement in 2012	17,979	(7,546)	(28,973)	(18,540)
At 1 January 2013	**249,332**	**271,303**	**(383,160)**	**137,475**
Translation adjustment	**1,746**	**1,289**	**(2,629)**	**406**
Interest accruals and other movements	**-**	**(195)**	**(635)**	**(830)**
Acquisitions (Note 27)	**373**	**-**	**-**	**373**
Movement in 2013	**(5,231)**	**35,425**	**(23,587)**	**6,607**
At 31 December 2013	**246,220**	**307,822**	**(410,011)**	**144,031**

27. Acquisition of Subsidiary Undertakings and Businesses

The Group acquired the trade and selected assets of Thompson Building Centres and Thompson Associated Plumbing Supplies (acquired: 27 March 2013) and the trade and assets of a single branch merchanting business in Oban, Scotland (acquired: 29 November 2013).

In 2012 the Group acquired two merchanting branches in Northern Ireland previously owned by the Brooks Group (acquired: 5 April 2012); Electricbase, a single branch merchanting business in Stockton-on-Tees, (acquired: 31 August 2012) and two merchanting branches in England previously owned by Burdens (acquired: 19 December 2012).

In 2012 the Group also acquired a controlling interest in YouBuild NV (formerly BMC Groep NV), the Belgian joint venture, on 31 October 2012 and now accounts for YouBuild NV as a subsidiary undertaking with a non-controlling interest. Under IFRS 3 Business Combinations the Group is deemed to have made a disposal of its equity interest of 65 per cent and re-acquired 100 per cent of YouBuild NV at this date with a non-controlling interest recognised. The fair value of assets and liabilities acquired reflects this accounting treatment. YouBuild NV acquired Holvoet, a two branch merchanting business, located in North West Belgium on 1 November 2012.

Acquisitions would have contributed £12.1 million and £38.9 million to revenue in the years ended 31 December 2013 and 31 December 2012 respectively on the assumption that they had been acquired on 1 January in both years.

Acquisitions would have contributed an operating profit of £0.2 million and £2.1 million in the years ended 31 December 2013 and 31 December 2012 respectively if they had been acquired on 1 January in both years.

Acquisitions completed in 2013 contributed revenues of £8.0 million (2012 acquisitions: £5.7 million) and a profit of £0.2 million (2012 acquisitions: loss of £0.3 million) for the period from the date of acquisition until the year end.

Notes to the Group Financial Statements

27. Acquisition of Subsidiary Undertakings and Businesses (continued)

	2013 £'000	2012 £'000
The fair values of assets and liabilities acquired are set out below:		
Property, plant and equipment (Note 12)	**3,660**	8,067
Financial assets (Note 13)	-	25
Inventories (Note 26)	**373**	11,745
Trade and other receivables (Note 26)	-	17,010
Trade and other payables (Note 26)	-	(9,090)
Corporation tax	-	(1,202)
Deferred tax liability (Note 25)	**(2)**	(1,920)
Finance leases acquired	-	(246)
Bank debt acquired	-	(13,824)
Cash acquired	-	5,497
Net assets acquired	**4,031**	16,062
Goodwill (Note 11)	**1**	11,736
Consideration	**4,032**	27,798
Satisfied by:		
Cash paid	**4,032**	14,760
Net cash outflow	**4,032**	14,760
Fair value of the Group's portion of BMC's net assets before becoming a subsidiary	-	7,762
Deferred acquisition consideration (Note 22)	-	1,145
Non-controlling interest	-	4,131
	4,032	27,798

As noted in Note 22, an amount of £713,000 was recognised as a measurement period adjustment in 2013 relating to a 2012 acquisition.

27. Acquisition of Subsidiary Undertakings and Businesses (continued)

The fair value of identifiable net assets acquired in 2013 was £4,031,000.

	Fair Values £'000	Consideration £'000	Goodwill £'000
Total acquisitions	**4,031**	**4,032**	**1**

The fair values were calculated as follows:

	Book Values £'000	Fair Value Adjustment £'000	Fair Values £'000
Property, plant and equipment	**3,660**	**-**	**3,660**
Inventories (Note 26)	**369**	**4**	**373**
Deferred tax	**-**	**(2)**	**(2)**
	4,029	**2**	**4,031**

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

No intangible assets were acquired.

27. Acquisition of Subsidiary Undertakings and Businesses (continued)

The fair value of net assets acquired in 2012 was £16,062,000.

	Fair Values £'000	Consideration £'000	Goodwill £'000
Total acquisitions	16,062	27,798	11,736

The fair values were calculated as follows:

	Book Values '000	Fair Value Adjustment £'000	Fair Values £'000
Property, plant and equipment	8,067	-	8,067
Financial assets	25	-	25
Working capital	19,604	61	19,665
Corporation tax	(1,202)	-	(1,202)
Deferred tax	(1,901)	(19)	(1,920)
Finance leases	(246)	-	(246)
Bank debt	(13,824)	-	(13,824)
Cash acquired	5,497	-	5,497
	16,020	42	16,062

The fair value of the net assets of YouBuild NV (formerly BMC Groep NV) were assessed at 31 October 2012 and it was determined that there was no material difference between the carrying value of the Group's existing interest in the net assets and their fair values. Deferred tax arose on the difference between the fair value of properties acquired and cost.

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

	2013 £'000	2012 £'000
Net increase in cash and cash equivalents	**21,993**	15,338
Net movement in derivative financial instruments	**1,091**	804
Cash flow from movement in debt and lease financing	**11,569**	7,896
Change in net debt resulting from cash flows	**34,653**	24,038
Finance leases acquired with subsidiary undertakings*	-	(100)
Bank loans acquired with subsidiary undertakings*	-	(5,292)
Translation adjustment	**(3,506)**	5,202
Movement in net debt in the year	**31,147**	23,848
Net debt at 1 January	**(164,884)**	(188,732)
Net debt at 31 December	**(133,737)**	(164,884)

**Net of deemed disposal as referred to in Note 27*

29. Capital Expenditure Commitments

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

	2013 £'000	2012 £'000
Contracted for	**5,099**	3,033
Not contracted for	**36,912**	13,474
	42,011	16,507

Capital commitments in the UK and Ireland amounted to £39.8 million (2012: £14.0 million) and £2.2 million (2012: £1.9 million) respectively and relate mainly to replacement of the distribution fleet and store development projects. There were no capital commitments in the Belgian business (2012: £0.6 million).

30. Operating Leases

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

	Land and buildings 2013 £'000	Other 2013 £'000	Land and buildings 2012 £'000	Other 2012 £'000
Operating lease payments due:				
Within one year	**48,596**	**4,465**	50,204	4,198
Between two and five years	**171,492**	**4,925**	167,770	7,758
Over five years	**425,299**	**11**	428,799	-
	645,387	**9,401**	646,773	11,956

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

During the year ended 31 December 2013 £53.2 million (2012: £49.8 million) was recognised as an expense in the income statement in respect of operating leases.

Notes to the Group Financial Statements

31. Pension Commitments

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

The actuarial reports are not available for public inspection.

IAS 19 – Employee Benefits

The company operates four defined benefit schemes in Ireland and two defined benefit schemes in the UK for qualifying employees (the "DB Schemes"). All schemes except one are closed to new entrants. The DB Schemes are administered by trusts that are legally separated from the company. The trustees of the DB Schemes are required by law to act in the interest of the members of the DB Schemes. The trustees of the DB Schemes are responsible for the investment policy with regard to the assets of the DB Schemes.

Under the DB Schemes, the employees are entitled to receive an annual payment on attainment of normal retirement age which in Ireland, is in line with the State pension age (i.e. age 66, 67 or 68 depending on year of birth) and in the UK is age 65 for the majority of benefits. The level of benefit payable depends on length of service. It also depends, in the case of Ireland, on a member's final pensionable salary near retirement (excluding salary increases up to and including 1st January 2019) and in the case of the UK, on a member's 2013 pensionable salary. Salary for pension purposes is integrated with the State Pension. The DB Schemes provide post retirement pension increases in the UK only and spouses death in retirement pensions in both Ireland and the UK. No other post-retirement benefits are provided to employees.

Defined Benefit Pension Schemes – Principal Risks

Through its defined benefit pension schemes the Group is exposed to a number of risks the most significant of which are detailed below:

Asset volatility: Under IFRS the assets of the Group's defined benefit pension schemes are reported at fair value (at bid values). The majority of the schemes' assets comprise of equites, bonds and property all of which may fluctuate significantly from one reporting period to the next.

Discount rates: the discount rates used in calculating the present value of scheme liabilities are determined by reference to market yields at the balance sheet date of high quality corporate bonds consistent with the currency and term of the retirement benefit obligations. Changes to the discount rates can have a significant impact on the liability amount.

Salary/price inflation: Some of the Group's pension obligations are salary and inflation linked. Higher salary and price inflation will lead to higher liabilities. In 2013 the Group agreed new arrangements on the pensioning of salary increases which reduced this risk as noted in the financial assumptions. The exposure to inflation risk relates to the granting of inflation linked pension increases in the UK and to revaluation of deferred benefits in both the UK and Ireland.

Longevity risk: In the majority of cases the Group's defined benefit pension schemes provide benefits for life. Increases in life expectancy will therefore give rise to higher liabilities.

The nature of these risks is not materially different across all schemes with the exception of salary and price inflation risks which differ between the UK and Ireland.

Financial Assumptions

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

	At 31 Dec 2013 Irish schemes	**At 31 Dec 2013 UK schemes**	At 31 Dec 2012 Irish schemes	At 31 Dec 2012 UK schemes
Valuation method	**Projected Unit**	**Projected Unit**	Projected Unit	Projected Unit
Rate of increase in salaries	**3.00%***	**0.0%**	3.00%	2.50%
Rate of increase of pensions in payment	**-**	**3.70%**	-	2.90%
Discount rate	**3.65%**	**4.65%**	3.75%	4.50%
Inflation rate increase	**2.00%**	**3.70%****	2.00%	2.90%**

**3% applies from 2 January 2019 (31 December 2012: January 2014).*

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

Notes to the Group Financial Statements

31. Pension Commitments (continued)

The future life expectancy at age 65 for males and females (currently aged 55 and 65), inherent in the mortality tables used for the 2013 and 2012 year end IAS 19 disclosures are as follows:

2013 Mortality (years)		**Ireland**	**UK**	2012 Mortality (years)		Ireland	UK
Future Pensioner aged 65:	**Male**	**23.9**	**22.3**	Future Pensioner aged 65:	Male	23.8	22.3
	Female	**25.0**	**25.0**		Female	24.9	25.0
Current Pensioner aged 65:	**Male**	**22.5**	**21.5**	Current Pensioner aged 65:	Male	22.3	21.5
	Female	**23.9**	**24.0**		Female	23.7	24.0

In 2013 new arrangements were agreed following consultations with the trustees and active members of the defined benefit pension schemes in Ireland and the UK. The changes are based on sharing the costs of funding the deficit and provide for more sustainable future benefits at an affordable cost while reducing the financial risks of the schemes to the Group.

The Group agreed to make additional cash contributions over a period of eleven years as part of the arrangements agreed. In addition, payments totalling £5.0 million will be made over the next three years to the Group's Irish defined contribution scheme in respect of deferred members who transferred out of the Group's Irish defined benefit schemes. A non-cash reduction in pension liabilities of £30.0 million related to the new arrangements is recognised in the income statement (Note 3).

The non-recurring past service credit of £18.5 million arose due to the implementation of a permanent pensionable salary freeze in the United Kingdom and a pensionable salary freeze in Ireland for five years, together with an alignment of the normal retirement age and the State pension age in Ireland. There are no changes to arrangements for existing pensioners. The non-recurring net settlement gain of £11.9 million (settlement gain of £16.9 million less agreed future contributions of £5.0 million) arose due to the settlement of transfer values with the deferred members.

Scheme Assets

The assets in these schemes are analysed below:

		2013		2012
	%	**£'000**	%	£'000
UK equities	**31**	**55,393**	26	45,421
Overseas (non- UK) equities	**41**	**73,534**	44	77,986
Government bonds	**6**	**11,615**	9	15,857
Corporate bonds	**8**	**14,515**	8	14,911
Property	**7**	**12,272**	6	10,379
Other	**1**	**2,449**	2	2,681
Alternatives	**2**	**3,452**	2	3,261
Cash	**3**	**5,349**	3	5,691
Net current asset	**1**	**2,084**	0	542
	100	**180,663**	100	176,729
Actuarial value of liabilities		**(187,785)**		(228,120)
Deficit in the schemes		**(7,122)**		(51,391)
Represented by:				
Retirement benefit assets		**718**		-
Retirement benefit obligations		**(7,840)**		(51,391)
		(7,122)		(51,391)

Some of the investment funds in which the schemes invest, held shares in Grafton Group plc. The total amount held in Grafton Group plc shares was £117,000 at 31 December 2013.

With effect from 1 January 2013 under the Amendment to IAS 19 – Employee Benefits, the expected rate of return on assets is no longer based on an estimate of returns but is now equal to the discount rate.

The net pension deficit of £7,122,000 (2012:£51,391,000) is shown in the Group balance sheet as retirement benefit obligations (non-current liabilities) of £7,840,000 relating to the Irish schemes (2012: £51,391,000 of which £9,510,000 related to the two UK schemes and £41,881,000 to the Irish schemes) and retirement benefit assets (non-current assets) of £718,000 relating to the two UK schemes. Changes in the rates used to discount liabilities, in line with changes in corporate bond rates, decreased scheme liabilities by £1.4 million.

31. Pension Commitments (continued)

History of Scheme Assets, Liabilities and Deficit in the Schemes

Historical information	**2013 £'000**	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Assets at bid value	**180,663**	176,729	159,587	164,364	147,215
Actuarial value of liabilities	**(187,785)**	(228,120)	(187,620)	(179,479)	(169,648)
Deficit in the schemes	**(7,122)**	(51,391)	(28,033)	(15,115)	(22,433)

Historical information	**2013 £'000**	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Experience adjustment on scheme liabilities	**55**	2,180	(439)	(1,355)	3,703
As % of scheme liabilities	**0.0%**	1.0%	0.2%	0.8%	2.2%
Experience adjustment on scheme assets	**15,264**	8,497	(14,453)	8,218	13,658
As % of scheme assets	**8.4%**	4.8%	9.1%	5.0%	9.3%

The actual return on plan assets is set out below:

	2013 £'000	2012 £'000
Actual return on plan assets	**22,392**	16,464

Sensitivity of Pension Liability to Judgemental Assumptions

Assumption	Change in Assumptions	Impact on Scheme Liabilities
Discount rate	Increase by 0.25%	Reduce by 4.3%
Rate of salary growth	Increase by 0.25%	Increase by 0.5%
Rate of inflation*	Increase by 0.25%	Increase by 2.6%
Life expectancy	Increase by 1 year	Increase by 2.7%

**Assumed that an increase of 0.25% in the inflation assumption would also give rise to an increase in the salary increase assumption of 0.25%.*

The above sensitivity analysis is derived through changing the individual assumption while holding all other assumptions constant.

31. Pension Commitments (continued)

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

	Year ended 31 December					
	Assets		Liabilities		Net asset/(deficit)	
	2013 £'000	Restated* 2012 £'000	**2013 £'000**	2012 £'000	**2013 £'000**	Restated* 2012 £'000
At 1 January	**176,729**	159,587	**(228,120)**	(187,620)	**(51,391)**	(28,033)
Interest income on plan assets	**7,128**	7,967	**-**	-	**7,128**	7,967
Contributions by employer	**6,029**	6,207	**-**	-	**6,029**	6,207
Contributions by members	**1,329**	1,419	**(1,329)**	(1,419)	**-**	-
Benefit payments	**(27,852)**	(5,279)	**27,852**	5,279	**-**	-
Current service cost	**-**	-	**(2,253)**	(1,876)	**(2,253)**	(1,876)
Past service credit – non-recurring	**-**	-	**18,534**	-	**18,534**	-
Past service credit	**-**	-	**552**	723	**552**	723
Settlement gain – non-recurring	**-**	-	**16,932**	-	**16,932**	-
Settlement gain – other	**-**	-	**84**	-	**84**	-
Curtailment loss	**-**	-	**(92)**	-	**(92)**	-
Interest cost on scheme liabilities	**-**	-	**(8,531)**	(9,326)	**(8,531)**	(9,326)
Remeasurements						
Actuarial gain/(loss) arising from:						
- experience variations	**-**	-	**(55)**	2,180	**(55)**	2,180
- financial assumptions	**-**	-	**(8,821)**	(34,739)	**(8,821)**	(34,739)
- demographic assumptions	**-**	-	**1,054**	(3,396)	**1,054**	(3,396)
Return on plan assets excluding interest income	**15,264**	8,497	**-**	-	**15,264**	8,497
Translation adjustment	**2,036**	(1,669)	**(3,592)**	2,074	**(1,556)**	405
At 31 December	**180,663**	176,729	**(187,785)**	(228,120)	**(7,122)**	(51,391)
Related deferred tax asset (net)					**836**	7,422
Net pension liability					**(6,286)**	(43,969)

**IAS 19 (Revised) 'Employee Benefits' has been adopted as required by IFRSs as adopted by the EU for the year ended 31 December 2013. The comparatives for the year ended 31 December 2012 have been restated (refer to Note 34).*

31. Pension Commitments (continued)

Expense Recognised in Operating Costs

	2013 **£'000**	Restated* 2012 £'000
Past service credit - non-recurring (Note 3)	**(18,534)**	-
Settlement gain - non-recurring (Note 3)	**(16,932)**	-
	(35,466)	-
Current service cost	**2,253**	1,876
Past service credit (i)	**(552)**	(723)
Settlement gain - other (ii)	**(84)**	-
Curtailment loss (iii)	**92**	-
Total operating (credit)/charge	**(33,757)**	1,153

The past service credit of £18.5 million arose due to the implementation of a permanent pensionable salary freeze in the United Kingdom and a pensionable salary freeze in Ireland for five years, together with an alignment of the normal retirement age and the State pension age in Ireland. The settlement gain of £16.9 million arose due to the settlement of transfer values with the deferred members.

(i) The past service credit of £552,000 (2012: £723,000) arose from the 0.6% pension levy imposed by the Irish Government on the Group's Irish plan assets.

(ii) The settlement gain in 2013 arose due to a member leaving the scheme which gave rise to a transfer payment by the scheme.

(iii) The curtailment loss arose in respect of individuals who ceased to be employed by the Group during the year.

Recognised Directly in Other Comprehensive Income

	2013 **£'000**	Restated* 2012 £'000
Remeasurements gain/(loss) on pensions	**7,442**	(27,458)
Deferred tax on pensions	**(1,032)**	3,961
	6,410	23,497

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

	2013 **£'000**	Restated* 2012 £'000
Operating costs	**1,709**	1,153
Operating income	**(35,466)**	-
	(33,757)	1,153
Net finance costs on pension scheme obligations	**1,403**	1,359
Total operating charge	**(32,354)**	2,512

Cumulative net actuarial losses reported in the Group statement of comprehensive income since 1 January 2004, the transition date to IFRS, to 31 December 2013 is £65.3 million (2012: £72.7 million).

**IAS 19 (Revised) 'Employee Benefits' has been adopted as required by IFRSs as adopted by the EU for the year ended 31 December 2013. The comparatives for the year ended 31 December 2012 have been restated (refer to Note 34).*

31. Pension Commitments (continued)

Actuarial Valuations – Funding Requirements

Employees pay contributions equal to a certain percentage of pensionable salary. The percentage payable varies by scheme. Triennial actuarial valuations are carried out to determine the company's contribution rate required under the schemes.

In Ireland, the DB Schemes are also assessed annually against the Funding Standard (the statutory minimum funding requirement). As most of the DB Schemes did not satisfy the Funding Standard, funding proposals are in place or are currently being put in place to address any Funding Standard deficits. The funding proposals are agreed between the company and the trustees of the relevant schemes and are designed to restore the Funding Standard positions by 2023.

In the UK, the DB Schemes are subject to the Statutory Funding Objective under the Pensions Act 2004. Valuations of the DB Schemes are carried out at least once every three years to determine whether or not the Statutory Funding Objectives are met. As part of the process, the company must agree with the Trustees of the DB Schemes the contributions to be paid to address any shortfalls against the Statutory Funding Objectives and contributions to pay for future accrual of benefits.

The contributions expected to be paid to the Group's defined benefit schemes in 2014 total approximately £3.1 million (2013: £6.0 million).

Average duration and scheme composition

	Ireland		UK	
	2013	2012	**2013**	2012
Average duration of defined benefit obligation (years)	**17.50**	19.00	**18.75**	19.50

Allocation of total defined benefit obligation by participant

	2013	2012
Active plan participants	**37%**	37%
Deferred plan participants	**25%**	34%
Retirees	**38%**	29%
	100%	100%

32. Share Based Payments

The Group's employee share schemes are equity settled share based payments as defined in IFRS 2 Share Based Payments. The total share based payments expense for the year charged to the income statement was £1,396,000 (2012: £618,000), analysed as follows;

	2013	2012
	£'000	£'000
LTIP	**2,026**	634
1999 Grafton Share Scheme	**(1,167)**	(164)
UK SAYE Scheme	**537**	148
	1,396	618

Details of the schemes operated by the Group are set out below:

Long Term Incentive Plan (LTIP)

A Long Term Incentive Plan (LTIP) was introduced in 2011. Details of the plan are set out in the Report of the Remuneration Committee on Directors' Remuneration on pages 51 to 75. Awards over 986,542 Grafton Units were granted under the plan on 16 April 2013.

32. Share Based Payments (continued)

A summary of the award granted on 16 April 2013 is set out below:

	Grafton Group LTIP 2013	Grafton Group LTIP 2012
Grant date	**16 April 2013**	18 April 2012
Share price at date of award quoted in euro	**€4.96**	€3.19
Exercise price	**N/A**	N/A
Number of employees	**149**	148
Number of share awards	**986,542**	1,180,300
Vesting period	**3 years**	3 years
Expected volatility	**35.5%**	43.2%
Award life	**3 years**	3 years
Expected life	**3 years**	3 years
Risk free rate	**0.22%**	0.68%
Expected dividends expressed as dividend yield	**2.37%**	2.56%
Possibility of ceasing employment before vesting	**0%**	0%
Valuation model	**Binomial model**	Binomial model
Fair value of share award – EPS component	**€4.62**	€2.96
Fair value of share award – TSR component	**€3.20**	€2.00

This expected volatility is based on historic volatility over the last 3 years. The expected life is equal to the vesting period. The risk free rate of return is the yield on bonds from the European Central Bank of a term consistent with the life of the award at the grant date.

A reconciliation of all share awards granted under the LTIP is as follows:

	2013 Number	2012 Number
Outstanding at 1 January	**2,339,300**	1,159,000
Granted in year	**986,542**	1,180,300
Outstanding at 31 December	**3,325,842**	2,339,300

At 31 December 2013 and 31 December 2012 none of the LTIP's were exercisable.

Share Schemes

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

(i) Basic shares which cannot be converted before the expiration of five years, unless the Remuneration Committee agrees to a shorter period which shall not be less than three years, and may be converted any time after that to the end of their contractual life provided the Company's earnings per share has grown at not less than the rate of growth in the Consumer Price Index plus 5 per cent compounded during that period. Basic shares granted after 8 May 2008 cannot be converted before the expiration of three years.

32. Share Based Payments (continued)

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

The share scheme had a ten year life for the award of entitlements and this period expired in 2009. The percentage of share capital which may be issued under the scheme and individual grant limits complied with Institutional Guidelines.

The number of Grafton Units issued during the year under the Company's Executive Share Schemes was 426,300 (2012: Nil) and the total consideration received amounted to £1,944,000 (2012: £Nil). Costs relating to the issues were £25,000 (2012: £Nil). Entitlements outstanding at 31 December 2013 amounted to 7,099,301 (2012: 9,143,801). Grafton Units may be acquired, in accordance with the terms of the scheme, at prices ranging between £1.66 and £11.50 during the period to 2019.

A reconciliation of share entitlements under the Grafton Group Share Option Scheme and the 1999 Grafton Group Share Scheme is as follows:

		2013		2012
	Number	**Weighted average exercise price €**	Number	Weighted average exercise price €
Outstanding at 1 January	**9,143,801**	**6.40**	11,857,795	6.35
Forfeited#	**(1,193,250)**	**6.10**	(2,128,900)	6.76
Expired*	**(424,950)**	**5.45**	(585,094)	4.03
Exercised	**(426,300)**	**5.45**	-	-
Outstanding at 31 December	**7,099,301**	**6.57**	9,143,801	6.40

#Share entitlements forfeited by employees who have left the Group and have no further entitlements under the scheme.

**Performance conditions not met.*

The weighted average share price at the date of excercise was €6.93.

Share entitlements are exercisable within six months upon a change of control of the Company. The weighted average remaining life of the share entitlements is 3.2 years (2012: 3.8 years).

At 31 December 2013 none of the share entitlements were exercisable as the conditions for exercise were not fulfilled before the year-end.

32. Share Based Payments (continued)

UK SAYE Scheme

Options over 1,998,060 (2012: 2,136,800) Grafton Units were outstanding at 31 December 2013, pursuant to the 2012 three year saving contract under the Grafton Group (UK) plc Savings Related Share Option Scheme at a price of €2.85 (2012: €2.85). These options are normally exercisable within a period of six months after the third anniversary of the savings contract, being March 2016. The number of Grafton Units issued during the year under the Company's 2012 SAYE Scheme to good leavers was 8,694 (2012: 159,429) and the total consideration received amounted to £21,000 (2012: £376,000). Options forfeited in the year were 130,046 (2012: 17,435).

There were no new SAYE options granted in 2013. A summary of the 2012 UK SAYE grant on 25 September 2012 is set out below:

	UK SAYE Scheme 2012
Grant Date	**25 September 2012**
Share price at date of grant	**€3.17**
Exercise price	**€2.85**
Number of employees	**1,161**
Share under option	**2,154,235**
Vesting period	**3 years**
Expected volatility	**38.7%**
Option life	**3.5 years**
Expected life	**3.5 years**
Risk free rate	**0.32%**
Expected dividends expressed as dividend yield	**2.62%**
Possibility of ceasing employment before vesting	**5%**
Valuation model	**Binomial model**
Fair value of option	**€0.97**

The expected volatility is based on historic volatility over the last 3 years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on bonds from the European Central Bank of a term consistent with the life of the option.

A reconciliation of options granted under the Grafton Group (UK) plc Savings Related Share Option Scheme is as follows:

	Number	**2013 Option price €**	Number	2012 Option price €
Outstanding at 1 January	**2,136,800**	**2.85**	2,131,928	2.96
Granted	**-**	**-**	2,154,235	2.85
Forfeited	**(130,046)**	**2.85**	(17,435)	2.85
Expired	**-**	**-**	(1,972,499)	2.96
Exercised	**(8,694)**	**2.85**	(159,429)	2.96
Outstanding at 31 December	**1,998,060**	**2.85**	2,136,800	2.85

At 31 December 2013 and 31 December 2012 none of the UK SAYE shares were exercisable.

33. Accounting Estimates and Judgements

The Group's main accounting policies affecting its results and financial condition are set out on pages 89 to 101. Judgements and assumptions have been made by management by applying the Group's accounting policies in certain areas. Actual results may differ from estimates calculated using these judgements and assumptions. Key sources of estimation uncertainty and critical accounting judgements are as follows:

Goodwill

The Group has capitalised goodwill of £481.0 million at 31 December 2013 (2012: £476.2 million) as detailed in Note 11. Goodwill is required to be tested for impairment at least annually or more frequently if changes in circumstances or the occurrence of events indicate potential impairment exists. The Group uses value in use calculations to determine the recoverable amount of cash generating units containing goodwill. Value in use is calculated as the present value of future cash flows. In calculating value in use, management judgement is required in forecasting cash flows of the segments and in selecting an appropriate discount rate and nominal growth rate in perpetuity. No goodwill impairment charge was recognised by the Group in 2013 (2012: Nil).

Retirement Benefit Obligations

The Group operates a number of defined benefit retirement plans which are as set out in Note 31. The Group's total obligation in respect of defined benefit plans is calculated by independent, qualified actuaries and updated at least annually and totals £187.8 million at 31 December 2013 (2012: £228.1 million). Plan assets at 31 December 2013 amounted to £180.7 million (2012: £176.7 million) giving a net scheme deficit of £7.1 million (2012: £51.4 million). The size of the obligation is sensitive to actuarial assumptions. The key assumptions are the discount rate, the rate of inflation, life expectancy, pension benefits and rate of salary increases. Plan assets are also sensitive to asset returns and the level of contributions made by the Group.

Insurance Provisions

Insurance provisions of £10.8 million (2012: £11.0 million) shown in Note 22 were based on a review of self-insured claims undertaken by an independent firm of actuaries and consultants. Claims in excess of specified limits are covered by external insurers.

Onerous Lease Provisions

Onerous lease provisions of £11.2 million shown in Note 22 relate to the expected cost to the Group of onerous property leases and are based on the net present value of the relevant branch's budgeted and forecast cashflows. Changes in trading patterns from year to year may impact on forecast cashflows and alter the amount and timing of outflows.

Taxation

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.

The amount shown for current taxation includes a liability for tax uncertainties and is based on the Directors best probability weighted estimate of the probable outflow of economic resources that will be required. As with all estimates, the actual outcome may be different to the current estimate.

33. Accounting Estimates and Judgements (continued)

Investment Properties and Properties held for Sale

The Group holds investment properties of £19.9 million and properties held for sale of £11.4 million. Details on the fair value of the investment properties and a number of the properties held for sale is set out and explained in Note 12.

34. Change in Accounting Policies

IAS 19 (Revised) 'Employee Benefits'

IAS 19 (Revised) 'Employee Benefits' has been adopted for the year ended 31 December 2013. The comparatives for the year ended 31 December 2012 have been restated. The effect of the change in accounting policy was to reduce the expected return on pension plan assets in the prior year income statement by £2.1 million (£1.7 million after tax) and to reduce the actuarial loss on the defined benefit pension scheme by £2.1 million (£1.7 million after tax).

The finance cost on pension scheme liabilities and the expected return on pension plan assets are now shown as a net pension cost in the income statement.

The impact of IAS 19 (Revised) on earnings per share was as follows:

	Year to 31 Dec 2012 Reported	**Year to 31 Dec 2012 Restated**
Earnings per share (pence)		
- Basic	14.38p	**13.64p**
- Diluted	14.38p	**13.64p**
Underlying earnings per share (pence)		
- Basic	15.82p	**15.09p**
- Diluted	15.82p	**15.09p**

Change in Presentation Currency

The Group is presenting its results in sterling for the first time having previously reported in euro. This change should help to provide a clearer understanding of the Group's financial performance as three quarters of its revenue has for some time been generated in sterling.

In changing the Group's presentational currency from euro to sterling, the Group's 2012 income statement and cashflow have been retranslated into sterling using the average exchange rate for the year which is deemed to approximate actual exchange rates at date of transactions. The Group's balance sheets for 2012 and 2011 have been retranslated from euro into sterling at the closing rate of exchange on the balance sheet date. The Company's share capital, share premium and other reserves have been translated into sterling using historic rates of exchange at the date of transactions.

34. Change in Accounting Policies (continued)

The euro sterling exchange rates for the years 2012 and 2011 are set out below:

	2012	2011
€/£ exchange rate – average rates	0.8109	0.8679
€/£ exchange rate – closing rates	0.8161	0.8353

Group Income Statement

	2012		
	As originally reported	After IAS 19 (Revised) 'Employee Benefits'	As re-presented
	€'000	€'000	£'000
Revenue	2,171,388	2,171,388	1,760,779
Operating costs	(2,124,622)	(2,124,622)	(1,722,856)
Operating income	-	-	-
Operating profit	46,766	46,766	37,923
Finance expense	(27,909)	(18,084)	(14,664)
Finance income	14,666	2,221	1,801
Profit before tax	33,523	30,903	25,060
Income tax	7,597	8,119	6,583
Profit after tax for the financial year	41,120	39,022	31,643
Profit attributable to:			
Owners of the Company	41,120	39,022	31,643
Non-controlling interests	-	-	-
Profit after tax for the financial year	41,120	39,022	31,643
Earnings per ordinary share - basic	17.73c	16.82c	13.64p
Earnings per ordinary share - diluted	17.73c	16.82c	13.64p
Adjusted earnings per share - basic	19.51c	18.61c	15.09p
Adjusted earnings per share - diluted	19.51c	18.61c	15.09p

34. Change in Accounting Policies (continued)

Group Balance Sheet

	2012 As originally reported €'000	**2012 As re-presented £'000**	2011 As originally reported €'000	**2011 As re-presented £'000**
ASSETS				
Non-current assets				
Goodwill	583,466	**476,166**	566,336	**473,060**
Intangible assets	-	**-**	2,241	**1,872**
Property, plant and equipment	561,616	**458,335**	564,884	**471,847**
Deferred tax assets	32,933	**26,877**	36,331	**30,347**
Derivative financial instruments	2,691	**2,196**	5,331	**4,453**
Other financial assets	176	**144**	152	**127**
Total non-current assets	1,180,882	**963,718**	1,175,275	**981,706**
Current assets				
Properties held for sale	17,709	**14,452**	16,231	**13,558**
Inventories	305,516	**249,332**	271,217	**226,548**
Trade and other receivables	332,439	**271,303**	323,044	**269,839**
Derivative financial instruments	1,345	**1,097**	5,625	**4,698**
Cash and cash equivalents	156,876	**128,027**	134,600	**112,431**
Total current assets	813,885	**664,211**	750,717	**627,074**
Total assets	1,994,767	**1,627,929**	1,925,992	**1,608,780**
EQUITY				
Equity share capital	11,664	**8,283**	11,656	**8,277**
Share premium account	293,009	**204,614**	292,545	**204,238**
Capital redemption reserve	905	**621**	905	**621**
Revaluation reserve	29,795	**20,660**	30,566	**21,285**
Shares to be issued reserve	4,337	**2,072**	4,588	**2,275**
Cash flow hedge reserve	(343)	**(350)**	(831)	**(746)**
Foreign currency translation reserve	(90,059)	**64,262**	(110,767)	**66,095**
Retained earnings	753,197	**517,239**	759,908	**522,804**
Treasury shares held	(5,746)	**(3,897)**	(5,746)	**(3,897)**
Equity attributable to owners of the Company	996,759	**813,504**	982,824	**820,952**
Non-controlling interests	5,122	**4,131**	-	**-**
Total equity	1,001,881	**817,635**	982,824	**820,952**
LIABILITIES				
Non-current liabilities				
Interest-bearing loans and borrowings	334,507	**272,991**	325,230	**271,665**
Provisions	30,983	**25,285**	32,805	**27,402**
Retirement benefit obligations	62,971	**51,391**	33,560	**28,033**
Derivative financial instruments	39	**32**	422	**352**
Deferred tax liabilities	44,181	**36,056**	39,872	**33,305**
Total non-current liabilities	472,681	**385,755**	431,889	**360,757**
Current liabilities				
Interest-bearing loans and borrowings	27,815	**22,700**	45,110	**37,680**
Trade and other payables	469,501	**383,160**	421,658	**352,211**
Current income tax liabilities	13,548	**11,056**	34,289	**28,642**
Derivative financial instruments	590	**481**	739	**617**
Provisions	8,751	**7,142**	9,483	**7,921**
Total current liabilities	520,205	**424,539**	511,279	**427,071**
Total liabilities	992,886	**810,294**	943,168	**787,828**
Total equity and liabilities	1,994,767	**1,627,929**	1,925,992	**1,608,780**

Notes to the Group Financial Statements

35. Related Party Transactions

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

Subsidiaries

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

- Management charges made by the Company to the subsidiaries of £13.1 million (2012: £9.0 million) for the year ended 31 December 2013;
- No dividend income was received by the Company from subsidiaries during the year (2012: Nil);
- Loans were granted to and by the Company to its subsidiaries.

Joint Ventures

During the year there were no sales or purchases or other transactions conducted with the joint ventures. The joint venture company Navan Retail Developments Limited is owed £0.9 million by the Company (2012: £2.6 million).

The Group acquired a controlling interest in YouBuild NV (formerly BMC Groep NV) on 31 October 2012. This company is now accounted for as a subsidiary undertaking with a non-controlling interest. Prior to 31 October 2012, the Group's interest in YouBuild was proportionally consolidated. The Group's shareholding increased from 53 per cent to 58 per cent in May 2012 and to 65 per cent on 31 October 2012 when a controlling interest was acquired and YouBuild was accounted for as a subsidiary with a non-controlling interest.

Key Management Personnel

The term key management personnel for 2013 comprise the Board of Grafton Group plc and the Company Secretary/Group Financial Controller. The cost of key management personnel is analysed in Note 5 to the Group Financial Statements. The Report of the Remuneration Committee on Directors' Remuneration on pages 51 to 75 provides detailed disclosure for 2013 and 2012 of salaries, fees, performance-related pay, pension allowance, other benefits and entitlements to acquire Grafton Units in accordance with the rules of the 1999 Grafton Group Share Scheme and awards granted under the LTIP.

Post-Employment Benefit Plans

Pension commitments to existing and former employees under defined benefit pension scheme arrangements are disclosed in Note 31 to the Group Financial Statements.

36. Events after the Balance Sheet Date

There have been no material events subsequent to 31 December 2013 that require adjustment to or disclosure in this report except that the Group completed the acquisition of Binje Ackermans SA, a six branch merchanting business based in Brussels, on 3 February 2014 following approval of the transaction by the Belgium Competition Authority. The total consideration on completion amounted to €20.0 million with any further consideration payable subject to the determination of net assets on completion.

37. Approval of Financial Statements

The Board of Directors approved the Group Financial Statements on pages 84 to 165 on 4 March 2014.

Company Balance Sheet
As at 31 December 2013

	Notes	2013 €'000	2012 €'000
ASSETS			
Non-current assets			
Property, plant and equipment	3	**62**	180
Deferred tax asset	9	**2**	2
Investments in subsidiary undertakings	4	**365,726**	362,362
Financial assets	4	**13**	13
Receivables from Group companies	5	**22,700**	38,737
Total non-current assets		**388,503**	401,294
Current assets			
Receivables from Group companies	5	**576,007**	550,226
Other receivables	5	**8,352**	6,185
Cash and cash equivalents		**20,405**	23,802
Total current assets		**604,764**	580,213
Total assets		**993,267**	981,507
EQUITY			
Capital and reserves			
Equity share capital	6	**11,686**	11,664
Share premium account	6	**295,306**	293,009
Capital redemption reserve		**905**	905
Shares to be issued reserve		**5,283**	4,337
Retained earnings		**319,881**	326,112
Treasury shares held	6	**(5,746)**	(5,746)
Total equity		**627,315**	630,281
LIABILITIES			
Current liabilities			
Payables to Group companies	8	**351,675**	342,201
Other payables	8	**14,276**	9,023
Current income tax liabilities		**1**	2
Total current liabilities		**365,952**	351,226
Total liabilities		**365,952**	351,226
Total equity and liabilities		**993,267**	981,507

On behalf of the Board

G. Slark
D. Arnold
Directors

4 March 2014

Company Cash Flow Statement
For the year ended 31 December 2013

	Notes	2013 €'000	Restated* 2012 €'000
(Loss)/profit before tax		**(6,919)**	4,816
Finance income		**(258)**	(17)
Finance expense		**150**	158
Operating (loss)/profit		**(7,027)**	4,957
Depreciation	3	**139**	114
Share-based payments charge		**604**	191
Contributions to pension schemes in excess of IAS 19 charge		**(8)**	(7)
Increase in working capital	10	**3,086**	260
Cash generated from operations		**(3,206)**	5,515
Interest paid		**(150)**	(158)
Income taxes paid		**(3)**	(5)
Cash flows from operating activities		**(3,359)**	5,352
Investing activities			
Inflows			
Interest received		**258**	17
Outflows			
Investment in subsidiary undertakings		**(2,324)**	-
Purchase of property, plant and equipment		**(21)**	(44)
		(2,345)	(44)
Cash flows from investing activities		**(2,087)**	(27)
Financing activities			
Inflows			
Proceeds from the issue of share capital		**2,319**	472
Movement on Group payables		**9,474**	(183,355)
		11,793	(182,883)
Outflows			
Movement on Group receivables		**(9,744)**	194,306
		(9,744)	194,306
Cash flows from financing activities		**2,049**	11,423
Net (decrease)/increase in cash and cash equivalents		**(3,397)**	16,748
Cash and cash equivalents at 1 January		**23,802**	7,054
Cash and cash equivalents at 31 December		**20,405**	23,802
Cash and cash equivalents are broken down as follows:			
Cash at bank and short-term deposits		**20,405**	23,802

*IAS 19 (Revised) 'Employee Benefits' has been adopted as required by IFRSs as adopted by the EU for the year ended 31 December 2013. The comparatives for the year ended 31 December 2012 have been restated.

Company Statement of Changes in Equity

	Equity share capital €'000	Share premium account €'000	Capital redemption reserve €'000	Shares to be issued reserve €'000	Retained earnings €'000	Treasury shares €'000	Total equity €'000
Year to 31 December 2013							
At 1 January 2013	**11,664**	**293,009**	**905**	**4,337**	**326,112**	**(5,746)**	**630,281**
Loss after tax for the financial year	-	-	-	-	**(6,921)**	-	**(6,921)**
Total other comprehensive income						-	-
Remeasurement loss on pensions (net of tax)	-	-	-	-	**(8)**	-	**(8)**
Total comprehensive income/(expense)	-	-	-	-	**(6,929)**	-	**(6,929)**
Transactions with owners of the Company recognised directly in equity							
Issue of Grafton Units (net of issue expenses)	**22**	**2,297**	-	-		-	**2,319**
Transfer from other reserve-shares to be issued				**(698)**	**698**		-
Share based payments charge			-	**1,644**	-	-	**1,644**
	22	**2,297**	-	**946**	**698**	-	**3,963**
At 31 December 2013	**11,686**	**295,306**	**905**	**5,283**	**319,881**	**(5,746)**	**627,315**
Year to 31 December 2012							
At 1 January 2012	11,656	292,545	905	4,588	320,285	(5,746)	624,233
Profit after tax for the financial year	-	-	-	-	4,821	-	4,821
Total other comprehensive income						-	
Remeasurement loss on pensions (net of tax)	-	-	-	-	(7)	-	(7)
Total comprehensive income	-	-	-	-	4,814	-	4,814
Transactions with owners of the Company recognised directly in equity							
Issue of Grafton Units (net of issue expenses)	8	464	-	-		-	472
Transfer from other reserve-shares to be issued				(1,013)	1,013		-
Share based payments charge	-	-	-	762		-	762
	8	464	-	(251)	1,013	-	1,234
At 31 December 2012	11,664	293,009	905	4,337	326,112	(5,746)	630,281

Notes to the Company Financial Statements

1. Income Statement

In accordance with Section 148(8) of the Companies Act, 1963, the income statement and related notes of the parent undertaking have not been presented separately in these financial statements. There was a loss after tax of €6.9 million (2012: profit of €4.8 million) attributable to the parent undertaking for the financial year.

2. Statutory and Other Information

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

	2013 €'000	2012 €'000
Statutory audit (refer to Note 2 of Group Financial Statements)	**60**	60
Depreciation	**139**	114
Operating lease costs	**114**	515
Directors' remuneration	**3,617**	3,105

The Directors' remuneration is set out in detail in the Report of the Remuneration Committee on Directors' Remuneration on pages 51 to 75.

The average number of persons employed by the Company during the year was 21 (2012: 20).

	2013 €'000	Restated* 2012 €'000
The aggregate remuneration costs of employees were:		
Wages and salaries	**4,287**	4,096
Social welfare	**335**	346
Share-based payments charge	**604**	191
Defined contribution and pension related costs	**195**	94
Charged to operating profit	**5,421**	4,727
Net finance cost on pension scheme obligations	**-**	-
Charged to Income Statement	**5,421**	4,727
Actuarial loss on pension scheme	**8**	7
Total employee benefit cost	**5,429**	4,734

*IAS 19 (Revised) 'Employee Benefits' has been adopted as required by IFRSs as adopted by the EU for the year ended 31 December 2013. The comparatives for the year ended 31 December 2012 have been restated.

Notes to the Company Financial Statements

2. Statutory and Other Information (continued)

Key Management

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

	2013	2012
Number of Individuals	**8**	8

	2013 €000	2012 €000
Short-term employee benefits	**2,821**	2,915
Share-based payment charge	**650**	214
Termination benefits	**292**	-
Retirement benefits expense	**482**	565
Charged to operating profit	**4,245**	3,694

3. Property, Plant and Equipment

Plant and equipment in the Company is stated as follows:

	Plant and equipment	
	2013 €'000	2012 €'000
Company		
Cost		
At 1 January	**1,977**	1,933
Additions	**21**	44
At 31 December	**1,998**	1,977
Depreciation		
At 1 January	**1,797**	1,683
Charge for year	**139**	114
At 31 December	**1,936**	1,797
Net book amount		
At 31 December	**62**	180
At 1 January	**180**	250

Notes to the Company Financial Statements

4. Financial Assets

	Other investments €'000	Investments in subsidiary undertakings €'000	Total €'000
At 1 January 2012	**13**	**361,791**	**361,804**
Acquisitions	-	-	-
Capital contribution – share-based payments	-	571	571
At 31 December 2012	13	362,362	362,375
Acquisitions	-	2,324	2,324
Capital contribution – share-based payments	-	1,040	1,040
At 31 December 2013	**13**	**365,726**	**365,739**

Other investments represent sundry equity investments at fair value.

5. Trade and Other Receivables

	2013 €'000	2012 €'000
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	**576,007**	550,226
Other receivables	**8,352**	6,185
	584,359	556,411
Amounts falling due after one year:		
Amounts owed by subsidiary undertakings	**22,700**	38,737

None of the amounts owed from subsidiary undertakings of €598.7 million (2012: €589.0 million) is considered overdue for payment or is believed not to be recoverable.

Notes to the Company Financial Statements

6. Share Capital and Share Premium

Details of equity share capital and share premium are set out below and in Note 17 to the Group Financial Statements.

	Issue Price	Number of Shares	2013 Nominal Value €'000	2012 Nominal Value €'000
Issued and fully paid:				
Ordinary shares				
At 1 January		**232,498,613**	**11,625**	11,617
Issued under UK SAYE scheme		**8,694**	**1**	8
Grafton Group Share Schemes				
Date options and entitlements to acquire shares granted				
November 2003	€5.45	**426,300**	**21**	-
		426,300	**21**	-
At 31 December		**232,933,607**	**11,647**	11,625
'A' ordinary shares				
At 1 January		**3,952,476,421**	**39**	39
'A' ordinary shares issued in year		7,394,898	-	-
At 31 December		**3,959,871,319**	**39**	39
Total nominal share capital issued			**11,686**	**11,664**

Share Premium

Company	**2013 €'000**	2012 €'000
At 1 January	**293,009**	292,545
Premium on issue of shares under UK SAYE scheme	**24**	464
Premium on issue of shares under Grafton Group Share Scheme	**2,302**	-
Cost of share issues	**(29)**	-
At 31 December	**295,306**	293,009

7. Financial Instruments and Financial Risk

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

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

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

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

31 December 2013	Carrying amount €'000	Contractual cash flow €'000	Within 1 Year €'000
Non-Derivative Financial Liabilities			
Payable to Group companies	**351,675**	**351,675**	**351,675**
	351,675	**351,675**	**351,675**

31 December 2012	Carrying amount €'000	Contractual cash flow €'000	Within 1 Year €'000
Non-Derivative Financial Liabilities			
Payable to Group companies	342,201	342,201	342,201
	342,201	342,201	342,201

8. Trade and Other Payables

	2013 €'000	2012 €'000
Trade and other payables		
Accruals	**14,276**	9,023
Amounts owed to subsidiary undertakings	**351,675**	342,201
	365,951	351,224

Notes to the Company Financial Statements

9. Deferred Taxation

Recognised deferred tax (assets) and liabilities	**Assets 2013 €'000**	**Liabilities 2013 €'000**	**Net (assets)/ liabilities 2013 €'000**	Assets 2012 €'000	Liabilities 2012 €'000	Net (assets)/ liabilities 2012 €'000
Other items	(2)	-	(2)	(2)	-	(2)

2013	**Balance 1 Jan 13 €'000**	**Recognised in income €'000**	**Recognised in other comprehensive income €'000**	**Foreign exchange retranslation €'000**	**Arising on acquisitions €'000**	**Balance 31 Dec 13 €'000**
Other items	(2)	-	-	-	-	(2)

2012	Balance 1 Jan 12 €'000	Recognised in income €'000	Recognised in other comprehensive income €'000	Foreign exchange retranslation €'000	Arising on acquisitions €'000	Balance 31 Dec 12 €'000
Other items	(2)	-	-	-	-	(2)

10. Movement in Working Capital

	Trade and other receivables €'000	**Trade and other payables €'000**	**Total €'000**
At 1 January 2012	**5,476**	**(8,054)**	**(2,578)**
Interest accrual and other movements	-	-	-
Movement in 2012	709	(969)	(260)
At 1 January 2013	**6,185**	**(9,023)**	**(2,838)**
Interest accrual and other movements	-	-	-
Movement in 2013	2,167	(5,253)	(3,086)
At 31 December 2013	**8,352**	**(14,276)**	**(5,924)**

Notes to the Company Financial Statements

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

	2013 €'000	2012 €'000
Net (decrease)/increase in cash and cash equivalents	**(3,397)**	16,748
Cash flow from movement in debt and lease financing	**-**	-
Change in net debt resulting from cash flows	**(3,397)**	16,748
Net cash at 1 January	**23,802**	7,054
Net cash at 31 December	**20,405**	23,802

12. Operating Leases

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

	Land and Buildings 2013 €'000	Land and Buildings 2012 €'000
Operating lease payments due:		
Within one year	**114**	482
Between two and five years	**446**	442
Over five years	**-**	221
	560	1,145

13. Pension Commitments

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

The actuarial reports are not available for public inspection.

IAS 19 – Employee Benefits

An actuarial valuation was updated to 31 December 2013 by a qualified independent actuary.

13. Pension Commitments (continued)

Financial Assumptions

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

	At 31 Dec 2013 Company scheme	At 31 Dec 2012 Company scheme
Valuation Method	**Projected Unit**	Projected Unit
Rate of increase of pensions in payment	**-**	-
Discount rate	**3.65%**	3.75%
Inflation rate increase	**2.00%**	2.00%

The Company's obligations to the scheme at the end of 2013 and 2012 were limited to providing a pension to an executive who retired in 2009 on a fixed pension.

	Year ended 31 December					
	Assets		Liabilities		Net asset/(deficit)	
	2013 €'000	2012 €'000	**2013 €'000**	2012 €'000	**2013 €'000**	2012 €'000
At 1 January	**1,286**	1,101	**(1,286)**	(1,101)	**-**	-
Interest income on plan assets*	**47**	54	**-**	-	**47**	54
Contributions by employer	**-**	-	**-**	-	**-**	-
Contributions by members	**-**	-	**-**	-	**-**	-
Benefit payments	**(77)**	(78)	**77**	78	**-**	-
Current service cost	**-**	-	**-**	-	**-**	-
Past service credit	**-**	-	**8**	7	**8**	7
Settlement loss	**-**	-	**-**	-	**-**	-
Interest cost on scheme liabilities	**-**	-	**(47)**	(54)	**(47)**	(54)
Remeasurement (losses)/gains*	**(24)**	209	**16**	(216)	**(8)**	(7)
At 31 December	**1,232**	1,286	**(1,232)**	(1,286)	**-**	-
Related deferred tax asset (net)					**-**	-
Net pension liability					**-**	-

*IAS 19 (Revised) 'Employee Benefits' has been adopted as required by IFRSs as adopted by the EU for the year ended 31 December 2013. The comparatives for the year ended 31 December 2012 have been restated.

13. Pension Commitments (continued)

Expense recognised in operating costs

	2013 €'000	2012 €'000
Past service credit	**8**	7
Total operating credit	**8**	7

Recognised directly in other comprehensive income

	2013 €'000	2012 €'000
Remeasurement loss on pensions	**(8)**	(7)
	(8)	(7)

The credit is recognised in the following lines in the income statement:

	2013 €'000	2012 €'000
Operating credit	**(8)**	(7)
Net finance cost on pensions scheme obligations	**-**	-
Total operating credit	**(8)**	(7)

No contributions are expected to be paid to the Company's defined benefit scheme in 2014 (2013: €Nil).

14. Share-Based Payments

Please refer to the Group Share-Based Payments Note (Note 32) set out on pages 157 to 160.

15. Related Party Transactions

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

Subsidiaries

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

- Management charges made by the Company to the subsidiaries of €15.4 million (2012: €11.1 million) for the year ended 31 December 2013;
- No dividend income was received by the Company from subsidiaries during the year (2012: Nil);
- Loans were granted to and by the Company to its subsidiaries.

Joint Ventures

- During the year there were no sales or purchases or other transactions conducted with the joint ventures. The joint venture company Navan Retail Developments Limited is owed €1.1 million by the Company (2012: €3.16 million).

Key Management Personnel

The term key management personnel comprise the Board of Grafton Group plc and the Company Secretary/Group Financial Controller. The cost of key management personnel is analysed in Note 2 to the Company Financial Statements and in Note 5 to the Group Financial Statements. The Report of the Remuneration Committee on Directors' Remuneration on pages 51 to 75 provides detailed disclosure for 2013 and 2012 salaries, fees, performance-related pay, pension allowance, other benefits and entitlements to acquire Grafton Units in accordance with the rules of the Grafton Group Share Scheme, and awards granted under the 2011 LTIP.

Post Employment Benefit Plans

Pension commitments to existing and former employees under defined benefit pension scheme arrangements are disclosed in Note 13 to the Company Financial Statements.

Notes to the Company Financial Statements

16. Principal Operating Subsidiaries

The principal operating subsidiaries operating in Ireland are:

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

The Company owns 100 per cent of the ordinary shares, the only class of shares in issue, of its principal operating subsidiary undertakings. The registered office of principal subsidiary undertakings operating in Ireland is c/o Grafton Group plc, Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18.

The principal operating subsidiaries operating in the United Kingdom are:

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

The Company owns 100 per cent of the share capital of its principal subsidiary undertakings operating in the UK. The registered office of Grafton Merchanting GB Limited, CPI Mortars Limited and Selco Trade Centres Limited is PO Box 1224, Pelham House, Canwick Road, Lincoln, LN5 5NH. The registered office of Macnaughton Blair Limited is 10 Falcon Road, Belfast, BT12 6RD, Northern Ireland.

The principal operating subsidiary in Belgium is YouBuild NV (formerly BMC Groep NV) (Builders merchants). The registered office of YouBuild NV is Ropswalle 26, 8930 Menen, Belgium. The Company owns 65 per cent of the share capital of YouBuild NV.

Notes to the Company Financial Statements

17. Section 17 Guarantees

Pursuant to the provisions of Section 17, Companies (Amendment) Act, 1986, the Company has guaranteed the liabilities of certain wholly owned subsidiaries in the Republic of Ireland for the financial year ended 31 December 2013 and, as a result, such subsidiary undertakings have been exempted from the filing provisions of Section 7, Companies (Amendment) Act, 1986 and Regulation 20 of the European Communities (Accounts Regulations), 1993.

This guarantee applies to the following wholly owned subsidiaries, whose registered office is c/o Grafton Group plc, Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18: Absolute Bathrooms Limited, Athina Limited, Atlantic Home and Garden Centre Limited, Barretts of Ballinasloe Limited, Beralt Developments Limited, Bluebell Sawmills Limited, Cardston Properties Limited, Chadwicks Limited, Chadwicks Holdings Limited, Cheshunt Limited, Cork Builders Providers Limited, CPI Limited, Davies Limited, Denningco Limited, Doorplan Ireland Limited, Drainage Systems Dublin Limited, Dunmore Holdings Limited, Eddie's Hardware Limited, F&T Buckley (Holdings) Limited, F & T Buckley Limited, Frank Barrett & Sons Limited, Garvey Builders Providers Limited, Gillespie Building Supplies (Carlow) Limited, Grafton Group Holdings Limited, Grafton Group Investments Limited, Grafton Group Investment Holdings Limited (formally Grafton Financial Services Limited), Grafton Group Management Services Limited, Grafton Group Secretarial Services Limited, Grafton Group Finance plc (formerly Grafton NPI 2005 plc), Grafton Merchanting ROI Limited, Heatovent Ireland Limited, Heiton Buckley Limited, Heiton Group plc, Heiton McCowen Limited, Heiton McFerran Limited, House of Woods Limited, J.E. Telford Limited, Jarkin Properties Limited, Kenn Truss Limited, Knottingley Limited, Lacombe Properties Limited, Leeway Properties Limited, Leo Wright Holdings Limited, Market Hardware Limited, MB Doorplan Limited, MFP Plastics Limited, MFP Sales Limited, Mooney & O'Dea Limited, Morgan McMahon & Co. Limited, Multy Products (Ireland) Limited, Paddy Power (Kilbarry) Limited, Panelling Centre Limited, Payless D.I.Y. Limited, Pechura Limited, Plumbing Distributors Limited, Plumbland Limited, Pouladuff Developments Limited, Pouladuff Manufacturing Limited, Powlett Properties Limited, Raftor Limited, Resadale Properties Limited, Sam Hire Holdings Limited, Sam Hire Limited, Sandtex Ireland Limited, Stettler Properties Limited, Telford Group Limited, Telfords (Athy) Limited, Telfords (Portlaoise) Limited, Timber Frame Limited, Tiska Limited, Titanium Limited, Topez Limited, Tribiani Limited, Tullamore Hardware Limited, Universal Providers Limited, W&S Timber Components Limited, Weeksbury Limited, Woodies DIY (Irl) Limited, and Woodie's DIY Limited.

18. Other Guarantees

The Company has given guarantees in respect of the bank borrowings of subsidiary undertakings which amounted to €338.2 million at the balance sheet date. The Company has also guaranteed certain property lease obligations of subsidiary undertakings.

19. Approval of Financial Statements

The Board of Directors approved the Company Financial Statements in respect of the year ended 31 December 2013 on 4 March 2014.

Corporate Information

Auditor	KPMG
Bankers	Bank of Ireland HSBC Bank plc Ulster Bank Barclays Bank plc Lloyds TSB Banking Group plc
Solicitors	Arthur Cox, Dublin A&L Goodbody, Dublin Norton Rose, London Lyons Davidson, Bristol Squire Sanders, London
Stockbrokers	Goodbody Stockbrokers, Dublin Numis Securities Limited, London
Corporate & Registered Office	Heron House Corrig Road Sandyford Industrial Estate Dublin 18 Phone: 00-353-1-216 0600 Fax: 00-353-1-295 4470 Email: email@graftonplc.com
Registrars	Capita Asset Services Shareholders Solutions (Ireland) 2 Grand Canal Square, Dublin 2 Phone; 00-353-1-5530050 Email: enquiries@capita.ie www.capitaassetservices.com

Financial Calendar

Results

Half-yearly results	28 August 2013
Full year results	5 March 2014
Annual general meeting	9 May 2014
2014 half-yearly results	27 August 2014

Interim Dividends

Record date	6 September 2013
Record date	14 March 2014

Location of Annual General Meeting

The Annual General Meeting of the Company will be held on 9 May 2014 at 10.30 am in the

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

BY CAR

From the North, West and South

Using the M50 going south, take Exit 13 (Sandyford/Dundrum/R113), then take the Green Route to Sandyford Industrial Estate. Turn left onto Blackthorn Drive at Beacon Court.
At the next T-junction, turn right onto Sandyford Road. IMI is the next turn left, 100 yards away.

From the East and South East

Travelling north on the N11, take the M50 at Loughlinstown. Take Exit 13 to Sandyford Industrial Estate.
Turn left onto Blackthorn Drive at Beacon Court.
At the next T-junction, turn right onto Sandyford Road. IMI is the next turn left, 100 yards away.

Should you require assistance, or have any queries on the day of the AGM, please call 087 971 0851.

Grafton Group plc
Heron House, Corrig Road
Sandyford Industrial Estate
Dublin 18, Ireland.

Telephone: +353 1 216 0600
Fax: +353 1 295 4470
Email: email@graftonplc.com
Web: www.graftonplc.com