

Report of the Directors

The Directors present their report to the shareholders together with the audited financial statements for the year ended 31 December 2008.

Group Results

Group revenue of €2.67 billion was 17 per cent lower than Group revenue of €3.2 billion in 2007. Group profit before taxation amounted to €64.1 million compared with €235.8 million in the previous year. Basic earnings per share amounted to 25.1 cent compared with 86.2 cent in the previous year. Adjusted earnings per share (before intangible amortisation and reorganisation costs) decreased by 62 per cent to 32.2 cent compared to 84.3 cent in 2007. After deducting taxation of €6.4 million, retained profit of €57.7 million was transferred to reserves.

The cost of purchasing two 'A' ordinary shares per Grafton Unit on 11 April 2008 and 3 October 2008 amounted to €50.6 million. The financial statements for the year ended 31 December 2008 are set out in detail on pages 38 to 96.

Share Purchase

Following the purchase of one 'A' ordinary share per Grafton Unit for a cash consideration of 10.0 cent paid on 3 October 2008, the Board approved the purchase of one 'A' ordinary share per Grafton Unit for a cash consideration of 5.0 cent payable on 8 April 2009, giving total payments for the year of 15.0 cent. This compares to the share purchase payments of 22.0 cent paid in respect of 2007.

At each Annual General Meeting, the Directors seek shareholders' approval to make purchases of 'A' ordinary shares under section 213 of the Companies Act, 1990. The Directors exercise this power to purchase 'A' ordinary shares only at price levels which they consider to be in the best interests of the shareholders generally, after taking account of the Company's overall financial position. If such purchases take place, it is unlikely that a dividend would also be paid, and vice versa.

Review of the Business

Shareholders are referred to the Chairman's Statement and Group Finance Review which contain a review of operations and the financial performance of the Group for 2008 and the outlook for 2009. The Group Finance review also sets out the key performance indicators used to assess the performance of the Group.

Principal Risks and Uncertainties

The Group is required under Irish Company Law to give a description of the principal risks and uncertainties which it faces. The principal risks and uncertainties are set out below:

- Trading in the Group's business is affected by economic conditions in the UK and Ireland where the Group's earnings are generated.
- Contraction in economic growth in the UK and Ireland could result in lower demand in the Group's businesses.
- Demand in the UK and Irish builders merchanting markets and in the Irish DIY and UK mortar markets are sensitive to economic conditions generally including consumer confidence, interest rates, employment trends, inflation, demographic factors and housing market conditions. More difficult market conditions may reduce demand in the Group's markets resulting in lower volumes and a material change in the financial performance of the Group.
- A deterioration in financial and credit markets is having an impact on the wider economy and housing markets in the UK and Ireland and could lead to a further fall in demand in the Group's merchanting, DIY and mortar businesses.
- Sterling weakness could lead to lower reported Group earnings on translation of the results of the UK business into euro at the average rate of exchange for the year.
- The Group also faces strong ongoing competition in its Irish merchanting, DIY and manufacturing businesses and in its UK merchanting and mortar businesses.
- The principal financial risks faced by the Group relate to liquidity and funding, credit risks connected to collection of trade debtors, increased sterling and euro interest rates and adverse movements in exchange rates relative to the euro.

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Cautionary Statement

The Chairman's Statement and Group Finance Review contain forward-looking statements. These statements have been made on behalf of the Board in good faith based on the information available to them up to 26 February 2009, the date the Financial Statements were approved by the Board. Due to the inherent uncertainties including both economic and business risk factors underlying such forward-looking information, the actual results of operations, financial position and liquidity may differ materially from those expressed or implied by these forward-looking statements. The Directors and the Board undertake no obligation to update any forward-looking statements contained in this Annual Report, whether as a result of new information, future events, or otherwise.

Board of Directors

Mr. A.E. Collins, Ms. G. Bowler and Mr. R.W. Jewson have served on the Board for more than nine years and, in accordance with Board Policy, they resign and, being eligible, offer themselves for re-election. Mr. R. Ryan, Mr. L.J. Martin and Mr. F. Malone retire by rotation and, being eligible, offer themselves for re-election. Further details on the appointment and re-election of Directors is set out on page 24.

The Directors seeking re-election do not have service contracts with the Company with a period of notice extending beyond twelve months.

Share Capital

At 31 December 2008, a Grafton Unit comprised one ordinary share of 5c and nineteen 'A' ordinary shares of 0.001 cent each in Grafton Group plc and one 'C' ordinary Share of Stg0.0001p in Grafton Group (UK) plc. The composition of the Company's share capital including a summary of the rights and obligations attaching to the three components of a Grafton Unit is set out in note 17 to the financial statements.

The Company has in place a number of employee share schemes, the details of which are set out in note 38 to the financial statements.

At each Annual General Meeting, in addition to the power to buy back shares, the Directors seek power to allot shares for cash, otherwise than in accordance with statutory pre-emption rights, by way of rights issues up to the amount of the unissued share capital of the Company, or otherwise up to approximately 5 per cent of the nominal value of the issued share capital of the Company. Under the Articles of Association, shareholders are requested to renew this power at each year's Annual General Meeting.

Substantial Holdings

So far as the Company is aware, in addition to the Chairman, Mr. Michael Chadwick, whose holding of 19,656,921 Units represents 8.54 per cent of the Units in issue (excluding treasury shares), the following held shares representing 3 per cent or more of its ordinary share capital (excluding treasury shares) at 26 February 2009:

Name	No. of units	%
Bank of Ireland Nominees Ltd NRI Account*	20,041,219	8.71
Capital Research and Management Company	19,162,000	8.32
Sprucegrove Investment Management Limited *	15,694,481	6.82
Goodbody Stockbrokers Nominees Ltd GSCLT Account*	11,033,279	4.79
Bank of Ireland Nominees Ltd NRS Account*	8,654,570	3.76
Irish Life Investment Managers *	7,171,080	3.12
Invesco Limited	7,149,732	3.11

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

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Apart from these holdings, the Company has not been notified at 26 February 2009 of any interest of 3 per cent or more in its ordinary share capital.

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

Accounting Records

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

Subsidiaries

The Group's principal operating subsidiary undertakings are set out on pages 95 and 96.

Auditor

In accordance with Section 160 (2) of the Companies Act, 1963, the Auditor, KPMG, Chartered Accountants are willing to continue in office.

Annual General Meeting

The Annual General Meeting of the Company will be held at the IMI Conference Centre, Sandyford Road, Dublin 16 on Wednesday 29 April 2009 at 10.30 am and your attention is drawn to the circular enclosed with this report (and available online at www.graftonplc.com for shareholders who have elected to receive Grafton communications electronically) which sets out details of the matters to be considered at the Annual General Meeting.

On behalf of the Board

M. Chadwick
C. Ó Nualláin

Directors

26 February 2009