

Corporate Governance

Compliance with the Combined Code

The Board is committed to maintaining high standards of Corporate Governance. The Board is accountable to the Company's shareholders and this statement describes how it applies the principles of good governance set out in the 2006 FRC Combined Code on Corporate Governance which is appended to the Listing Rules of the Irish and London Stock Exchanges.

The Board

The Board of Directors was made up of nine members at 31 December 2008 comprising the Executive Chairman, three other executive Directors and five non-executive Directors. Mr. Anthony Collins, Deputy Chairman, is Senior Independent Director. Directors' biographical details are set out on page 15. The Board believes that it has the skills, knowledge and experience required by the scale, geographic spread and complexity of the Group's operations.

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. This covers the key areas of the Group's business including financial statements, budgets, acquisitions, major items of capital expenditure and the strategic development of the Group. 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.

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

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, also receive monthly management accounts, various reports 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 of the individual businesses in order to help Directors gain a deeper understanding of the Group's operations and markets.

The Board continues to hold the view that there are compelling commercial benefits to the Group and its shareholders in combining the roles of Chairman and Chief Executive and the holding of the combined roles by Mr. Michael Chadwick. The combination of the roles is balanced from a governance point of view by the strong input of the five independent non-executive Directors on the Board and the Board's committee structure.

Directors' Independence and Board Balance

It is Board policy that the Board should include a balance of executive and non-executive Directors such that no individual or small group of individuals can dominate the Board's decision making.

Five non-executive Directors, Mr. Anthony E. Collins, Ms. Gillian Bowler, Mr. Richard W. Jewson, Mr. Roderick Ryan and Mr. Peter S. Wood are considered by the Board to be independent of management and free from any relationship which could materially interfere with the exercise of their independent judgement. The Board has therefore determined all five Directors to be independent.

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Mr. Collins was appointed to the Board in 1988 and both Ms. Bowler and Mr. Jewson were appointed to the Board in 1995. The length of their service on the Board exceeds nine years and the 2006 FRC Combined Code provides that an explanation be made to shareholders concerning their continued independence. The Board considers that the integrity and independence of these Directors is beyond doubt. All three Directors are financially independent of the Company and have other significant commercial and professional commitments. Over the past fifteen years Grafton Group plc has grown from its small mainly Irish base to being the market leader in the Irish merchanting and DIY markets and the fourth largest builders merchanting business in the UK market. Mr. Collins, Ms. Bowler and Mr. Jewson have made a valuable contribution to the Board during this period of growth. Each of these non-executive Directors brings her/his own senior level experience gained in their own field of international business and professional practice. Their experience and long-term perspective on the Group's business provides the Board with stability and an invaluable resource to support its continued growth and development.

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. It is Board Policy that non-executive Directors are normally appointed for an initial period of three years, which is then reviewed. It is also Board Policy that a non-executive Director who has served on the Board for more than nine years will retire annually and will offer himself/herself for re-election in any case where it is proposed to exceed nine years.

Mr. Collins, Ms. Bowler, Mr. Jewson, Mr. Ryan, Mr. Martin and Mr. Malone retire from the Board and offer themselves for re-election at the AGM on 29 April 2009 in accordance with Board Policy and rules governing retirement by rotation as applicable.

The overall composition and balance of the Board is kept under review.

The Board plans to manage the orderly succession of non-executive Directors over the coming years without compromising the effectiveness and continuity of the Board and its committees.

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 latest financial information about 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

The Board has put in place procedures which involve the conduct of an annual evaluation process to periodically assess its performance, the performance of Board committees and the performance of individual Directors. This process also seeks to identify areas in which the effectiveness of the Board may be improved. Evaluation of the Board is achieved through annual discussion between each Director and the Senior Independent Director. The Independent non-executive Directors met during the year both with and without the Chairman present to evaluate his performance. The results of the evaluation process are presented to the Board for consideration of issues identified.

Succession Planning

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 to provide the Board with the breadth of experience required by the scale, geographic spread and complexity of the Group's operations.

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 were issued in compliance with the EU Transparency (Directive 2004/109/EC) Regulations 2007 and the Group also issued trading updates in January and July 2008. Any major acquisitions are also notified to the market and the Company's website www.graftonplc.com presents information about the Group including half-yearly and annual results and announcements. The Chairman and Finance Director give feedback to the Board on issues raised by investors during the course of presentations following the half-yearly and annual results and Analysts' reports on the Group are circulated to all Directors. Non-executive Directors are offered an opportunity to attend meetings with major shareholders. The Annual General Meeting is normally attended by all Directors and shareholders are invited to ask questions during the meeting and to meet with Directors after the formal proceedings have ended. The Senior Independent Director is available to meet with shareholders if they have concerns which have not been resolved through the normal channels of Chairman or Finance Director or where such contacts are not appropriate.

Board Committees

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

Number of Meetings	Board		Audit Committee		Finance Committee		Remuneration Committee		Nomination Committee	
	A	B	A	B	A	B	A	B	A	B
M. Chadwick	8	8	-	-	44	36	-	-	2	2
A. E. Collins	8	8	3	3	-	-	6	6	2	2
C. Ó Nualláin	8	8	-	-	44	34	-	-	-	-
L. J. Martin	8	8	-	-	44	35	-	-	-	-
J. F. Malone	8	8	-	-	-	-	-	-	-	-
G. Bowler	8	7	3	2	-	-	6	6	2	2
R. W. Jewson	8	8	3	3	-	-	6	5	2	2
R. Ryan	8	8	3	3	-	-	-	-	2	1
P. S. Wood	8	7	-	-	-	-	-	-	2	1
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 – refers to the number of meetings attended during the period the Director was a member of the Board and/or Committee										

The Board is assisted by committees of Board members which focus on specific aspects of its responsibilities. The terms of reference of the Audit Committee, Remuneration Committee and Nomination Committee were approved by the Board and comply with the 2006 FRC Combined Code and are available from the Company and can also be found on the Group's website at www.graftonplc.com. Membership of the various committees is shown on page 15. The Company Secretary is secretary of the Audit, Remuneration and Nomination Committees.

Audit Committee

During the year the Audit Committee comprised Mr. Richard W. Jewson, who chairs the Committee, Ms. Gillian Bowler, Mr. Anthony E. Collins and Mr. Roderick Ryan. All members of the Committee are determined by the Board to be independent non-executive Directors. The Audit Committee met three times during the year.

The Board believes that Mr. Richard W. Jewson brings to the Committee recent and relevant financial experience. It will be seen from the Directors' biographical details appearing on page 15 that members of the Committee bring a wide range of financial, taxation, legal, commercial and business experience to the Committee.

Under its terms of reference, the Audit Committee monitors the integrity of the Group's financial statements and announcements relating to the Group's performance. The Committee is responsible for monitoring the effectiveness of the external audit process and making recommendations to the Board in relation to the appointment, reappointment and remuneration of the external auditor. It is responsible for ensuring that an appropriate relationship between the Group and the external auditor is maintained, including reviewing non-audit services and fees. A new Group Audit Partner is appointed every five years and senior audit staff are rotated. Non-audit tax, procurement consultancy and secretarial compliance services were provided by KPMG during 2008. The Committee believes that the provision of these services by KPMG does not conflict with its independence as auditor.

The Committee reviews the Group's systems of internal control and the processes in place for monitoring and evaluating the risks facing the Group.

The Committee is satisfied that its role and authority include those matters envisaged by the 2006 FRC Combined Code to fall within its jurisdiction and the Board has delegated authority to the Committee to address those tasks for which it has responsibility. The Chairman of the Committee reports to the Board at each Board meeting.

The KPMG Audit Partner and Tax Partner, together with the Finance Director attend Audit Committee meetings at the request of the Chairman of the Committee. The Committee also meets in private session and twice yearly the Committee meets with the external auditor without the executive management present. The Committee's terms of reference are available from the Company and are displayed on the Group's website www.graftonplc.com.

In 2008 the Audit Committee discharged its responsibilities by:

- Reviewing the Group's draft Financial Statements and draft Half-yearly Results before recommending their approval to the Board. The Committee discussed with the Finance Director and KPMG any significant accounting policies, estimates and judgements that had been applied in preparing these reports and received their views in relation to these matters;
- Reviewing the Group's development and trading updates prior to release;
- The Committee received reports prepared by the Group Internal Audit Manager which summarised the findings of internal audit reports prepared by the Group Internal Audit function. These reports covered the work undertaken, findings made, actions recommended and the response of executive management of the Group's businesses to recommendations made. The Committee met with the Group Internal Audit Manager on two occasions during the year;
- Reviewing the External Auditor's plan for the 2008 audit of the Group. This included an assessment of the scope of the audit work and key risk areas and confirmation of auditor independence;
- Reviewing the External Auditor's Reports on internal controls in the Group's individual businesses prepared by KPMG as part of the Group's audit process;

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- Reviewing risks associated with the business;
- The Committee continued to monitor compliance with the Group's Whistleblowing Policy ensuring that appropriate arrangements were maintained for employees to raise matters of possible impropriety in confidence with suitable follow up action.

Remuneration Committee

The Committee comprises Ms. Gillian Bowler, who chairs the Committee, Mr. Anthony E. Collins and Mr. Richard W. Jewson all of whom are determined by the Board to be independent. The Committee met six times during the year. The Committee's responsibilities include making recommendations on the terms of engagement and remuneration of the executive Directors. The terms of reference of the Committee are available from the Company and can also be found on the Group's website at www.graftonplc.com. The Chairman of the Remuneration Committee is available at the Annual General Meeting to respond to any shareholder questions concerning the Committee's activities. The Committee receives independent advice concerning matters within its remit when considered necessary.

The Committee's principal responsibilities are:

- Setting, reviewing and recommending to the Board for approval the Group's overall remuneration policy and strategy;
- Setting, reviewing and approving individual remuneration packages including salary, bonus, pension and other benefits for executive Directors, the Executive Chairman and Company Secretary including terms and conditions of employment and any changes to their packages;
- Reviewing the salary structure and terms, conditions and benefits of employment of any other members of the executive management it is designated to consider;
- Approving the rules of any Group share, share option or other share incentive scheme and approving the grant, award, allocation or issue of shares, share options or other benefits conferred by such schemes;
- Further details of the Committee's remit and work are set out in the Report on Directors' Remuneration on pages 30 to 34.

Nomination Committee

The Nomination Committee comprises Mr. Anthony E. Collins, Chairman of the Committee, Mr. Michael Chadwick, Ms. Gillian Bowler, Mr. Richard W. Jewson, Mr. Peter S. Wood and Mr. Roderick Ryan. Mr. Wood and Mr. Ryan were appointed to the Nomination Committee on 1 July 2008. The Nomination Committee met twice during the year to consider the Board's membership and to consider additional skills and experience which might benefit the Board's performance.

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. Michael Chadwick, Executive Chairman, Mr. Colm Ó Nualláin, Finance Director, Mr. Leo J. Martin, Chief Operating Officer and Mr. Charles Rinn, Secretary and Group Financial Controller. The Committee deals with acquisition opportunities up to Board approval stage, capital expenditure under the limit reserved for the Board, and routine Group finance and management issues.

Internal Control

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 on the 2006 FRC Combined Code, has been in place throughout the accounting period and up to the date the financial statements were approved.

Group management are 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 report to the Board on key risks and internal control issues including the way in which these issues are managed.

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

- A clear focus on implementing the Group's strategy.
- Defined structures and authority limits for the operational and financial management of the Group and its businesses.
- A comprehensive system of reporting on trading, operational issues and financial performance incorporating results and cash flows, working capital management, return on capital employed and other relevant measures of performance.
- Board approval of major capital expenditure proposals and all acquisition proposals.

The internal audit function focuses on areas of greatest risk to the Group, monitors compliance and considers the effectiveness of internal control throughout the Group. The Audit Committee receives reports from and meets with the Group Internal Audit Manager and the KPMG Audit Partner in order to satisfy itself on the adequacy of the Group's internal control system. The Chairman of the Audit Committee reports to the Board on all significant matters considered by the Committee.

In the Board's view, the ongoing information it received was 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.

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Going Concern

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

Compliance Statement

The Company applied the principles set out in Section 1 of the 2006 FRC Combined Code to the extent applicable for the year under review and has complied with the provisions of the 2006 FRC Combined Code except that the roles of Chairman and Chief Executive are held by the same individual. More than half the Board comprises non-executive Directors, all of whom are determined by the Board to be independent.