

Chairman's Statement

Grafton Group plc reports good growth in sales, profits and earnings per share for 2007.

Highlights

- Sales were up 9 per cent to €3.21 billion (2006: €2.93 billion).
- Operating profit* increased by 9 per cent to €265.8 million (2006: €244.9 million).
- Profit before tax and property profit up 8 per cent to €228.6 million (2006: €211.4 million).
- Adjusted earnings per share increased by 8 per cent to 84.3 cent (2006: 78.0 cent).
- Adjusted diluted earnings per share up 8 per cent to 83.0 cent (2006: 76.5 cent).
- Cash generated from operations was up 21 per cent to €303.8 million (2006: €251.9 million).
- Strong balance sheet with shareholders' funds of €1.07 billion.
- Lower net debt, gearing at a nine year low of 52 per cent and interest cover of 7.8 times.
- Sixteenth consecutive year of increased share purchase/dividend payments.
- Buyback of 10.5 million Grafton Units.

*Before intangible amortisation and property profit.

The Group delivered a good performance for the year against the background of a strong UK economy and continued expansion in the Irish economy despite some easing of growth in the second half as the anticipated slowdown in the Irish housing market materialised.

In the UK, the improvement in market conditions experienced in the second half of 2006 continued throughout the year. UK profits were at record levels due to good growth in the established business and contributions from acquisitions. The business experienced good like for like sales growth and this was reflected in an increased operating margin in the overall business.

The Irish business outperformed in a market that was influenced by a significant decline in activity in the new housing market during the year which was partially offset by continued growth in the repair, maintenance and improvement and DIY markets.

The overall results for 2007 reflect the benefit of pursuing a consistent strategy over the past two decades which has led to the creation of businesses with national or regional leadership positions in the builders merchanting, DIY and mortar markets in the UK and Ireland.

The UK business increased turnover by 14 per cent to €1.98 billion (2006: €1.73 billion) and operating profit increased by 24 per cent to €142.1 million (2006: €114.6 million). The record results were driven by good volume growth and generally positive trading conditions in the merchanting market.

Irish turnover increased by 2 per cent to €1.23 billion (2006: €1.20 billion). Operating profit declined by 5 per cent to €123.7 million (2006: €130.4 million). 2007 was a satisfactory year for the Irish business despite the decline in profit from the previous year's record level. The Irish Merchanting business was, as expected, impacted by the significant decline in new residential construction.

Development and Finance

The Group continued to consolidate and expand from its existing strong positions in the UK and Irish merchanting and Irish DIY markets. The spend on acquisitions in 2007 amounted to €89.2 million (2006: €87.1 million), of which €74 million related to trading businesses acquired by the Group, including deferred acquisition consideration of €9.5 million (2006: €11.9 million) relating to prior year transactions. Capital expenditure on development projects was €55.7 million (2006: €72.8 million). The combined acquisition and development commitments for the year resulted in expenditure of €144.9 million (2006: €159.9 million).

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Thirteen acquisitions in the UK increased scale and further strengthened the Group's position in the merchanting market through securing a presence in locations which complement the established branch network as well as providing enhanced product and additional route to market opportunities. A single branch acquisition improved coverage in the Irish builders merchanting market. The businesses acquired in the UK and Ireland trade from thirty three locations with annual sales of over €100 million.

Considerable resources were also devoted to organic development opportunities to expand the merchanting and retailing branch networks and to enable the Group to more effectively serve these markets into the future. Thirteen merchanting branches were opened in the UK. In Ireland, one DIY store, one builders merchanting branch and one In House at the Panelling Centre store were opened.

The addition of these forty nine trading locations marked a continuation of a successful focus and commitment to growth orientated development opportunities which will contribute to increased profitability in the future.

The Group's operations have traditionally been strongly cash generative and this trend continued in 2007 leaving the Group in a strong financial position with lower net debt at the year end. Shareholders' funds were €1.07 billion at the end of 2007 and gearing was a modest 52 per cent. The Group has retained financing flexibility by holding significant cash balances and more than adequate committed facilities are in place to refinance term debt maturing over the next three years. The Group's overall financial position leaves it well placed to take advantage of acquisition and development opportunities which continue to be available and represent good value and are a good strategic fit.

Share Purchase

The Company purchased 1 'A' ordinary share per Grafton Unit for a cash consideration of 10.0 cent (2006: 8.25 cent) which was paid on 3 October 2007.

The Board approved the purchase of a further ordinary share per Grafton Unit for cash consideration of 12.0 cent (2006: 10.5 cent) payable on 11 April 2008.

The total purchase payments to shareholders for 2007 amount to 22.0 cent per Grafton Unit. This is an increase of 17 per cent on total share purchase payments for 2006 of 18.75 cent per Grafton Unit. This is the sixteenth consecutive year for the Group to increase its share purchase/dividend payments to shareholders. Group earnings per share cover the share purchase payments 3.8 times (2006: 4.2 times). The increase in share purchase payments over the prior year reflects the good results for 2007, strong cash flow from operations and management's confidence in the Group's future prospects.

Share Buybacks

The Group's highly cash generative trading operations, high interest cover and low gearing provided the financial strength to complete unit buybacks in the market while continuing to take advantage of ongoing acquisition and development opportunities. A total of 10.5 million Grafton Units, equivalent to 4.4 per cent of the Group's share capital, were bought back at a total cost of €72.8 million. This will have a positive impact on earnings per share in 2008 and beyond.

Operations Review – United Kingdom

UK sales increased by 14 per cent to €1.98 billion (2006: €1.73 billion) and operating profit increased by 24 per cent to €142.1 million (2006: €114.6 million). The UK operating margin increased to 7.2 per cent from 6.6 per cent reported for 2006.

The UK continued to be a good market in which to do business. The economy experienced stable conditions in 2007 with growth above its trend rate, the strongest employment growth in a decade and unemployment at a thirty year low.

The supply of housing in the UK continued to be lower than the level of demand implied by household formation rates. House prices showed good overall growth for the year although the market weakened in

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the second half. Mortgage approvals were also down due to higher interest rates and tighter conditions in the credit markets.

The residential repair, maintenance and improvement market, which is the primary end-use market for the Group's UK merchanting sales, enjoyed modest volume growth in demand in 2007. Like for like sales in the Group's merchanting business increased by 4.8 per cent.

UK Builders Merchanting

Buildbase had an excellent year reporting strong growth in sales and profit due to a combination of good trading and operational improvements in the underlying business together with contributions from acquisitions and greenfield developments. Volume growth due to reasonable market conditions, a more positive pricing environment, continued rationalisation of sourcing arrangements and tight control of overheads contributed to the improvement in profit. Regionally, all areas of the branch network benefited from the improved trading environment and internal initiatives to improve profitability although demand was firmer across the Midlands and South East.

Flemings, the leading independent builders and timber merchant trading from seven branches in Scotland acquired in 2006, was integrated into the Buildbase network and achieved a good level of profitability through operational efficiencies and purchasing gains. There were also good incremental contributions from three single branch acquisitions completed in 2006.

Expansion of the Buildbase branch network continued with the completion of eight acquisitions adding ten branches. The three Buildbase branch openings in Melksham, Wiltshire; Yeovil, Somerset and Stowmarket, Suffolk traded in line with expectations.

Buildbase branches in Poole, Dorset; Belper, Derbyshire and Wakefield, West Yorkshire were relocated to extensive modern facilities and now offer a wider range of products. The trading area of the Southend-on-Sea, Essex; Buckingham, Buckinghamshire and Inverness branches was expanded and new hire centres were opened in seven branches. A major refurbishment

of the Cirencester, Gloucestershire branch was undertaken as well as a number of smaller branch development projects.

Jacksons, the leading regional merchanting business, had a good year increasing sales and profit despite tougher competition due to significant capacity expansion in the East Midlands market in recent years. The four locations acquired in 2006 were integrated into the branch network and provide a sound basis for future growth in sales and profit. Market coverage improved with the acquisition of a single branch ironmongery business and the opening of a second branch in Lincoln. Tool hire centres were added in a number of branches.

In Northern Ireland, activity in the housing and commercial markets was strong against the backdrop of an improving local economy. Macnaughton Blair reported a strong advance in sales and profits with all of the gains realised in the established branch network. Good progress was made in developing a presence in the Larne and Lisburn, Co. Antrim market following completion of two small acquisitions at the end of 2006.

Selco, a trade only warehouse format set in a modern self service environment, benefited from good levels of activity in the small project segment of the RMI market. Last year's store openings in London, Manchester and Reading traded to expectations. The opening of three further stores in London increased the network to twenty stores with the majority of these stores located in major metropolitan areas.

UK Plumbers Merchanting

The plumbers merchanting division incorporates Plumbase, the UK's fourth largest plumbers merchanting chain which trades from one hundred and eighty three branches, and the bathroom products distribution business. The division delivered a substantial increase in sales and operating profit in a stable but competitive segment of the merchanting market. Acquisitions contributed very positively to increased profitability.

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Plumbase continued to improve market coverage with the opening of six branches and the completion of a two branch acquisition.

Progress, a seventeen branch boiler and heating spares business, was acquired in June 2007. The acquisition improves the Group's position in the heating spares market through a better geographical spread of branches. The Group successfully entered the internet retail market for bathroom products at the end of 2006 with the acquisition of plumbworld.co.uk, the UK's largest online retailer of bathroom products. The business traded in line with demanding pre-acquisition expectations.

UK Mortar

CPI EuroMix manufactures a range of mortars for use in residential, commercial and public sector construction projects, which it supplies from a network of nine plants in England and Scotland. EuroMix consolidated its leadership position in the silo based mortar market with further growth in volumes and sales. Operating profit was maintained at last year's level in a good market but with continuing competitive pricing pressure linked to the introduction of capacity in the sector in recent years. The Leeds plant that opened in July 2006 successfully increased volumes in the West Yorkshire market and traded profitably in 2007.

Operations Review – Republic of Ireland

Irish turnover increased by 2 per cent to €1.23 billion (2006: €1.2 billion). Operating profit was down 5 per cent to €123.7 million (2006: €130.4 million).

The Irish economy performed strongly in 2007 with growth of five per cent driven by domestic demand and an impressive recovery in export growth. The volume of consumer expenditure is estimated to have increased by six per cent due to higher disposable income as a result of growth in employment and earnings and income tax reductions. Maturing SSIA's also contributed to increased consumer spending. Employment growth held up well with the rate of job creation substantially ahead of the euro zone area.

Following the slowdown in construction activity during the year the financial and business services sectors replaced the construction sector as the principal source of job creation in the economy.

House building levels adjusted following a long period of strong supply that reached a level of output which exceeded the economy's medium term requirements. During 2007 house building levels responded to the weaker demand and pricing environment. The fall in the market reflected reduced affordability due to rising interest rates, which were at their highest level for six years, and the high level of house prices achieved in recent years. Housing output responded to the changing market conditions with completions falling to 78,000 units from a peak of 88,000 units in 2006. Housing registrations, an indicator of housing starts, progressively weakened as the year progressed.

Investment in non-residential building increased with good levels of activity in the commercial, industrial, civils and infrastructure markets. The housing repair, maintenance and improvement market benefited from increased spending and continued to grow.

Irish Merchanting

Sales were marginally higher at €819.2 million (2006: €816.6 million). The Irish merchanting business has developed rapidly having almost tripled its turnover over the past three years. 2007 was a satisfactory year for the business despite a small decline in profits from the record levels achieved in 2006. The business benefited from reasonably positive market conditions in the first half with relatively flat new housing activity and good growth in the non-residential construction segments of the market. Market conditions became more challenging in the second half due to the significant decline in housing starts and completions. Weakness in the housing market was partially offset by the continuing growth in the residential RMI and non-residential new build markets. Like for like sales declined by one per cent for the year.

The Heiton Buckley and Chadwicks brands delivered a good performance in a market that experienced

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a sharp decline in volumes. The mix of the business benefited from a significant exposure to the housing repair maintenance and improvement and non-residential markets. More subdued house building related demand in a number of the Dublin branches was largely offset by better trading in the provincial branches which continued to experience positive trading conditions and less of an impact from a reduction in scheme house and apartment development. These branches experienced good demand in the RMI and one-off housing segments of the market.

Irish merchanting grew through both acquisition and organic development. The business gained a presence in the Mid West market through the purchase of Market Hardware in Ennis. The opening of a new branch in South Dublin City provided an important base to grow market share within a catchment area that offers significant development opportunities in the years ahead. The branch in Mullingar, which opened in the second half of 2006, had a successful year and now has a well established presence in the Midlands market. Relocation of the Tullamore branch to a new purpose built facility enabled the branch to expand its product offering and strengthen its market leading position in the region.

The business continued to focus on margin improvement making gains from purchasing efficiencies and tight control of costs. The opening of a Chadwicks Plumb Centre in Sligo provides a base for sales growth in the plumbing and heating products category. The Athlone branch was relocated from the town centre continuing the programme of branch relocations designed to increase capacity and improve customer service.

Cork Builders Providers achieved higher sales despite the more challenging market place. This reflected the benefit of measures taken to expand turnover in the one-off housing and non-residential markets helping the business to overcome the impact of a volume reduction in residential development schemes. Davies, the Dublin based specialist plumbing, heating and civils merchant continued to benefit from positive market

conditions in the commercial and infrastructure markets. Telfords, the Midlands based merchant, performed well benefiting from a solid customer base and investment in its Portlaoise branch.

Heiton Steel, the market leading steel stock-holding business, had a satisfactory year. Strength in the civils and commercial markets and improved pricing helped to offset softness in housing related volumes. The Cork branch relocated to a new facility to enable it to offer a wider range of products and achieve operational efficiencies.

Chadwicks Hire Centres and Sam Hire, the plant and tool hire business, continued to increase market coverage with the opening of branches in Tullamore and Limerick. The Group now trades from thirty four hire locations primarily sharing facilities with builders merchanting branches.

Irish Retailing

Sales increased by 9 per cent to €339.8 million (2006: €311.7 million). The Irish retailing business trades from forty one stores under the Woodie's DIY and Atlantic Homecare brands and from six In House at the Panelling Centre stores. The trading environment for the business was very positive. Retail sales volumes showed the highest rate of growth since 2000. Against this favourable background, the business achieved significant sales and profit growth.

The increase in profitability was due to strong trading in the established stores and good contributions from store openings in 2006. This outcome was achieved despite absorbing increased property costs. Like for like sales growth for the year was 5.3 per cent. The first half benefited from very favourable trading in the gardening season measured against more subdued prior year trading.

Store openings in 2006 in Castlebar, Co. Mayo, Navan, Co. Meath and in Nenagh, Co. Tipperary traded in line with expectations making good profit contributions for the year.

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The strong internal growth strategy for developing the Irish retailing business was sustained with the opening of a new Woodie's DIY store in Limerick and relocation of the Woodie's DIY store in Tallaght to a facility which doubles the store's trading area. The capacity of Woodie's DIY Waterford store was substantially expanded. These initiatives support the geographic development of the retail customer base and enable the marketing of a wider range of products.

The Woodie's and Atlantic Homecare support offices and management were successfully merged during the year.

The In House at the Panelling Centre business, which markets a range of quality kitchen and bedroom panelling products to trade and retail customers, benefited from strong volume growth in consumer spending, a good level of housing transactions and solid demand in the replacement market. The business achieved good sales and profit growth. The Galway store that opened at the end of 2006 traded in line with expectations and prior to the year end a sixth store was successfully opened in Waterford. Further store openings are planned.

Irish Manufacturing

The Irish manufacturing business delivered a resilient performance in the first half but second half trading conditions became more challenging and volumes declined in line with the slowdown in new house building activity.

Management and Staff

A key strength of the Group is the commitment and loyalty of the management and staff throughout the business in the UK and Ireland. On behalf of the Board, we wish to thank the management and staff for their commitment and support and warmly welcome all of those who have joined the Group during 2007.

Outlook

UK sales continued to increase in the first two months of 2008 albeit at a slightly lower rate than achieved in 2007. Sales were lower in the Irish merchandising business due to the much weaker new housing market.

In Ireland, economic growth is expected to be lower than the record levels of recent years but still good by international standards. The Irish housing market will continue to adjust to a more sustainable supply and pricing environment in response to more moderate demand. Underlying demand for housing is however expected to remain strong due to favourable demographics and growth in employment and incomes. Affordability has been improving due to lower house prices and rising incomes and the current interest rate tightening cycle appears to have come to an end. The strength of demand for rented accommodation has pushed up rents and this should begin to translate into an improvement in housing starts.

Growth in the repair, maintenance and improvement market and the non-residential and infrastructure markets is expected to continue through 2008 and should mitigate some of the impact of lower output in the new housing market. The Irish merchandising business will encounter weaker trading conditions with the prospect that there may be some improvement in housing starts later in the year.

A clear focus is now in place within Irish Merchandising to achieve closer integration, thereby driving further scale related benefits, a lower cost base, and product sourcing gains. Our policy of being the preferred first choice supplier to our trade customers is both resilient and consistent and we expect to gain further benefit from the success of this policy in 2008.

Volume growth in consumer spending is forecast although at a somewhat lower level than the very high growth rates of recent years. The Irish retailing business will also benefit from the internal initiatives and developments undertaken in 2007. A new Woodie's store in Carrick-on-Shannon was successfully opened earlier this month.

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UK economic growth is expected to moderate from a rate of expansion that has been at or above trend for over two years. Consumer spending and investment in housing is easing on the back of interest rate increases and generally tighter conditions in the credit markets. The residential repair, maintenance and improvement market has historically been less cyclical and we expect to see continued growth and development opportunities in the merchanting sector. The recent sterling interest rate reduction combined with further interest rate cuts expected in 2008 should help stimulate activity in the merchanting sector as we move into the last quarter and early 2009. The continuing weakness of sterling will reduce the value of the Group's earnings when translated into euro for reporting purposes if the current exchange rate continues throughout 2008.

As in previous years the focus in the UK will be on closer integration of the merchanting business in order to achieve further scale related benefits including operational efficiencies and product sourcing gains. The Group also expects to continue making progress in developing its position in the merchanting market with a good pipeline of organic development opportunities and acquisitions. The further strengthening of the UK business in 2008 should result in financial rewards coming through in 2009 and beyond.

The Group's strong brands in the UK and Ireland and its healthy financial position leave it well placed to respond to more demanding market conditions while continuing to pursue the consistent growth orientated strategy that has been successful for the past two decades.

On behalf of the Board

Michael Chadwick
Chairman