



Grafton Group plc 2008 Half Yearly Financial Report

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Financial Overview

Grafton Group plc, the builders merchants and DIY Group with operations in the UK and Ireland, announces its interim results for the six months ended 30 June 2008.

	2008	2007	Change
Revenue	€1.44 bn	€1.61 bn	- 11 %
Operating profit*	€72.9 m	€124.4 m	- 41 %
Profit before tax	€53.4 m	€106.4 m	- 50 %
Adjusted earnings per share *	20.6 c	39.1 c	- 47 %
Basic earnings per share	20.2 c	38.7 c	- 48 %
Share purchase	10.0 c	10.0 c	
Cash flow per share**	33.4 c	50.4c	- 34%

* *Before intangible amortisation*

** *Based on profit after tax, plus depreciation and intangible amortization*

Commenting on the results today, Michael Chadwick, Executive Chairman said:

“The first half brought the most challenging trading conditions encountered in over 15 years. With a healthy balance sheet and strong cash flows, the Group is focused on emerging from this downturn a stronger and more competitive organisation. Grafton’s current focus on cash generation, cost control, efficiency improvements and market development should leave the Group strongly positioned for profitable growth when the Irish and UK economies recover and trading conditions improve. Both economies are fundamentally sound and should return to more sustainable levels of growth when the restraining effects of higher inflation and tighter credit conditions ease.”



Grafton Group plc

Interim Management Report For the six months ended 30 June 2008

The first half of the year brought the most challenging trading conditions encountered by the Group since the early 1990s. The impact of these conditions, together with an average 13 per cent decline in sterling's exchange rate against the euro, resulted in a significant reduction in profitability compared to the record levels achieved in the first half of last year.

Highlights

- Turnover declined by 11 per cent to €1.44 billion and by 2 per cent in constant currency terms.
- Operating profit (before intangible amortisation) was down by 41 per cent to €72.9 million.
- Profit before tax was down by 50 per cent to €53.4 million.
- Adjusted earnings per share were down by 47 per cent to 20.6 cent.
- Despite the more difficult market environment, a significant increase in cashflow was generated from operating activities to a level of €116.9 million.

The instability in the financial markets, which pushed up interest rates and restricted the availability of credit, together with higher energy and commodity prices, while global in nature, led to a decline in residential investment in the UK and intensified the adjustment already underway in the Irish housing market.

The UK business benefited from positive market conditions in the early months of the year but demand eased as the half year progressed due to the impact of interest rate increases and tighter conditions in the credit markets. UK turnover declined by 7.4 per cent to €907.4 million (2007: €979.4 million) but was up by 6.5 per cent in sterling. UK operating profit declined by 24 per cent to €48.6 million (2007: €63.8 million) and by 13 per cent in sterling.

In Ireland, the adjustment in the housing market to more sustainable supply and pricing levels gathered pace leading to sharply reduced volumes in merchandising and manufacturing. Demand in the Irish DIY business was weak due to declining consumer confidence and poor weather compared to the record levels of consumer spending and very favourable weather conditions experienced in the first half of 2007. Irish turnover declined by 16 per cent to €530.5 million (2007: €628.8 million) and operating profit was down 60 per cent to €24.3 million (2007: €60.6 million).

Grafton is well placed to meet the challenges presented by these conditions with a strong balance sheet and strong cash flow during the period. The Group is now focused on emerging from this phase of the economic cycle a stronger and more competitive



organisation. Business units are prioritising competitiveness, optimising efficiencies and capitalising on niche market development opportunities arising in the changed environment. The first half year results include a charge of €7 million associated with rationalisation measures already implemented in Group companies and other costs. The scale and synergies achieved from the substantial growth of recent years are delivering additional benefits to the Group's trading operations.

A Ordinary Share

The Board has agreed to purchase one A ordinary share per Grafton Unit for a cash consideration of 10.0 cent per share on 12 September 2008 (the record date). The cash consideration will be paid on 3 October 2008. The decision to maintain the A ordinary share purchase payment at the same rate as paid in the comparative period is based on the strong financial position and cashflows of the Group.

Development

The Group continued to develop and expand its business through acquisition and organic growth opportunities. Six bolt-on acquisitions were completed improving coverage of the UK merchanting market from a further twelve locations. These businesses had a combined turnover of €40 million at the time of acquisition and offer performance improvement opportunities through purchasing and overhead synergies as part of the wider UK business.

The Group's coverage and positioning within the UK merchanting market also improved with the opening of fourteen branches in locations which offer attractive opportunities for growing market share. Two stores were added to the retail branch network in Ireland.

Against a more challenging trading backdrop, the Group raised the investment criteria in assessing acquisition and development opportunities. Acquisition activity is likely to be at lower levels and only essential capital projects will be undertaken until evidence emerges of an improvement in market conditions in the UK and Ireland. As a strong and competitive player in each of its markets, the Group will be focused on securing profitable market positions and capitalising on market development opportunities that inevitably arise in these conditions.

Operations Review - United Kingdom

Against the background of progressively more challenging macro economic circumstances in the half year, the overall UK business reported an increase in sterling turnover of 6.5 per cent and a decline in sterling operating profit of 13 per cent. However, the weakness in sterling translated into a decline in euro terms. UK turnover declined by 7.4 per cent to €907.4 million (2007: €979.4 million). Operating profit declined by twenty four per cent to €48.6 million (2007: €63.8 million). The operating profit margin was 5.4 per cent (2007: 6.5 per cent).

Growth in the UK economy slowed appreciably in the first half due to the combined effects of the credit crunch and rising food and energy prices that pushed inflation to well above the trend rate and limited the near term scope for a further easing of interest rates. Conditions in the residential property market weakened significantly in recent months. Tighter credit conditions led to higher mortgage rates and limited the availability



of credit to borrowers. These factors and weakness in the wider economy reduced housing demand and led to a sharp deterioration in housing activity. Housing transactions and mortgage approvals, key measures of housing market activity, weakened considerably.

The more resilient residential repair, maintenance and improvement market, which is the primary end-use market for the Group's UK merchanting sales, had an encouraging start to the year but weakened in the second quarter due to falling house prices, a lower level of equity withdrawal, declining housing transactions and a deterioration in consumer confidence.

UK Merchanting

Like for like sales in the merchanting business declined by 0.7 per cent. The operating profit margin in the overall merchanting business also declined by 0.7 per cent. This reflected the small decline in like for like sales, an improvement in the trading margin, unchanged like for like overheads in the Buildbase, Jacksons and Plumbase businesses and increased investment in the Selco and Plumbworld businesses. Selco and Plumbworld are two further routes to market which are being successfully developed.

The organisation structure supporting the management and development of the UK merchanting business further evolved during the half year in response to tougher market conditions and in line with the Group's objective of improving the profit stream and returns from the business. An integrated management structure will now have responsibility for Buildbase, Plumbase, Jacksons and the specialist merchanting businesses. The structure should enable the business to function more effectively and over time lead to significant synergies in procurement, accounting, administration and other support office functions while retaining the unique strengths and strong market positions of the individual trading brands.

UK Builders Merchanting

Buildbase benefited in the early months of the year from reasonably favourable trading, broadly continuing the trend established in 2007. However, as indicated above, market conditions weakened in the second quarter.

Regionally, Buildbase branches in the South East performed relatively better and overall turnover in the business increased marginally with the benefit of acquisitions and branch openings. Cost reductions partially mitigate the impact of lower volumes. The branch network was expanded through two single branch acquisitions and the opening of five branches. The Coventry and Market Drayton branches were relocated to new and enlarged facilities and Hire Centres were opened in eight branches.

Buildbase continued to develop its Partnering initiative which provides a structured approach to developing long term supply chain relationships with Local Authorities, Housing Associations and major national contractors including the provision of dedicated procurement management services and managed stores.



Jacksons, the East Midlands regional merchant reported broadly unchanged turnover with the businesses broad end-use market exposure enabling it to more effectively meet the challenges of a weakening market.

Selco, a trade self select warehouse based format, continued to benefit from good levels of activity in the small projects segment of the RMI market. The three stores that opened last year in London grew turnover in line with expectations. Expansion of the format continued with the opening of a store in Sutton, South London and a further four stores are scheduled to open later this year increasing the network to twenty five and providing increased market coverage in London and other large metropolitan areas.

In Northern Ireland, an easing of housing activity and prices from the record levels of recent years was accelerated by the international credit crunch and reduced demand from external investors. The contribution of the public sector to economic activity and employment provided a measure of resilience for the Macnaughton Blair business which achieved strong growth in RMI turnover partially offsetting the impact of a sharp decline in house building. Macnaughton Blair expanded its established position in the architectural ironmongery segment of the merchanting market with the acquisition of two ironmongery related businesses.

UK Plumbers Merchanting

The plumbers merchanting division incorporates the 188 branch Plumbase business and the bathroom products distribution business. The division increased sales substantially and despite generally weaker economic and trading conditions achieved a good level of sales growth in the like for like business. Operating profit increased in line with the scale of the business and the operating profit margin was maintained in line with the first half of 2007.

Plumbase strengthened its market position with the completion of two single branch acquisitions and the opening of seven branches. Sales in plumbworld.co.uk, the internet retailer of bathroom products, continued to grow.

UK Mortar

EuroMix, the leading manufacturer of mortars for use in residential, commercial and public sector construction projects, experienced a significant decline in sales and profitability due to the fall in the volume of residential construction, exacerbated by higher energy and materials costs and competitive pricing trends.

Operations Review – Republic of Ireland

Irish turnover declined by 16 per cent to €530.5 million (2007: €628.8 million) and operating profit declined by 60 per cent to €24.3 million (2007: €60.6 million). The operating profit margin was 4.6 per cent (2007: 9.6 per cent).

Growth in the Irish economy slowed sharply as the decline in residential construction which started in 2007 accelerated considerably. The housing market had an important role in the development of the economy in recent years and the adjustment in activity that is now well underway has contributed to the slowdown in the pace of economic activity generally. The Irish economy has also been affected by developments in



international financial markets which have limited the availability and increased the cost of finance for home buyers. Higher oil and food prices and adverse exchange rate movements also had a negative affect on economic growth.

Irish Merchanting

Turnover declined by 16 per cent to €354.7 million (2007: €424.2 million) and profitability was significantly lower. This performance was influenced by the decline in housing output in response to a sharp fall in demand, the weaker pricing environment and a high level of unsold properties. Housing starts progressively weakened during 2007 and forecast current year completions of approximately 45,000 units represents a decline of 42 per cent on the level of supply in 2007 and half the level of completions at the peak of the market in 2006. Housing starts weakened further indicating that supply will moderate further. There was a small reduction in capacity in the merchanting sector and this trend is expected to continue with the closure of uneconomic competitor operations.

The Heiton Buckley and Chadwicks business performed relatively well in the half year by limiting the impact of the dramatic fall in housing volumes through market share gains and an increased focus on the one-off housing market and the more resilient RMI market which continued to register volume growth. A number of branches benefited from an established exposure to the civils and commercial sectors where activity levels were good. The South Dublin City branch which opened last year and the relocated Tullamore branch performed strongly.

Heiton Steel, the market leading steel stock-holding business, increased sales and profits. Stronger demand from the commercial and agricultural sectors largely offset lower volumes in the housing market and all products achieved better pricing due to the increase in steel prices.

Management has responded to the significant challenges posed by the contraction in the housing market with tighter control of costs to partially offset the impact on profit of volume declines. Work continued on achieving closer integration of business units in order to fully realise scale related benefits and procurement gains derived from the substantial growth of recent years.

Irish Retailing

Turnover declined by 8 per cent to €154.6 million (2007: €168.2 million) and profitability was significantly lower. Trading in the forty two DIY and seven In-House at the Panelling Centre stores was influenced by a weakening trend in consumer spending and retail sales volumes following five years of strong growth.

The performance of the Group's retailing business in the half year is benchmarked against exceptional growth in the first half of 2007 which benefited from higher spending linked to the maturing SSIA savings accounts and favourable weather which boosted seasonal demand for gardening products. In contrast, poor weather conditions led to more subdued demand during this year's gardening season. A new store in Carrick-on-Shannon which opened in March traded to expectations.



The In-House at the Panelling Centre kitchen business is mainly exposed to the replacement market where demand held up well. Turnover was lower due to a more competitive environment as a number of participants commenced supplying the replacement segment of the kitchens market following the downturn in the new housing market.

Irish Manufacturing

Turnover and profitability in the windows, concrete and plastics businesses declined significantly due to the fall in residential construction activity. Management actions have been taken to better match capacity with demand.

Finance

The strong cash generative nature of the Group's businesses resulted in a cashflow from operating activities of €116.9 million (2007: €80.9 million) in the half year. This cashflow together with a favourable translation adjustment due to sterling weakness led to a decrease of €40.0 million in net debt despite spending €87.4 million on acquisitions and capital expenditure.

Control of working capital was a key priority in our operations and resulted in a reduction in investment of €45.5 million which in part reflected the decline in turnover.

The Group ended the half year in a strong financial position with shareholders funds of €1.04 billion after accounting for a negative translation movement of €46.7 million that arose, due to sterling weakness, on conversion of the net investment in the UK business. Shareholders' funds at 30 June 2008 were equivalent to net assets per share of €4.52. This figure does not reflect the potential uplift to fair value of the Group's large portfolio of freehold and long leasehold properties in the UK and Ireland including a number of properties which may become surplus to the Group's trading requirements.

Net debt at 30 June 2008 was €510.4 million (30 June 2007: €586.5 million) equivalent to gearing of 49 per cent (30 June 2007: 53 per cent). Group debt repayable in the period to the end of 2010 is covered by cash resources and committed facilities.

The Group's development over the past two decades has been largely funded by internal cashflows and a prudent level of borrowings. A strong balance sheet with high tangible net asset backing, cash generative businesses with leading market positions and the Group's good standing through its long term bilateral banking relationships has routinely enabled existing facilities to be refinanced and new facilities put in place over the past year against the background of much tighter conditions in the credit markets. The refinanced and new facilities are competitively priced at spreads which have not materially increased.

Risks and Uncertainties

The transparency (Directive 2004/109/EC) Regulations 2007 requires disclosure of the principal risks and uncertainties which could have a material impact on the Group's performance over the remainder of the financial year and cause actual results to differ materially from expected and historical results.



Trading in the Group's business is affected by economic conditions in the UK and Ireland where the Group's earnings are generated.

Demand in the UK and Irish builders merchandising 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 profitability.

A further deterioration in the financial and credit markets may also have an impact on the wider economy and housing market in both the UK and Ireland and potentially lead to lower demand in the Group's merchandising, 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 second half of the year.

Cautionary Statement

This interim report contains forward-looking statements. These statements have been made by the directors in good faith based on the information available to them up to the time of their approval of this report. Due to the inherent uncertainties, including both economic and business risk factors underlying such forward-looking information, actual results may differ materially from those expressed or implied by these forward-looking statements. The directors undertake no obligation to update any forward-looking statements contained in this report, whether as a result of new information, future events, or otherwise.

Outlook

Trading conditions in July and August remained challenging and there are no immediate signs of an improvement in our markets. In Ireland, turnover continued to decline at a similar rate to the first half and UK like for like sales showed a mid single digit decline in July.

The Irish economy is forecast to contract modestly in 2008 due to the decline in new housing investment. The ongoing adjustment to the housing market together with a general tightening in mortgage lending and higher interest rates is expected to lead to a continuation of the difficult trading environment in the Irish merchandising market over the remainder of the year. The weaker trend in consumer spending due to ongoing cost of living increases and weaker labour market conditions should continue to be reflected in moderating demand in the DIY sector.

The near term outlook for the UK economy remains subdued with a further softening in activity forecast over the remainder of the year. The impact of the slowing economy, lower house prices and a sharp decline in housing market activity has weakened prospects for the RMI market which we expect to remain challenging.

Grafton's long term experience of dealing with adverse economic conditions as well as growth phases has facilitated the implementation of systems and measures to both



protect and maximise the Group's position during this downturn. Prudent management of resources during the extended growth period of recent years has produced high levels of cash flow and a strong balance sheet, leaving the Group well positioned to face the challenges of a downturn and to benefit from any related opportunities in its market.

The Group will benefit in the second half from closer integration of the UK and Irish merchandising operations and a reduced cost base. The recently established warehouse facility in Shanghai will consolidate the supply of goods from existing and new Chinese suppliers into a single base and improve procurement returns.

Despite the slowdown in Ireland and the UK, both economies are fundamentally sound and should return to more sustainable levels of growth when the restraining effects of higher inflation and tighter credit conditions ease. Grafton's current focus on cash generation, cost control, efficiency improvements and market development should leave the Group strongly positioned for profitable growth when the Irish and UK economies recover and trading conditions improve.

Conference Call

Grafton will host an Analysts' conference call today at 8.30am (Irish Time) to discuss this announcement. The dial-in numbers are:

Ireland:	+ 353	1 436 4265
UK:	+ 44	208 817 9301
US:	+1 718	354 1226
Other:	+353	1 436 4265

A replay of the conference call will be available from 11.30am (Irish Time). To access the recording, the dial-in numbers are:

Ireland:	+353	1 436 4267
UK:	+44	207 7696425
US:	+1	630 6523111
Other:	+353	1 436 4267

The digital replay security code is: 1375232#



Grafton Group plc

Group Condensed Income Statement

For the six months ended 30 June 2008

	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	1,437,842	1,608,221	3,205,026
Operating costs (net)	<u>(1,366,057)</u>	<u>(1,484,923)</u>	<u>(2,934,227)</u>
Operating profit	71,785	123,298	270,799
Finance expense	(30,007)	(28,984)	(61,569)
Finance income	<u>11,576</u>	<u>12,112</u>	<u>26,603</u>
Profit before tax	53,354	106,426	235,833
Income tax expense	(6,949)	(13,837)	(30,658)
Profit after tax for the financial period	<u>46,405</u>	<u>92,589</u>	<u>205,175</u>
Profit attributable to: Equity holders of the company	<u>46,405</u>	<u>92,589</u>	<u>205,175</u>
Basic earnings per share	<u>20.20c</u>	<u>38.69c</u>	<u>86.16c</u>
Diluted earnings per share	<u>20.09c</u>	<u>37.90c</u>	<u>84.78c</u>



Group Condensed Statement of Recognised Income and Expense

For the six months ended 30 June 2008

	Six months to 30 June 2008 €000	Six months to 30 June 2007 €000	Twelve months to 31 Dec 2007 €000
Items of income and expense recognised directly within equity:			
Currency translation effects			
- on foreign currency net investments	(47,393)	(1,634)	(44,583)
- on foreign currency borrowings	670	36	829
Actuarial loss/gain on Group defined benefit pension schemes	(685)	33,595	12,573
Deferred tax on Group defined benefit pension schemes	(1,299)	(6,426)	(2,599)
Fair value movement in cash flow hedges:			
- Fair value gains/(losses)	(41)	514	521
- Included in finance costs	(543)	(706)	(1,784)
Deferred tax on cash flow hedge	73	24	158
Net income/(expense) recognised directly in equity	(49,218)	25,403	(34,885)
Profit after tax for the financial period	<u>46,405</u>	<u>92,589</u>	<u>205,175</u>
Total recognised income and expense for the period	<u>(2,813)</u>	<u>117,992</u>	<u>170,290</u>
Attributable to:			
Equity holders of the company	<u>(2,813)</u>	<u>117,992</u>	<u>170,290</u>

	30 June 2008 €000	30 June 2007 €000	31 Dec 2007 €000
Movement on Group Retained Earnings			
At 1 January	759,864	662,726	662,726
Profit after tax for the financial period	46,405	92,589	205,175
Purchase of 'A' ordinary shares	(27,566)	(25,129)	(49,048)
Actuarial (loss)/gain on pensions (net of tax)	(1,984)	27,169	9,974
Deferred tax on share based payments	-	(1,102)	(2,078)
Shares bought back and cancelled	-	-	(67,090)
Transfer from revaluation reserve	102	102	205
At end of period	<u>776,821</u>	<u>756,355</u>	<u>759,864</u>



Grafton Group plc

Group Condensed Balance Sheet as at 30 June 2008

	30 June 2008 (Unaudited) €000	30 June 2007 Unaudited) €000	31 Dec 2007 (Audited) €000
ASSETS			
Non-current assets			
Goodwill	586,257	607,353	600,793
Intangible assets	9,992	12,210	11,095
Property, plant and equipment	706,484	720,007	703,737
Deferred tax assets	19,054	22,176	27,309
Retirement benefit assets	7,944	2,901	-
Financial assets	743	411	850
Total non-current assets	1,330,474	1,365,058	1,343,784
Current assets			
Inventories	365,474	415,044	386,179
Trade and other receivables	531,352	627,758	535,695
Derivative and other financial instruments	-	1,655	584
Cash and cash equivalents	216,817	218,387	204,489
Total current assets	1,113,643	1,262,844	1,126,947
Total assets	2,444,117	2,627,902	2,470,731
EQUITY			
Capital and reserves attributable to the equity holders			
Equity share capital	11,575	12,078	11,569
Share premium account	288,711	286,139	287,458
Capital redemption reserve	898	346	875
Revaluation reserve	32,666	32,871	32,768
Other reserve – shares to be issued	13,538	8,723	10,920
Cash flow hedge reserve	-	1,448	511
Foreign currency translation reserve	(77,257)	11,622	(30,534)
Retained earnings	776,821	756,355	759,864
Treasury shares held	(5,746)	(5,746)	(5,746)
Total equity	1,041,206	1,103,836	1,067,685
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	554,576	490,813	523,311
Provisions	3,913	8,902	10,228
Retirement benefit obligations	14,751	-	15,323
Derivative financial instruments	9,320	22,657	14,967
Deferred tax liabilities	50,963	50,443	50,439
Total non-current liabilities	633,523	572,815	614,268
Current liabilities			
Interest-bearing loans and borrowings	159,471	286,586	213,624
Trade and other payables	543,612	580,794	504,203
Current income tax liabilities	51,738	61,842	55,427
Derivative financial instruments	3,832	6,506	3,560
Provisions	10,735	15,523	11,964
Total current liabilities	769,388	951,251	788,778
Total liabilities	1,402,911	1,524,066	1,403,046
Total equity and liabilities	2,444,117	2,627,902	2,470,731



Grafton Group plc Group Condensed Cash Flow Statement

For the six months ended 30 June 2008

	Six Months to 30 June 2008 (Unaudited) €000	Six Months to 30 June 2007 (Unaudited) €000	Twelve months to 31 Dec 2007 (Audited) €000
Profit before taxation	53,354	106,426	235,833
Finance income	(11,576)	(12,112)	(26,603)
Finance expense	30,007	28,984	61,569
Operating profit	71,785	123,298	270,799
Depreciation	29,280	26,911	56,792
Intangible amortisation	1,103	1,097	2,212
Goodwill write-off on termination	-	-	88
Share based payments charge	2,618	2,268	4,465
Profit on sale of property, plant and equipment	(3,114)	(1,603)	(10,480)
Contributions to pension schemes in excess of IAS 19 charge	(7,568)	(3,403)	(5,639)
Decrease /(increase) in working capital	45,473	(42,685)	(14,417)
Cash generated from operations	139,577	105,883	303,820
Interest paid	(21,415)	(22,863)	(50,445)
Income taxes paid	(1,310)	(2,073)	(10,564)
Cash flows from operating activities	116,852	80,947	242,811
Investing activities			
<i>Inflows</i>			
Proceeds from sale of property, plant and equipment	9,437	6,366	22,128
Interest received	3,702	6,148	14,416
	13,139	12,514	36,544
<i>Outflows</i>			
Acquisition of subsidiary undertakings and businesses	(24,032)	(35,266)	(84,350)
Net cash acquired with subsidiary undertakings	4,818	1,887	7,689
Deferred acquisition consideration	(5,932)	(7,623)	(9,461)
Purchase of property, plant and equipment	(62,041)	(56,882)	(104,650)
Sale/(purchase) of financial asset	44	-	(452)
	(87,143)	(97,884)	(191,224)
Cash flows from investing activities	(74,004)	(85,370)	(154,680)
Financing activities			
<i>Inflows</i>			
Proceeds from the issue of share capital	1,282	1,214	2,553
Proceeds from term borrowings	29,788	21,601	66,742
	31,070	22,815	69,295
<i>Outflows</i>			
Shares bought back and treasury shares acquired	-	(5,746)	(72,836)
Purchase of 'A' ordinary shares	(27,566)	(25,129)	(49,048)
Payment of finance lease liabilities	(683)	(879)	(1,883)
Redemption of loan notes payable net of derivatives	(29,778)	(16,100)	(19,216)
	(58,027)	(47,854)	(142,983)
Cash flows from financing activities	(26,957)	(25,039)	(73,688)
Net increase/(decrease) in cash and cash equivalents	15,891	(29,462)	14,443
Cash and cash equivalents at 1 January	203,489	201,764	201,764
Effect of exchange rate fluctuations on cash held	(7,766)	(540)	(12,718)
Cash and cash equivalents at the end of the period	211,614	171,762	203,489
Cash and cash equivalents are broken down as follows:			
Cash at bank and short term deposits	216,817	218,387	204,489
Overdrafts	(5,203)	(46,625)	(1,000)
	211,614	171,762	203,489



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>
Operating profit before other income and intangible amortisation	72,888	124,395	265,757
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	-	-	6,204
	<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.



Statement of Directors' Responsibilities

The Board of Directors is responsible for preparing the half yearly Financial Report and confirm that to the best of their knowledge:

- The condensed interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting* as adopted by the EU;
- The half yearly Financial Report includes a fair review of the information required by:
 1. *Regulation 8(2) of the Transparency (Directive 2004/109/EC) Regulations 2007*, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
 2. *Regulation 8(3) of the Transparency (Directive 2004/109/EC) Regulations 2007*, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

The Directors of Grafton Group plc are listed on the Grafton Group plc website: www.graftonplc.com .

On behalf of the Board:

Michael Chadwick
Executive Chairman

Colm O'Nuallain
Finance Director



Independent Review Report to Grafton Group plc

Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2008 which comprises the Group Condensed Income Statement, the Group Condensed Statement of Recognised Income and Expense, the Group Condensed Balance Sheet and Group Condensed Cash Flow Statement and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Transparency (Directive 2004/109/EC) Regulations 2007 (“the TD Regulations”) and the Transparency Rules of the Irish Financial Services Regulatory Authority. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

Directors’ responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the TD Regulations and the Transparency Rules of the Irish Financial Services Regulatory Authority.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the EU. The directors are responsible for ensuring that the condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly report for the six months ended 30 June 2008 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU, the TD Regulations and the Transparency Rules of the Irish Financial Services Regulatory Authority.



KPMG
Chartered Accountants
Dublin
28 August 2008