



Grafton Group plc
Notes to Condensed Interim Financial Statements for the half year ended 30 June 2008

1. General Information

The condensed interim financial statements for the half year ended 30 June 2008 are unaudited but have been reviewed by the auditor whose report is set out on page 24.

The financial information presented herein does not amount to statutory financial statements that are required by Section 7 of the Companies (Amendment) Act 1986 to be annexed to the annual return of the company. The statutory financial statements for the financial year ended 31 December 2007 were filed with Registrar of Companies and are available on the Companies website www.graftonplc.com . Those financial statements contained an unqualified audit report.

Basis of Preparation and Accounting Policies

The condensed interim financial statements have been prepared in accordance and comply with IAS 34 *Interim Financial Reporting* as adopted by the European Union (EU). The financial information contained in the condensed interim financial statements has been prepared in accordance with the accounting policies set out in the last annual financial statements which were prepared in accordance with IFRS as adopted by the EU.

IFRIC 11 - IFRS 2 Group and Treasury Share Transactions is the only new standard that, has been issued by the International Accounting Standards Board (IASB) and adopted by the EU, that is effective for the financial year of the Group ending on 31 December 2008. It had no impact on the results or financial position of the Group for the half year.

IFRIC 14 – IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction will also be effective for the Group Financial Statements at 31 December 2008, if, as expected, it is adopted by the EU. The accounting policies currently applied by the Group are consistent with the requirements of this interpretation.



2. Revenue and Operating Profit by Geographic Segment

The amount of revenue by geographic segment is as follows:

	Six months to 30 June 2008 (Unaudited) €000	Six months to 30 June 2007 (Unaudited) €000	Twelve months to 31 Dec 2007 (Audited) €000
Revenue			
Ireland	530,476	628,811	1,227,375
United Kingdom	<u>907,366</u>	<u>979,410</u>	<u>1,977,651</u>
	<u>1,437,842</u>	<u>1,608,221</u>	<u>3,205,026</u>
Operating profit before other income and intangible amortisation			
Ireland	24,340	60,636	123,651
United Kingdom	<u>48,548</u>	<u>63,759</u>	<u>142,106</u>
	<u>72,888</u>	<u>124,395</u>	<u>265,757</u>
Intangible amortisation – Ireland	(1,103)	(1,097)	(2,212)
	<u>71,785</u>	<u>123,298</u>	<u>263,545</u>
Operating profit before other income			
Ireland	23,237	59,539	121,439
United Kingdom	<u>48,548</u>	<u>63,759</u>	<u>142,106</u>
	<u>71,785</u>	<u>123,298</u>	<u>263,545</u>
Other income (property profit)			
Ireland	-	-	1,050
United Kingdom	<u>-</u>	<u>-</u>	<u>6,204</u>
	<u>-</u>	<u>-</u>	<u>7,254</u>
Operating profit			
Ireland	23,237	59,539	122,489
United Kingdom	<u>48,548</u>	<u>63,759</u>	<u>148,310</u>
	<u>71,785</u>	<u>123,298</u>	<u>270,799</u>
Finance costs (net)	<u>(18,431)</u>	<u>(16,872)</u>	<u>(34,966)</u>
Profit before tax	<u>53,354</u>	<u>106,426</u>	<u>235,833</u>



3. Analysis of Revenue by Business Segment

	Six months to 30 June 2008 (Unaudited) €000	Six months to 30 June 2007 (Unaudited) €000	Twelve months to 31 Dec 2007 (Audited) €000
Revenue			
UK merchanting	878,984	941,868	1,905,378
Irish merchanting	354,741	424,157	819,164
Merchanting	<u>1,233,725</u>	<u>1,366,025</u>	<u>2,724,542</u>
Irish DIY	154,559	168,182	339,849
Irish and UK manufacturing	49,558	74,014	140,635
	<u>1,437,842</u>	<u>1,608,221</u>	<u>3,205,026</u>

4. Reconciliation of Net Cash Flow to Movement in Net Debt

	30 June 2008 €000	30 June 2007 €000	31 Dec 2007 €000
For the six months ended 30 June 2008			
Net increase/(decrease) in cash and cash equivalents	15,891	(29,462)	14,443
Net movement in derivative financial instruments	(584)	(192)	(1,263)
Cash-flow from movement in debt and lease financing	673	(4,622)	(45,643)
Change in net debt resulting from cash flows	<u>15,980</u>	<u>(34,276)</u>	<u>(32,463)</u>
Loan notes issued on acquisition of subsidiary undertakings	-	(81)	(81)
Finances leases acquired with subsidiary undertakings	-	(173)	(404)
Bank loans and loan notes acquired with subsidiaries	(179)	(2,701)	(2,581)
Translation adjustment	24,206	1,571	36,000
Movement in net debt in the period	<u>40,007</u>	<u>(35,660)</u>	<u>471</u>
Net debt at 1 January	<u>(550,389)</u>	<u>(550,860)</u>	<u>(550,860)</u>
Net debt at end of the period	<u>(510,382)</u>	<u>(586,520)</u>	<u>(550,389)</u>
Gearing	<u>49%</u>	<u>53%</u>	<u>52%</u>



5. Earnings per Share

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

	Half Year 30 June 2008 €000	Half Year 30 June 2007 €000	Year Ended 31 Dec 2007 €000
Numerator for basic, adjusted and diluted earnings per share:			
Profit after tax for the period	46,405	92,589	205,175
Numerator for basic and diluted earnings per share	<u>46,405</u>	<u>92,589</u>	<u>205,175</u>
Other income (property profit) after tax	-	-	(6,311)
Intangible amortisation after tax	965	960	1,935
Numerator for adjusted earnings per share	<u>47,370</u>	<u>93,549</u>	<u>200,799</u>
	Number of Grafton Units	Number of Grafton Units	Number of Grafton Units
Denominator for basic and adjusted earnings per share:			
Weighted average number of Grafton Units in issue	229,780,308	239,337,546	238,145,757
Effect of potential dilutive Grafton Units	1,190,924	4,957,535	3,856,396
Denominator for diluted earnings per share	<u>230,971,232</u>	<u>244,295,081</u>	<u>242,002,153</u>
Earnings per share (cent)			
- Basic	20.20	38.69	86.16
- Diluted	20.09	37.90	84.78
Adjusted earnings per share (cent)			
- Basic	20.62	39.09	84.32
- Diluted	20.51	38.29	82.97

6. Share Purchase

The Board has approved the purchase of one 'A' ordinary share per Grafton Unit for a cash consideration of 10.0 cent. The purchase of the 'A' ordinary share will take effect in respect of Grafton Units on the register at close of business on 12 September 2008 (record date) and the cash consideration will be paid on 3 October 2008.

In the half year to 30 June 2008, as set out in the Final Results announcement for 2007, one 'A' ordinary share per Grafton Unit was purchased for a cash consideration of 12.0 cent which was paid on 12 April 2008 at a cost of €27,566,000.

7. Exchange Rates

The results and cash flows of the Group's United Kingdom subsidiaries have been translated into Euro using the average exchange rate. The related balance sheets of the Group's United Kingdom subsidiaries at 30 June 2008 and 30 June 2007 have been translated at the rate of exchange ruling at the balance sheet date.



The average Euro / Sterling rate of exchange for the six months ended 30 June 2008 was Stg77.52p (six months to 30 June 2007: Stg67.46p and twelve months to 31 December 2007: Stg68.43p). The Euro / Sterling exchange rate at 30 June 2008 was Stg79.23p (30 June 2007: Stg67.40p and 31 December 2007: Stg73.34p).

8. Movement in Working Capital

	Inventory €000	Trade and Other Receivable €000	Trade and Other Payables €000	Total €000
At 1 January 2008	386,179	535,695	(504,203)	417,671
Translation adjustment	(16,375)	(46,906)	45,166	(18,115)
Interest accrual and other movements	-	(207)	(2,053)	(2,260)
Acquisitions	2,939	8,015	(9,563)	1,391
Movement in 2008	(7,269)	34,755	(72,959)	(45,473)
At 30 June 2008	365,474	531,352	(543,612)	353,214

9. Group Statement of Changes in Equity

	30 June 2008 €000	30 June 2007 €000	31 Dec 2007 €000
At beginning of period	1,067,685	1,014,339	1,014,339
Shares bought back and cancelled	-	-	(67,090)
Treasury shares acquired	-	(5,746)	(5,746)
Issue of Grafton Units (net of issue expenses)	1,282	1,214	2,553
Adjustment for share based payments expense	2,618	2,268	4,465
Deferred tax on share based payments expense	-	(1,102)	(2,078)
Purchase of 'A' ordinary shares	(27,566)	(25,129)	(49,048)
Total recognised income and expense for the period	(2,813)	117,992	170,290
Closing shareholders' funds – equity	1,041,206	1,103,836	1,067,685

10. Acquisition of Subsidiary Undertakings

In the six months to 30 June 2008 the Group made six UK acquisitions in the merchanting sector adding ten builders and two plumbers merchanting branches. These included, Lloyd Worrall, a seven branch merchanting business based in Milton Keynes (Acquired: 1 April 2008) and five single branch merchants located at Selsey, West Sussex (Acquired: 17 March 2008); Neath, West Glamorgan (Acquired: 28 March 2008); Belfast, Co. Antrim (Acquired: 4 April 2008); Wellingborough, Northants (Acquired: 31 January 2008) and in Brighouse, West Yorkshire (Acquired: 30 June 2008).

Details of the acquisitions made in 2007 are disclosed in the Group's 2007 Annual Report.



The fair value of assets and liabilities acquired are set out below;

	2008 €000
Property, plant and equipment	8,546
Financial assets	4
Inventories	2,939
Trade and other receivables	8,015
Trade and other payables	(9,563)
Corporation tax	(240)
Deferred tax liability	(763)
Bank debt acquired	(179)
Net assets acquired excluding cash and overdrafts	<u>8,759</u>
Goodwill	<u>10,455</u>
Consideration	<u>19,214</u>

Satisfied by:

Cash paid	24,032
Cash acquired	(4,886)
Bank overdrafts assumed on acquisition	68
Net cash outflow	<u>19,214</u>

The fair values of net assets acquired was €8,759,000

	Provisional Fair Values	Consideration	Provisional Goodwill
	€000	€000	€000
Total acquisitions	8,759	19,214	10,455

The fair values were calculated as follows:

	Book Value	Provisional Fair Value Adjustments	Provisional Fair Values
	€000	€000	€000
Financial assets	4	-	4
Property, plant and equipment	8,546	-	8,546
Working capital	1,369	22	1,391
Corporation tax	(240)	-	(240)
Deferred tax liability	(3)	(760)	(763)
Bank debt	(179)	-	(179)
	<u>9,497</u>	<u>(738)</u>	<u>8,759</u>

The provisional fair value adjustments noted above have arisen as follows:

- Under IFRS 3, stocks have been valued at selling price adjusted for cost of disposal and a reasonable profit allowance for selling effort.
- Deferred tax has been provided on the above adjustment under IAS 12 Income Taxes. Deferred tax has also arisen on the difference between the fair value of the properties acquired and their tax base.



Goodwill on these acquisitions reflects the anticipated purchasing and operational synergies for the businesses acquired as part of the enlarged Group. No intangibles formed part of the acquisition consideration.

Acquisitions contributed turnover of €10.3 million and operating profit of €0.8 million for the periods between the dates of acquisition and 30 June 2008. If the acquisitions had occurred on 1 January 2008, Group turnover would have been €1,448 million and Group operating profit would have been €72.3 million an increase of €10 million and €0.5 million respectively.

11. Retirement Benefits

The principal financial assumptions employed in the valuation of the Group's defined benefit scheme liabilities for the current and prior interim reporting period were as follows:

	Six months ended 30 th June			
	Irish Schemes		UK Schemes	
	2008	2007	2008	2007
	%	%	%	%
Rate of increase in salaries	3.50	3.50	3.25	4.25
Inflation	2.25	2.25	3.50	3.25
Discount rate	6.20	5.35	6.70	5.80

The following table provides a reconciliation of the scheme assets (at bid value) and the actuarial value of scheme liabilities:

	Six months ended 30 th June					
	Assets		Liabilities		Net asset/(deficit)	
	2008	2007	2008	2007	2008	2007
	€000	€000	€000	€000	€000	€000
At 1st January	223,700	223,125	(239,023)	(257,288)	(15,323)	(34,163)
Expected return on plan assets	8,000	8,265	-	-	8,000	8,265
Contributions by employer	13,591	4,953	-	-	13,591	4,953
Contributions by members	1,373	1,586	(1,373)	(1,586)	-	-
Benefit payments	(29,047)	(2,518)	29,047	2,518	-	-
Current service cost	-	-	(2,185)	(3,619)	(2,185)	(3,619)
Past service cost	-	-	(734)	-	(734)	-
Settlement loss	-	-	(3,104)	-	(3,104)	-
Interest cost on scheme liabilities	-	-	(6,512)	(6,196)	(6,512)	(6,196)
Actuarial gains/(losses)	(34,392)	3,580	33,707	30,015	(685)	33,595
Translation adjustment	(7,408)	(367)	7,553	433	145	66
At 30th June	175,817	238,624	(182,624)	(235,723)	(6,807)	2,901
Related deferred tax liability (net)					(380)	(261)
Net pension asset / (liability)					(7,187)	2,640



Three executive directors have opted to transfer their pension entitlements out of the Group's defined pension to revenue approved defined contribution schemes. The arrangements for this transfer were negotiated with these directors by the Remuneration Committee based on independent professional advice. The relevant pensions showed a deficit of €4.74m in the defined benefit scheme and the Group Condensed Income Statement for the half year reflects a charge in this amount to fund this deficit related to the new arrangements. The transfer of these pension assets out of the defined benefit scheme eliminates the related obligations and risks from the Group's balance sheet. These could include costs associated with poor investment returns and longevity that would require substantial additional funding to the scheme. Obligations under the Pensions Act to fund the purchase of annuities for these directors on retirement will also cease. The purchase of annuities is currently more expensive than transfer payments. The solvency of the pension schemes has not changed as a result of the transfers and the removal of significant obligations in respect of these pensions introduces greater stability for the remaining active members. These directors are entitled to a supplementary taxable cash allowance in lieu of future pension benefits calculated on the basis of actuarial advice received.

12. Goodwill

Goodwill is subject to impairment testing on an annual basis and during the year if an indicator of impairment is considered to exist. The Group, having performed impairment testing, is satisfied that the carrying value of goodwill has not been impaired and is confident of the longer term value of the businesses acquired over the past decade.

13. Group Condensed Income Statement

In accordance with accounting standards property profit is not disclosed as a separate line item on the face of the Income Statement. Where a material profit arises on the disposal of property the Board will bring this to shareholders attention. In the half year to 30 June 2008 the level of property profit was not material.

14. Related Party Transactions

No related party transactions have taken place in the half year that have materially affected the financial position or the performance of the Group during that period except as referred to in note 11.

15. Events after the Balance Sheet Date

There have been no material events subsequent to 30 June 2008 which would require disclosure in this report.

16. Board Approval

This announcement was approved by the Board of Grafton Group plc on 28 August 2008.