Grafton Merchanting GB Limited

Directors' report and financial statements

Registered number 4725313

Year ended 31 December 2012

Company Information

Directors	M Kelly D Arnold S Thompstone G Slark K Tinsley
Secretary	Grafton Group Secretarial Services Limited
Company Number	04725313
Registered Office	PO Box 1224 Pelham House Canwick Road Lincoln LN5 5NH
Auditors	KPMG Chartered Accountants 1 Stokes Place St Stephen's Green Dublin 2 Ireland
Solicitors	Lyon Davidson Victoria House 51 Bristol Street Bristol BS1 6AD
Bankers	Lloyds TSB Bank plc PO Box 72 Bailey Drive Gillingham Business Park Gillingham Kent ME8 0LS

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2012

Principal activities

The principal activity of the company is the supply of building and plumbing materials

Business review

Grafton Merchanting GB Limited ("GMGB") is a member of Grafton Group plc, a company incorporated in the Republic of Ireland GMGB is the UK's third largest builders merchanting business and is one of the top five plumbers merchants businesses

The builders merchanting business trades from a network of 260 branches mainly under the Buildbase and Jackson Builders Merchants brands The network of branches is concentrated in the South East, West Country, Midlands, East Anglia and Scotland

The plumbers merchanting division, trading from 227 branches primarily under the Plumbase brand, has a strong presence in England and Scotland

Operations review

Difficult trading conditions were again experienced in 2012 The UK economy has been broadly flat over the past two years and consumer spending was weak as real take home pay declined due to inflation and tax increases Pressure on incomes together with households paying down mortgage debt and subdued consumer confidence led consumers to defer discretionary spending on housing renovation and refurbishment projects Spending on public housing RMI was lower due to cuts in central government and local authority budgets These developments reduced merchanting volumes for the fifth consecutive year Housing transactions, a forward indicator of demand in the merchanting market, increased by 5 per cent but remained 44 per cent below the pre-recession level

There was an overall increase in sales of 2 4% to £926 2 million (2011 £904 1 million)

The benefits of the restructuring were reflected in the profitability in 2012 Operating profit before goodwill amortisation increased by 46 9% to £25 7 million (2011 £17 5 million) Operating profit after goodwill amortisation decreased by 62 1% to £21 4 million *(2011 £13 2 million)*

The savings benefit was felt in 2012 from the successful implementation of a single accounting, administration and support office function for the Buildbase, Plumbase, Jackson and smaller specialist merchanting brands

UK geographical coverage was improved with the completion of the acquisition of 2 Burdens branches and 22 Progress branches during the year The company also acquired the trade and assets of Booles Limited, Boundary Bathrooms Limited, Electricbase Limited, Online Home Retail Limited and Thompson's Limited

Directors' report *(contınued)*

Outlook

The UK economy has been broadly flat for the past two years and a slow sustaıned recovery ıs forecast wıth near term growth expected to remaın weak The prospects for the resıdentıal RMI market are closely alıgned wıth the performance of the wıder economy Household spendıng ıs lıkely to remaın under pressure as the rate of ınflatıon exceeds subdued growth ın ıncomes The ıncrease ın housıng transactıons and some evıdence of an easıng ın credıt condıtıons are, ıf sustaıned, supportıve of ıncreased RMI spendıng

Average daıly lıke for lıke revenue was margınally hıgher ın the UK merchantıng busıness ın January and February 2013 The self-help measures ımplemented over the last two years have enabled GMGB to make sıgnıficant progress ın very challengıng condıtıons GMGB ıs cautıous about the near term prospects for ıts markets but expects to make further progress ın the year ahead by focusıng on a new phase of measures to ıncrease profitabılıty followıng the successful completıon of the major restructurıng programmes ın recent years GMGB strategıcally ımportant market posıtıons, strongly cash generatıve busınesses and effıcıent cost base leave ıt well placed to benefit from a recovery ın markets from current cyclıcal lows

Prıncıpal risks and uncertaıntıes

There wıll be contınued pressure on dısposable ıncomes Concerns also remaın over employment prospects It ıs lıkely that tıght credıt condıtıons wıll remaın

Demand ın the UK buılders market ıs sensıtıve to economıc condıtıons generally ıncludıng consumer confidence, ınterest rates, employment trends, ınflatıon, demographıc factors and housıng market condıtıons

Contractıon ın economıc growth ın the UK could result ın lower demand ın the company's markets resultıng ın lower volumes and a materıal change ın the financıal performance of the company

A deterıoratıon ın financıal and credıt markets ıs havıng an ımpact on the wıder economy and housıng markets ın the UK and could lead to a further fall ın demand ın the company's merchantıng busınesses

The company also faces strong ongoıng competıtıon ın ıts busıness

Dıvıdends

Equıty dıvıdends of £25 mıllıon were paıd durıng the year (2011 £3 4 mıllıon) No non-equıty dıvıdends were paıd durıng the year (2011 £36,000)

Directors' report *(continued)*

Directors

The directors who held office during the year were as follows

P Butterfield (resigned 23 July 2012)
M McCabe (resigned 6 September 2012)
M Kelly (appointed 1 February 2012)
C Ó Nualláin (resigned 9 September 2013)
M Pares (resigned 24 January 2012)
S Thompstone
M Lovell (resigned 1 June 2012)
G Slark
K Tinsley (Appointed 17 April 2013)
D Arnold (Appointed 9 September 2013)

Employees

It is the policy of the company that there should be no unfair discrimination in considering applications for employment, including those from disabled persons Should any employee become disabled, every practical effort is made to provide continued employment, having regard to their aptitude and ability

The directors are committed to maintaining and developing communication and consultation procedures with employees

The directors consider that the various share option schemes will be a key factor in attracting, retaining and motivating senior employees across the company The company grants share options to senior employees, on a discretionary basis, in order to reward their long term commitment to the company

Market value of land and buildings

In the opinion of the directors, the market value of the land and buildings of the company is not significantly different to the book values of these assets

Creditors

The company's policy is to abide by the agreed terms of payment The number of creditor days outstanding at the year end was 61 days (2011 61 days)

Directors' report *(continued)*

Disclosure of information to auditors

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware, and each director has taken all the steps that he/she ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor, KPMG, the Irish partnership and member of the KPMG network of independent member firms, will be deemed to be reappointed

By order of the board

M Kelly
Director
13 September 2013

PO Box 1224
Pelham House
Canwick House
Lincoln
LN5 5NH

Statement of Directors' responsibilities in respect of the Directors' report and the financial statements

The Directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

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 company and of the profit or loss of the company for that period In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 2006 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities

Under applicable law the Directors are also responsible for preparing a Directors' report that complies with that law

On behalf of the board

M Kelly
Director
13 September 2013

KPMG
Chartered Accountants
1 Stokes Place
St Stephens Green
Dublin 2
Ireland

Independent auditor's report to the members of Grafton Merchanting GB Limited

We have audited the financial statements of Grafton Merchanting GB Limited for the year ended 31 December 2012 set out on pages 8 to 29 which comprise the profit and loss account, balance sheet and related notes The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 5, 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 financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit 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 company 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 If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Independent auditor's report to the members of Grafton Merchanting GB Limited
(continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or

- the financial statements are not in agreement with the accounting records and returns, or

- certain disclosures of directors' remuneration specified by law are not made, or

- we have not received all the information and explanations we require for our audit

Tom McEvoy

Tom McEvoy (Senior Statutory Auditor)
for and on behalf of KPMG, Statutory Auditor 13 September 2013
Chartered Accountants
1 Stokes Place
St Stephen's Green
Dublin 2
Ireland

Profit and loss account

for the year ended 31 December 2012

	Note	2012 £'000	2011 £'000
Turnover from continuing operations	*2*	**926,172**	904,127
Cost of sales		**(673,984)**	(659,337)
Gross profit		**252,188**	244,790
Distribution costs		**(35,842)**	(37,748)
Administrative expenses		**(194,944)**	(193,796)
Operating profit from continuing operations	*2*	**21,402**	13,246
Profit on sale of fixed assets		**-**	-
Dividends receivable	*9*	**-**	3,356
Profit on ordinary activities before interest and taxation		**21,402**	16,602
Interest payable and similar charges	*7*	**(6,764)**	(5,323)
Interest receivable and similar income	*8*	**448**	392
Profit on ordinary activities before taxation	*3*	**15,086**	11,671
Taxation on profit on ordinary activities	*10*	**(1,083)**	(5,977)
Profit for the financial year	*22*	**14,003**	5,694

The Company had no recognised gains or losses in the current and preceding financial years other than the results reported above

There is no difference between the Company's results as reported and on an historical cost basis Accordingly no note of historical cost profit and loss has been prepared

Balance sheet
at 31 December 2012

	Note		2012		2011
			£'000		£'000
Fixed assets					
Intangible assets	11		40,842		45,152
Tangible assets	12		208,529		208,554
Investments	13		104,925		104,925
			354,296		358,631
Current assets					
Stocks	14	112,068		86,499	
Debtors (including £122 4m (2011 £112 9m) falling due in more than one year)	15	362,083		342,871	
Cash at bank and in hand		46,455		54,091	
		520,606		483,461	
Creditors amounts falling due within one year	16	(298,563)		(257,445)	
Net current assets			222,043		226,016
Total assets less current liabilities			576,339		584,647
Creditors amounts falling due after more than one year	17		(539,286)		(537,038)
Provisions for liabilities	18		(2,938)		(2,613)
Net assets			34,115		44,996
Capital and reserves					
Called up share capital	20		10,000		10,000
Capital reserve	21		2,000		2,000
Capital contribution reserve	21		633		1,030
Profit and loss account	21		21,482		31,966
Equity shareholders' funds	22		34,115		44,996

These financial statements were approved and authorised for issue by the board of directors on 13 September 2013 and were signed on its behalf by

Mark Kelly

M. Kelly
Director

Notes
(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules

Going concern

Whilst the company does not currently draw on any of the group funding facilities, as noted in note 26, the company acts as guarantor in respect of group borrowing facilities The directors of the company have discussed with Group management the funding position of the Group and consider it unlikely the guarantees given by the company will be invoked Accordingly, the Directors' are of the opinion that it remains appropriate for the company to prepare the financial statements on a going concern basis

Group accounts

The company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare group accounts These financial statements present information about the company as an individual undertaking and not about its group

Goodwill

Purchased goodwill in respect of acquisitions before 1 January 1998 was written off to reserves in the period of acquisition Goodwill arising on acquisitions since 1 January 1998, being the excess of the cost of acquisition over the fair value of the net assets acquired, is included within fixed assets and amortised over its useful economic life which the directors consider to be 20 years

Fixed assets and depreciation

Depreciation is provided by the company to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows

Freehold buildings	-	50-100 years
Leasehold land and buildings	-	Lease term or up to 100 years
Plant and machinery	-	3-20 years
Fixtures and fittings	-	10 years
Plant hire equipment	-	2-8 years
Motor vehicles	-	3-8 years

Freehold land is not depreciated by the company

Investments

Investments are stated at cost less any provisions for impairment

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date Gains or losses on translation are included in the profit and loss account for the year

Notes *(continued)*

1 Accounting policies *(continued)*

Leases

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease The asset is capitalised in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life, or the term of the lease, whichever is shorter Future instalments under such leases, net of finance charges, are included within creditors Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments

All other leases are accounted for as operating leases and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease

Stocks

Stocks are stated at the lower of cost and net realisable value, and net of rebates, after deduction of provisions for slow moving or obsolete stock

Turnover

Turnover is derived from the provision of goods and services to customers during the year Turnover is derived from the one principal activity of the company, and wholly from within the UK

Turnover represents the fair value of goods, excluding value added tax, delivered to or collected by third party customers in the year Goods are deemed to have been delivered to customers when the customer has access to the significant benefits inherent in the goods and exposure to the risks inherent in those benefits

Supplier rebates

Rebates received from suppliers are recognised as they become receivable and are reflected within cost of sales

Dividend income

Dividend income is recognised when the right to receive payment is established

Taxation

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by Financial Reporting Standard (FRS) 19

Cash flow statement

Under FRS 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the cash flows of the company in its own published consolidated cash flow statement

Related party transactions

As the company is consolidated within Grafton Group plc the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group The consolidated financial statements of Grafton Group plc within which this company is included, can be obtained from Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18, Ireland

Notes *(continued)*

1 Accounting policies *(continued)*

Acquisitions

Acquisitions are reported in accordance with FRS 7 The fair value of the assets and liabilities acquired are reported at their fair value at the date of acquisition The difference between the sum of these fair values and the cost of acquisition is recognised as positive goodwill or negative goodwill

Dividends payable

If the company declares dividends to the holders of equity instruments after the balance sheet date, the company does not recognise those dividends as a liability at the balance sheet date The aggregate amount of equity dividends proposed before approval of the financial statements, which have not been shown as liabilities at the balance sheet date, are disclosed in the notes to the financial statements

Financial instruments

FRS 25 requires financial instruments to be presented in accordance with their substance Preference shares are presented as a liability when in substance those shares are equivalent to a liability Dividends arising on the preference shares are shown as finance charges in the profit and loss account

Equity-settled share-based payment transactions

The Grafton Group share schemes allow employees to acquire shares in Grafton Group plc They are all equity settled The fair value of share entitlements granted is recognised as an employee expense in the profit and loss account with a corresponding increase in a capital contribution reserve The fair value is determined by an external valuer using a binomial model Share entitlements granted by the Group 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 the share entitlements shown in the profit and loss account is based on the fair value of the total number of entitlements expected to vest and is allocated to accounting periods on a straight line basis over the vesting period The cumulative charge to the profit and loss account is only reversed where entitlements do not vest because all non-market performance conditions have not been met or where an employee in receipt of share entitlements leaves the company before the end of the vesting period

Retirement benefits

On 18 December 2006, the company's defined benefit pension scheme (The G A Day Pension Scheme) merged with that of Grafton Group (UK) plc and Jackson Building Centres Limited, both fellow subsidiaries of Grafton Group plc Following that date, it is not possible to identify the company's share of the underlying assets and liabilities on a consistent and reasonable basis As a result, the company has taken advantage of the multi employer exemption available under FRS 17 and from 19 December 2006 accounts for the scheme as if it were a defined contribution pension scheme

Full details of the valuation of this scheme are disclosed in note 25

The company also operates a defined contribution pension scheme The assets of the defined contribution pension scheme are held separately from those of the company in independently administered funds Amounts charged in respect of contributions to defined contribution schemes equate to the contributions payable in the period

Notes *(continued)*

2 Analysis of continuing operations

	Existing operations	Transfer of Trade*	Year ended 31 December 2012 Total continuing operations	Year ended 31 December 2011 Total continuing operations
	£'000	£'000	£'000	£'000
Turnover	919,880	6,292	926,172	904,127
Operating profit	21,257	145	21,402	13,246

*From 1 July 2012 the trade of Progress Group Limited was hived up in to Grafton Merchanting GB Limited

3 Profit on ordinary activities before taxation

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Profit on ordinary activities before taxation is stated after charging/(crediting)		
Auditor's remuneration		
Audit of these financial statements	252	200
Depreciation and other amounts written off tangible fixed assets		
Owned	15,589	14,111
Profit on disposal of fixed assets	-	-
Goodwill amortisation	4,311	4,299
Operating leases for land and buildings	13,179	12,747

Notes *(continued)*

4 Remuneration of directors

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Directors' emoluments		
As directors	**755**	1,814
Contributions to defined contribution scheme	**92**	170
	847	1,984

The contributions to the defined contribution scheme relate to five directors *(2011 five)*
The remuneration of the highest paid director in 2012 was £348,613 *(2011 £616,121)*
The number of directors who exercised share options was four *(2011 four)*
The number of directors that received shares under a long term incentive scheme in respect of services supplied was six *(2011 six)*
The payments in respect of excess retirement benefits of directors, loss of office benefit or amounts paid to third parties in respect of directors' services was £226,314 *(2011 £482,400)*

Notes *(continued)*

5 Staff numbers and costs

The average number of persons employed by the company (including directors), analysed by category, was as follows

	Year ended 31 December 2012	Year ended 31 December 2011
Administration and sales	**3,613**	3,565
Distribution of building materials	**635**	664
	4,248	4,229

	Year ended 31 December 2012 £'000	Year ended 31 December 2010 £'000
Wages and salaries	**106,527**	110,777
Social security costs	**9,857**	10,252
Share based payments	**2**	(29)
Other pension costs	**4,576**	4,286
	120,962	125,286

There were no prepaid pension contributions at the end of the current or previous year At 31 December 2012, a pension liability of £502,826, *(2011 £474,785)* has been included within accruals

Notes *(continued)*

6 Share-based payments

Long Term Incentive Plan (LTIP)

A new Long Term Incentive Plan (LTIP) was approved at the Grafton Group plc Annual General Meeting on 4 May 2011 Awards over 1,180,300 Grafton Units were granted under the plan on 18 April 2012

A summary of the award granted on 18 April 2012 is set out below

	Grafton Group LTIP 2012	Grafton Group LTIP 2011
Grant Date	**18 April 2012**	25 May 2011
Share price at grant date	**€3 19**	€3 44
Exercise price	**N/A**	N/A
Number of employees	**148**	158
Number of share awards	**1,180,300**	1,159,000
Vesting period	**3 years**	3 years
Expected volatility	**43.2%**	33 5%
Award life	**3 years**	3 years
Expected life	**3 years**	3 years
Risk free rate	**0 68%**	2 00%
Expected dividends expressed as dividend yield	**2 56%**	2 19%
Possibility of ceasing employment before vesting	**0%**	0%
Valuation model	**Binomial model**	Binominal model
Fair value of share award – EPS component	**€2 96**	€3 22
Fair value of share award – TSR component	**€2 00**	€1 80

This 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 award at the grant date

A reconciliation of all share awards granted under the LTIP is as follows:

	2012	**2011**
	Number	**Number**
Outstanding at 1 January	**1,159,000**	**-**
Granted	**1,180,300**	**1,159,000**
Outstanding at 31 December	**2,339,300**	**1,159,000**

Notes *(continued)*

6 Share-based payments *(continued)*

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 Group'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

(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 Group's earnings per share growth over the relevant period is greater, by not less than 10 per cent on an annualised basis, than the increase in the Consumer Price Index over that period

The share scheme has a ten year life for the award of entitlements and this period expired in 2009 The percentage of share capital which may be issued under the scheme and individual grant limits comply with Institutional Guidelines

The number of Grafton Units issued during the year under the Group's Executive Share Schemes was nil (2011 464,297) and the total consideration received amounted to €nil (2011 €1,312,000) Costs relating to the issues were €Nil (2011 €16,000) Entitlements outstanding at 31 December 2012 amounted to 9,143,801 (2011 11,857,795) Grafton Units may be acquired, in accordance with the terms of the schemes, at prices ranging between €1 66 and €11 50 during the period to 2019

A reconciliation of share entitlements under the Grafton Group Share Option Scheme and the 1999 Grafton Group Share Scheme is as follows

	2012		2011	
	Number	**Weighted Average exercise price €**	Number	Weighted Average exercise price €
Outstanding at 1 January	**11,857,795**	**6.35**	12,870,047	6 22
Granted	-	-	-	-
Forfeited	**(2,128,900)**	**6 76**	(547,955)	6 28
Expired	**(585,094)**	**4.03**	-	-
Exercised	-	-	(464,297)	2 83
Outstanding at 31 December	**9,143,801**	**6 40**	11,857,795	6 35

Share entitlements under both schemes are exercisable within six months upon change of control of the company The weighted average remaining contractual life of the share entitlements is 3 8 years (2011 4 6 years)

Notes *(continued)*

6 Share-based payments *(continued)*

At 31 December 2012 6 64 million (31 December 2011 6 82 million) share entitlements at a weighted average exercise price of €8 20 (2011 €7 82) were granted more than five years ago but could not be exercised because the exercise price was greater than the market price and/or the conditions for exercise were not fulfilled before the year end

UK SAYE Scheme

Options over Nil (2011 2,131,928) Grafton Units were outstanding at 31 December 2012, pursuant to a 2008 three year saving contract under Grafton Group (UK) plc Savings Related Share Option Scheme at a price of €2 85 (2011 €2 96 under 2008 SAYE Scheme) These options are normally exercisable within a period of six months after the third anniversary of the savings contract, being May 2016 The number of Grafton Units issued during the year under the Group's 2008 SAYE scheme to good leavers was 159,548, (2011 19,286) and the total consideration received amounted to €57,000 (2011 €30,000) Options forfeited in the year were 17,435 (2011 106,879)

A summary of the new 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**

Notes *(continued)*

6 Share-based payments *(continued)*

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

	Number	**2012 Option price €**	Number	**2011 Option price €**
Outstanding at 1 January	**2,131,928**	**2 96**	2,258,093	2 96
Granted	**2,154,235**	**2 85**	-	-
Forfeited	**(17,435)**	**2 85**	(106,879)	2 96
Expired	**(1,972,499)**	**2 96**	-	-
Exercised	**(159,429)**	**2 96**	(19,286)	2 96
Outstanding at 31 December	**2,136,800**	**2 85**	2,131,928	2 96

7 Interest payable and similar charges

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
On all other loans	**6,764**	5,287
Finance charges on shares classed as liabilities	-	36
	6,764	5,323

Of the above amount £6,764,000 *(2011 £5,287,000)* was payable to group undertakings

8 Interest receivable and similar income

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Bank interest	**447**	390
Head lease finance interest	**1**	2
	448	392

Notes *(continued)*

9 Dividends received

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Interim dividend received during the year	-	3,356

10 Taxation

(i) Analysis of charge/ (credit) for the year

	Year ended 31 December 2012		Year ended 31 December 2011	
	£'000	**£'000**	£'000	£ 000
Current tax				
Current year charge	**932**		-	
Adjustment in respect of prior periods	**110**		-	
Total current taxation		**1,042**		-
Deferred tax				
Origination and reversal of timing differences	**2,675**		7,002	
Adjustment in respect of prior periods	**(3,633)**		(2,305)	
Effect of tax rate charge on opening balance	**999**		1,280	
Total deferred tax		**41**		5,977
Tax charge/(credit) on profit/(loss) on ordinary activities		**1,083**		5,977

(ii) Factors affecting the tax charge for the year

The tax assessed in the year is different from the standard rate of corporation tax in the UK of 24 5% *(2011 26 5%)* The differences are explained below

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Profit on ordinary activities before tax	**15,086**	11,671
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 24 5% (2011 26 5%)	**3,696**	3,093
Effects of		
Expenses not deductible for tax purposes	**396**	609
Share scheme deductions	**38**	(42)
Differences between capital allowances and depreciation charged	**(1,272)**	(926)
Depreciation on non qualifying assets	**1,122**	1,254
Goodwill amortisation/written off	**1,056**	1,044
Group relief not paid for	**(2,684)**	1,464
Other short term timing differences	**(1,255)**	(6,076)
Change in UK tax rate	**(165)**	(420)
Adjustments to current tax charge in respect of prior periods	**110**	-
Current tax charge for the year	**1,042**	-

Notes *(continued)*

11 Intangible fixed assets

	Goodwill arising on transfer of trade £'000	Purchased goodwill £'000	Total goodwill £'000
Cost			
At 1 January 2011	70,157	12,571	82,728
Acquired during the year	-	-	-
At 31 December 2012	70,157	12,571	82,728
Amortisation			
At 1 January 2011	32,461	5,114	37,575
Charged in year	4,311	-	4,311
At 31 December 2012	36,772	5,114	41,886
Net book value			
At 31 December 2012	**33,385**	**7,457**	**40,842**
At 31 December 2011	37,696	7,457	45,153

The directors consider each acquisition separately for the purpose of determining the amortisation period of any goodwill that arises Goodwill is however, generally amortised over 20 years as the directors consider that this period fairly reflects the useful economic life of the goodwill acquired

Notes *(continued)*

12 Tangible fixed assets

	Freehold land and buildings £'000	Leasehold land and buildings £'000	Plant, machinery fixtures and fittings £'000	Total £'000
Cost				
At 1 January 2012	191,099	22,155	123,704	336,958
Reclassification	-	-	-	-
Additions	1,473	-	11,665	13,138
Acquisitions	-	-	844	844
Transfers from/(to) group companies	2,651		4,258	6,909
Disposals	(5)	-	(6,100)	(6,105)
At 31 December 2012	195,218	22,155	134,371	331,744
Depreciation				
At 1 January 2012	26,038	12,475	89,891	128,404
Reclassification	-	-	-	-
Charge for the year	3,185	1,394	11,010	15,589
On transfers from group companies	506		3,615	4,121
Disposals	(2)		(5,696)	(5,698)
On acquisitions	-	-	799	799
At 31 December 2012	29,727	13,869	99,619	143,215
Net book value				
At 31 December 2012	**165,491**	**8,286**	**34,752**	**208,529**
At 31 December 2011	165,061	9,680	33,759	208,554

Land and buildings contains £67,416,444 *(2011 £67,543,702)* attributable to land which is not depreciated

Notes *(continued)*

13 Fixed asset investments

	2012 £'000	2011 £'000
Shares acquired in Jackson Building Centres Limited	**104,877**	104,877
Shares acquired in other group companies	**11**	11
Trade investments	**37**	37
	104,925	104,925

The above investment in Jackson Building Centres Limited (company number 413760, incorporated in the UK) represents 100% of the class A shares of the company As at 31 December 2012, Jackson Building Centres Limited had net assets of £271,405,000 and loss after taxation of £35,000

14 Stocks

	2012 £'000	2012 £'000
Finished goods and goods for resale	**112,068**	86,499

15 Debtors

	2012 £'000	2012 £'000
Trade debtors	**114,228**	112,392
Prepayments and accrued income	**53,537**	48,793
Amounts owed by group undertakings	**63,084**	59,859
Net investment in head lease	**16**	16
Deferred taxation (note 19)	**8,814**	8,773
Corporation taxation	-	134
	239,679	229,967
Due after more than one year		
Amounts owed by group undertakings	**122,404**	112,904
	362,083	342,871

Notes *(continued)*

16 Creditors: amounts falling due within one year

	2012 £'000	2011 £'000
Trade creditors	**156,634**	128,310
Amounts owed to other group undertakings	**114,441**	107,980
Social security and other taxes	**5,765**	6,808
Accruals and deferred income	**20,749**	14,347
Corporation tax	**974**	-
	298,563	257,445

17 Creditors amounts falling due after more than one year

	2012 £'000	2011 £'000
Amounts owed to other group undertakings	**536,956**	534,708
Preference shares (note 20)	**2,330**	2,330
	539,286	537,038

18 Provisions for liabilities

	Dilapidations £000	Onerous leases £000	Total £000
At beginning of year	1,850	763	2,613
Charge to the profit and loss for the year	634	-	634
Utilised	(77)	(232)	(309)
At end of year	**2,407**	**531**	**2,938**

Provisions have been recognised for dilapidations and onerous leases where it is expected that the company may have to transfer economic benefits in settlement of obligations existing at the balance sheet date The amount recognised is the best estimate of the expenditure required to settle the obligation and has been discounted The amounts are classified as provisions due to the uncertainty regarding their timing and ultimate amount that may be required

Notes *(continued)*

19 Deferred taxation

The amounts provided and not provided for deferred taxation are set out below

	2012		2011	
	Provided	**Unprovided**	Provided	Unprovided
	£'000	**£'000**	£'000	£'000
Difference between accumulated depreciation and capital allowances	**9,136**	-	6,461	1,990
Other timing differences	**(322)**	-	2,312	1
	8,814	-	8,773	1,990

The movement in deferred taxation in the year is as follows

	Deferred tax
	£'000
At beginning of the year	8,773
Charge to the profit and loss account for the year (note 10)	41
At end of the year (note 15)	**8,814**

Notes *(continued)*

20 Called up share capital

Allotted, called up and fully paid	**2012 £'000**	2011 £'000
Ordinary Shares of £1 each	**10,000**	10,000
1,778,257 "A" preference shares	**1,778**	1,778
104,125 "B" preference shares	**104**	104
275,278 "C" preference shares	**275**	275
95,507 "D" preference shares	**96**	96
37,111 "E" preference shares	**37**	37
40,223 "F" preference shares	**40**	40
Total allotted, called up and fully paid share capital	**12,330**	12,330

	2012 £'000	2011 £'000
Equity shares		
Ordinary Shares of £1 each	**10,000**	10,000
	10,000	10,000

	2012 £'000	2011 £'000
Shares classified as financial liabilities		
"A" preference shares of £1 each	**1,778**	1,778
"B" preference shares of £1 each	**104**	104
"C" preference shares of £1 each	**275**	275
"D" preference shares of £1 each	**96**	96
"E" preference shares of £1 each	**37**	37
"F" preference shares of £1 each	**40**	40
	2,330	2,330

Notes *(continued)*

20 Called up share capital *(continued)*

The preference shares were issued at par and were fully paid up The holders of the preference shares are entitled to a fixed cumulative preferential dividend at a floating rate which is calculated as 70% of LIBOR plus 0 65% On winding up, these rank first and will be entitled to the capital and premium paid on subscription, together with any arrears of the fixed dividend

The preference shares do not entitle the holder to attend or vote at any general meetings, unless the dividends are six months or more in arrears, in which case the holders will be entitled to vote These terms mean that, in accordance with FRS 25, the preference shares are recognised as a liability of the company and the dividends as a component of the interest payable

21 Reserves

	Capital reserve £'000	Capital contribution reserve £'000	Profit and loss account £'000
At 1 January 2012	2,000	1,030	31,966
Transfer into capital contribution reserve			
– share based payments	-	(555)	555
Share based payments charged to the profit and loss	-	158	-
Profit for the financial year	-	-	14,003
Dividends paid	-	-	(25,042)
At 31 December 2012	**2,000**	**633**	**21,482**

22 Reconciliation of movements in shareholders' funds

	2012 £'000	2011 £'000
Total recognised gains and losses for the financial year	**14,003**	5,694
Capital contribution share-based payments	**158**	(29)
Dividends paid	**(25,042)**	(3,356)
Net (decrease)/increase in shareholders' funds	**(10,881)**	2,309
Opening shareholders' funds	**44,996**	42,687
Closing shareholders' funds	**34,115**	44,996

Notes *(continued)*

23 Commitments

(i) There were no capital commitments at the end of the year for which a provision had not been made

(ii) Annual commitments under non-cancellable operating leases are as follows

	Land and buildings		Other	
	2012	2011	**2012**	2011
	£'000	£'000	**£'000**	£'000
Operating leases which expire				
Within 1 year	**13,179**	12,498	**3,539**	2,437
Between 2 and 5 years	**45,385**	44,358	**6,735**	7,082
Over five years	**102,940**	104,846	**19**	-
	161,504	161,702	**10,283**	9,519

24 Acquisitions of subsidiary undertakings

During 2012, the trade and business of Progress Group Limited and Burdens were transferred into Grafton Merchanting GB Limited The assets acquired and consideration paid were as follows

	Book value at date of acquisition £'000	Fair value adjustments £'000	Fair value acquisitions £'000
Tangible fixed assets	1,177	-	1,177
Stocks	2,951	-	2,951
Debtors	2,396	-	2,396
Creditors	(103)	-	(103)
Net assets acquired (excluding cash)	6,421	-	6,421
Goodwill arising on acquisition			-
Total acquired			**6,421**

The consideration for the acquisition of £6 4m was discharged by way of an intercompany loan

Notes *(continued)*

25 Pension scheme

Grafton Group (UK) plc pension scheme

Grafton Merchanting GB Limited and its subsidiaries were formally members of the Grafton Group (UK) plc pension scheme, which is a final salary scheme covering a number of the UK subsidiaries of Grafton Group plc On 18 December 2006, the G A Day Limited pension scheme was merged with the Grafton Group (UK) plc pension scheme A single scheme was set up at this time under the ultimate parent undertaking Grafton Group plc

Following the pension scheme merger, consistent with the past position on the Grafton Group (UK) plc pension scheme, Grafton Merchanting GB Limited is unable to identify its share of the G A Day Limited pension scheme on a consistent and reasonable basis Therefore, as permitted by FRS 17 'Retirement Benefits', the company has availed itself of the multi-employer exemption in the current and prior year and accounts for the scheme as if it were a defined contribution scheme

Further details in respect of the Grafton Group (UK) plc pension scheme can be found in the annual financial statements of Grafton Group (UK) plc

Externally managed funds

The company also contributes to externally managed funds (money purchase schemes) for the benefit of certain employees

The amount charged to the profit and loss account in respect of contributions to these defined contribution schemes was £2,464,000 *(2011 £2,252,000)*

Profit and loss charge	**2012**	2011
	£000	£000
Grafton scheme (merged)	**2,112**	2,034
Defined contribution scheme	**2,464**	2,252
	4,576	4,286

26 Contingent liabilities

Grafton Merchanting GB Limited, along with other UK subsidiaries of Grafton Group plc, acts as guarantor for the group bank borrowings which at the balance sheet date amounted to £275 5 million *(2011 £299 7 million)* Undrawn committed facilities at the balance sheet date amounted to £79 7 million In addition Grafton Merchanting GB Limited along with other UK subsidiaries of Grafton Group plc, acts as guarantor for other group bank overdraft facilities (£44 7 million) which were undrawn at the year end

27 Ultimate parent company

The company is a subsidiary undertaking of Grafton Group (UK) plc incorporated in the United Kingdom

The ultimate holding company is Grafton Group plc incorporated in the Republic of Ireland The consolidated accounts of this company are available to the public and may be obtained from Grafton Group plc, Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18