



Grafton Group plc 2008 Preliminary Statement

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Highlights

Grafton Group plc announces its final results for the twelve months ended 31 December 2008. Grafton is a major operator in the UK builders merchant market and the leading merchant and DIY business in Ireland. In the year under review 63 per cent of turnover was generated in the UK and 37 per cent in Ireland.

| | 2008 | 2007 | Change |
|---------------------------------------|----------|---------|---------|
| Revenue | € 2.67bn | €3.21bn | (16.6%) |
| Operating profit per income statement | €99.2m | €270.8m | (63.4%) |
| Operating profit (adjusted)* | € 118.6m | €265.8m | (55.4%) |
| Profit before tax | € 64.1m | €235.8m | (72.8%) |
| Adjusted earnings per share* | 32.2c | 84.3c | (61.8%) |
| Basic earnings per share | 25.09c | 86.16c | (70.9%) |
| Share purchase | 15.0c | 22.0c | (31.8%) |
| Cash flow per share** | 49.5c | 110.8c | (55.3%) |

* Before intangible amortisation and restructuring costs

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

FINANCIAL HIGHLIGHTS:

- Cash flow optimised in challenging conditions
- Cash conservation prioritised over development and acquisition spend
- Working capital reduced by €112 million or 27%
- Strong cash flow from operations of €253m
- Good liquidity retained with cash balances totalling €225m at year end
- Net debt reduced by €114.8m to €435.6m
- Strong balance sheet with 50% gearing underpinned by secure funding position and significant property portfolio
- Turnover declined by 17% to €2.67bn in euro terms and by 8% in constant currency terms
- Operating profit before rationalisation and other non-recurring costs fell by 55% to €118.6m
- Sterling devalued 23% during the year significantly impacting the value of UK assets on translation
- Adjusted earnings per share were down by 62% to 32.2 cent.
- A Ordinary share purchase reduced to 5.0 cent (2007: 12.0 cent)
- Total A Ordinary share purchases of 15.0 cent (2007: 22.0 cent)



OPERATIONAL HIGHLIGHTS:

- Greater branch network efficiencies to respond to declining volumes
- New initiatives to deliver significant procurement benefits
- Continued focus on cost reduction, scale-related benefits, closer integration, branch consolidation and brand synergies
- Cost base reduced by annualised €45m
- New investment focused on projects offering exceptional value and strategic positioning for the future
- UK operations accounted for 63% of turnover and 67% of operating profit
 - UK turnover of £1.34bn (2007: £1.35bn) fell by 1% and by 15% in euro
 - Demand slowed substantially from mid-year
 - UK operating profit declined by 52% to €68.0m (2007: €142.1m) and by 44% in sterling terms
- In Ireland, turnover declined by 20% to €986m (2007: €1.23bn)
 - First half merchanting turnover fell 16% and 27% in second half
 - Increased emphasis on RMI and on energy saving materials
 - Like for like DIY sales down 11%
 - Closer management integration and significant cost reductions to offset impact of declining turnover

OUTLOOK:

Commenting on the outlook, Michael Chadwick, Executive Chairman said:

“We are operating in difficult economic circumstances and management is continually reassessing its response to changing conditions. We are taking actions proportionate to the challenges faced in the UK and Irish markets. In the current year, we will maintain our focus on cost control, operational efficiencies and cash generation and implement deeper cuts to overheads where demand continues to contract.

Trading in January and February continued to decline, made worse by the heavy snowfall. We expect to continue generating strong cash flow, retain good liquidity and maintain our secure funding position. The Group will also benefit from ongoing working capital management and a lower interest rate environment. We have the benefit of a strong balance sheet and moderate gearing.

Grafton’s businesses have strong market positions and brands in the UK and Ireland and expect to emerge from the current market downturn as more efficient enterprises well placed to take advantage of growth opportunities. While conditions in the financial and credit markets make the timing and nature of any recovery uncertain, both economies have been resilient to past economic shocks and will eventually recover from the current downturn.”



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: 1582071#

A copy of this statement is also available on our website www.graftonplc.com



Preliminary Statement For the twelve months ended 31 December 2008

OVERVIEW:

Trading conditions in merchanting, DIY and mortar markets were very challenging in 2008 against the background of a sharp slowdown in the UK and Irish economies. Despite these difficult conditions, a satisfactory level of underlying profit and earnings was achieved compared with the record results in 2007. The major influences on performance were contraction in the UK and Irish economies, a reduction in the availability of credit to households and the depreciation of sterling against the euro.

The UK business had a positive start to the year. Demand eased during the first half and slowed substantially from mid-year. In local currency terms UK turnover declined by 1 per cent to £1.34 billion (2007: £1.35 billion). However on consolidation and conversion into euro, UK turnover was down 15 per cent. Operating profit declined by 52 per cent to €68.0 million (2007: €142.1 million) and by 44 per cent in sterling. The UK is the Group's principal market and accounted for 63 per cent of Group turnover (2007: 62 per cent) and 67 per cent of Group operating profit.

In Ireland, the economy weakened progressively in 2008. Demand in merchanting was affected by a significant deterioration in the housing market. A sharp slowdown in consumer spending was reflected in lower turnover in the DIY business. Irish turnover declined by 20 per cent to €986 million (2007: €1.23 billion). Irish operating profit declined by 73 per cent to €33.5 million from €123.7 million.

The Group ended the year with a strong balance sheet underpinned by a significant property portfolio and a secure funding position. The Group's operations continued to generate strong cash flow. Net debt at year-end fell to €435.6 million, a decline of €114.8 million from €550.4 million in 2007. Good liquidity was retained by holding significant cash balances amounting to €225 million at year end.

Where necessary, individual businesses were restructured to enable them to compete more effectively and emerge from the downturn with stronger market positions. The results include a charge of €17.2 million for rationalisation, restructuring and other non-recurring costs. In 2009 and beyond, the Group will benefit by at least €45 million in annual savings from steps already implemented to reduce its cost base and rationalise operations.

Group markets are expected to remain difficult for the current year. Grafton is however well placed to manage its business through the economic downturn by continuing to tightly control costs, capital expenditure and cash flow.



SHARE PURCHASE:

The company purchased 1 'A' Ordinary share per Grafton unit for a cash consideration of 10.0 cent (2007: 10.0 cent) which was paid on 3 October 2008. The Board has evaluated its share purchase policy in the light of current trading conditions and agreed to purchase a further 'A' Ordinary share per Grafton Unit for a cash consideration of 5 cent (2007: 12.0 cent) payable on 8 April 2009. The decision to set the share purchase payment at this reduced level takes into consideration the significant cash resources available, the ongoing cash generative ability of the Group and the Board's desire to adopt a prudent financial approach during a period of significant economic uncertainty. It is the Board's intention to strive to maintain its twice yearly share purchase subject to conditions prevailing at the time.

OPERATIONS REVIEW – UNITED KINGDOM:

Turnover was down in sterling terms by 1 per cent to £1.34 billion (2007: £1.35 billion) and by 15 per cent on conversion to euro. Operating profit declined by 52 per cent to €68.0 million (2007: €142.1 million). The operating profit margin was 4.0 per cent (2007: 7.2 per cent).

Following 16 years of steady growth and low inflation, GDP growth in the UK economy was flat in the second quarter of 2008 and contracted in the third and final quarters. The decline in economic activity was broadly based as credit conditions, including mortgage approvals, tightened and sentiment deteriorated. Consumer spending reduced as unemployment increased quite sharply and households responded by reducing debt and increasing savings. These factors resulted in a sharp fall in house prices and housing transactions. House builders responded to the fall in demand by dramatically reducing housing starts. Completions fell at a lower rate as projects begun in 2007 were completed.

The residential repair, maintenance and improvement (RMI) market contracted progressively but at a considerably lower rate than the new housing market. The uncertain economic outlook also reduced household spending on RMI. Falling mortgage equity withdrawal and increased savings also weighed on demand. Housing RMI is influenced by housing transactions which were sharply lower in 2008.

UK Merchanting

The UK merchanting business faced a challenging year against this economic background. The RMI sector remained firm in the early months of 2008 but weakened over the remainder of the year. Overall sterling turnover was almost flat and down by 6.5 per cent on a like for like basis. The decline in profitability primarily reflected the fall in like for like volumes, increased store opening costs in Selco and expansion of the Plumbworld business, two strategic routes to market that continue to be developed. Profit was also reduced by rationalisation measures, including a reduction of 800 in the workforce.

An evaluation of procurement saving opportunities on indirect goods and services was completed in the second half. This identified significant price reduction



benefits through consolidation of volumes, including sourcing services through internet based tendering.

A more streamlined UK merchanting business incorporating the Buildbase, Plumbase and Jacksons brands and specialist merchanting businesses is enabling a deeper integration of the overall business. The new structure will result in significant synergies beyond the rationalisation measures already implemented. These arise particularly in procurement, accounting, other central services and in promoting shared best practice while building on the regional and product group strengths of individual brands.

The reduction in the workforce and procurement initiative should give rise to annual savings of up to €25 million. The rationalisation programme resulted in the consolidation of 14 branches. Profitable contributions from acquisitions completed in 2008 were more than offset by initial start up trading losses incurred by the 26 greenfield branches that opened during the year.

Buildbase benefited from a positive start to trading but experienced much tougher conditions as the impact of the recession and credit tightening took hold. The business responded to the negative impact on profitability of declining volumes by cutting the workforce and consolidating a number of underperforming branches. Capital expenditure was curtailed and expansion of the branch network was restricted to opportunities that provided the potential for superior returns.

Demand from Buildbase's core RMI customer base declined in the second half as consumer sentiment weakened and investment in housing reduced. Gross margins were maintained despite more intense competition in a market that had some capacity growth in recent years. Exposure to growth segments of the market was increased through securing long-term supply arrangements with Local Authorities and national contractors in health, education and infrastructure projects supported by increased capital spending by Government.

Nine new branch openings and two single branch acquisitions expanded the Buildbase network. These locations have good medium term prospects for growing market share and providing acceptable long term returns on investment. The Coventry and Market Drayton branches were relocated and Hire Centres were opened in eleven branches. Nine branches were consolidated, in most cases releasing freehold property for disposal when credit conditions ease and the property market normalises.

Jacksons, the East Midlands regional merchant, experienced a decline in turnover but produced a satisfactory level of profitability. The gross margin benefited from a change in the customer profile with house builders accounting for a lower proportion of turnover. New branches were opened in Alford, Lincolnshire and York, Yorkshire.

Selco, a trade only self-select warehouse based format, supplies general builders and specialist contractors engaged in small RMI projects on a mainly cash and collect basis. Selco had a very successful year in 2008. The business is positioned in the most resilient segment of the RMI market. The three branches in London that opened in 2007 traded in line with expectations. A further five stores opened during 2008 increasing the network to twenty five including eleven in



London. Further opportunities for store openings are being progressed, mainly in London.

In Northern Ireland, like for like turnover declined in Macnaughton Blair. Economic activity slowed sharply in the last quarter, although the impact of the downturn was lessened by the province's large public sector. Volumes in merchandising were lower as house building activity declined, although turnover grew in the RMI and commercial segments of the market. Two acquisitions completed in the first half expanded Macnaughton Blair's position in the architectural ironmongery market.

Plumbase, the UK's fourth largest plumbers merchandising chain, traded from 188 branches at the year end. The business supplies specialist plumbing and heating contractors and general contractors engaged in housing repair, maintenance and refurbishment projects. While competitive pressure reduced like for like sales the business outperformed the market. Plumbase opened nine branches, acquired one branch and consolidated five branches.

UK Mortar

EuroMix manufactures a range of mortars from nine plants in England and Scotland for supply to residential, commercial and public sector construction. While the business remained profitable throughout the year, turnover and operating profit declined significantly due to the dramatic fall in residential construction. Sharply reduced volumes in a competitive market prevented recovery of higher energy and raw materials costs. Demand from the commercial sector weakened in the second half. Decisive action was taken to reduce the cost base of the business to partially mitigate the effects of the very weak market.

OPERATIONS REVIEW – REPUBLIC OF IRELAND:

Turnover was down 20 per cent to €985.65 million (2007: €1.23 billion). This reflected a decline of 16 per cent in the first half and a much sharper fall of 24 per cent in the second half. Operating profit was reduced to €33.5 million (2007: €123.7 million). The performance of the business was closely linked to the downturn in the housing sector which is undergoing a substantial fall in activity and prices from the unsustainable levels reached at the peak of the market in 2006. House completions fell by one third to 52,000 units in 2008 from 78,000 units in 2007 and 88,000 units in 2006. Housing starts were also weaker falling by two thirds to 25,000 units. Housing demand was impacted by negative trends in the labour market, tighter mortgage conditions and an expectation that prices have further to fall.

Irish Merchandising

Turnover in the first half in the Heiton Buckley and Chadwicks chains benefited from completion of housing projects commenced in 2007. There was a marked reduction in housing starts in the second half, with the exception of one-off housing which continues to be an important market.

Stable levels of activity were maintained throughout the year in the commercial agricultural and infrastructure end-use markets. The decline in new housing has



increased exposure to the RMI market which performed well although down from the record levels in 2007 due to weakness in the last quarter in line with the slowdown in consumer spending.

Despite the sharp fall in volumes, gross margins were supported by changes in the product mix. Significant cost savings were achieved to partially offset the impact of volume declines which have reduced the overall scale of the business. These included a reduction of 300 in the number of full-time employees, implemented through non-replacement, voluntary redundancies and, in a small minority of cases, compulsory redundancies.

Internal improvements placed increased emphasis on the RMI market including upgrading showrooms to market doors and floors, as well as expanding the range of bathroom products. The business is also successfully developing sales of energy saving building materials and renewables.

Heiton Steel, the leading steel stock holding business in Ireland, maintained profitability on lower turnover against the background of higher steel prices for most of the year. The business benefited from solid demand in the agricultural and commercial sectors.

Developments within the Irish Merchanting business include a fundamental and ongoing reorganisation of the structure supporting the management and development of the business. This is opportune as the harsher market conditions present tougher challenges in 2009. A single management team is now in place for all brands operating from a single head office location. Costs continue to be more aligned with sales volumes available in the current falling market. The management team works closely with the Group Chief Operating Officer in driving cost reduction, branch consolidation and brand synergies while leveraging scale-related benefits.

Irish Retailing

Turnover declined by 11 per cent to €303.1 million (2007: €339.8 million) and operating profit was down significantly. Trading in the forty one DIY stores and seven specialist kitchen showrooms was affected by a sharp slowdown in consumer spending arising from falling house prices, rising unemployment and a contracting economy.

Like for like sales in the DIY business were down 11 per cent. The performance for 2008 is benchmarked against exceptional growth in 2007. First half trading was subdued due to poor weather conditions while demand declined throughout the second half due to pressures on consumer spending and weakening sentiment.

Turnover in the In-House at the Panelling Centre kitchen business was down due to the lower level of transactions in the secondary housing market and slowdown in consumer spending.

Decisive action has been taken to deal with the more difficult retail conditions. The cost base of the business is being tightly managed to partly offset the negative impact on profits of lower turnover.



FINANCIAL REVIEW:

Cash Flow

The Group's strong cash generation from operations combined with a favourable translation adjustment as a result of sterling weakness resulted in a €114.8 million reduction in net debt. This was achieved despite spending €106.7 million (2007: €193.8 million) on capital expenditure and acquisitions and €50.6 million (2007: €49.0 million) on the purchase of 'A' Ordinary shares in lieu of dividend payments to shareholders.

Cash generated from operations was €252.7 million (2007: €303.8 million) yielding an exceptional cash conversion ratio of circa 200 per cent. Control of working capital was a key focus of management and accounted for €111.7 million of the cash flow generated from operations. This arose from a lower level of trade debtors, due to the fall in like for like sales, and improved purchasing terms agreed with UK suppliers. The other key components of cash flow from operations were an operating profit of €99.2 million (2007: €270.8 million) and depreciation and amortisation of €56.5 million (2007: €59.0 million) being non-cash items charged in arriving at operating profit.

Liquidity and Debt

The Group ended the year with a strong balance sheet underpinned by a significant property portfolio and a secure funding position. The Group's operations continued to generate strong cash flow. Net debt at the year-end fell to €435.6 million, a decline of €114.8 million from €550.4 million at the end of 2007. The favourable translation impact of sterling weakness reduced net debt by €45.5 million. The net debt to shareholders' funds ratio was 50 per cent (31 December 2007: 52 per cent).

The Group's gross debt at 31 December 2008 was €660.5 million (31 December 2007: €754.9 million). €108.9 million of gross debt is repayable in 2009, €43.2 million is repayable in 2010, €318.6 million is repayable in 2011 and €146.0 million in 2012. The Group has undrawn committed facilities of €67.4 million repayable in 2011.

The Group continued to retain good liquidity by holding significant cash balances which amounted to €224.8 million at the year-end (31 December 2007: €204.5 million).

Bank facilities and debt issued in the US Private Placement market pursuant to a Note Purchase Agreement require the Group to maintain a minimum level of net assets. The minimum net asset requirement is €773 million and this compares to actual net assets of €869 million at 31 December 2008. The Group's other principal financial banking covenants are a maximum net debt to equity ratio of 100 per cent and a current liabilities to current assets ratio not to exceed 1.2:1. The Group has no interest cover covenant or EBIDTA to debt covenant. The Group's gross debt at the year-end was at floating rates and has already started to benefit from the significant cuts in euro and sterling interest rates in recent months.



Shareholders' Funds

Shareholders' funds were €868.9 million (2007: €1.07 billion) at the year-end, a decline of €198.8 million. Sterling weakness at the year-end resulted in a reduction of €172.3 million in shareholders' funds on translation of the net investment in the UK business into euro. The euro / sterling exchange rates of 95.25p at 31 December 2008 was circa 23 per cent weaker compared to the rate of 73.34p at 31 December 2007. With the recent movement in exchange rates almost €40 million of the reduction in shareholders' funds has been recovered to date. Shareholders' funds were also reduced as a result of a charge of €37.4 million before tax due to an actuarial loss on the Group's defined benefit pension scheme which primarily reflects the decline in the market value of the equities portion of assets invested by the various defined benefit pension schemes.

Shareholders' funds do not include the potential revaluation surplus on the Group's portfolio of freehold and long leasehold properties. No revaluation of the UK properties has been undertaken since they were acquired and the Group's Irish properties were last revalued in 1998 with the exception of the Heiton Group properties that were revalued in 2004. This portfolio includes a small number of properties that are surplus to the Group's trading requirements.

DEVELOPMENT:

In view of the extent of the deterioration in market conditions the Group concentrated on optimising cash flow from operations and improving the efficiency of the branch network in response to declining volumes. A total of €79.0 million was invested in acquisitions and capital expenditure already committed. Given the scale of the downturn, both capital and development expenditure has been cut significantly during the second half of 2008.

Six acquisitions, in progress from the end of 2007, were completed in the first half, adding twelve new trading locations turning over €39 million on completion. They brought improved coverage of the UK merchanting market and expertise in niche product areas.

Projects previously approved resulted in development expenditure on the opening of 28 branches. These investments are an important element of the Group's long term strategy of improving its geographic coverage of the UK merchanting market and should provide acceptable returns on investment. In Ireland, the retailing business opened two stores.

In August 2008 the Group established a warehouse in Shanghai to consolidate the supply of goods from existing and new Chinese manufacturers. The new facility delivered initial procurement gains in the second half of the year. It is now fully operational and offers substantial procurement savings. A strategy to allow Group companies to fully benefit from this investment is now in place. The Group plans to incrementally increase purchasing through the facility over the next three years.

Cash flow will be concentrated only on essential asset replacement projects until evidence starts to emerge of an improving outlook for the UK and Irish economies. Development expenditure will be limited to projects which offer exceptional value



and position the Group to take advantage of opportunities for market share growth that are an inevitable consequence of the current cyclical downturn.

The investment in acquisitions in 2008 amounted to €28.1 million (2007: €89.2 million) including deferred acquisition consideration of €8.4 million relating to prior year transactions. Capital expenditure on development projects was €50.9 million (2007: €55.7 million). Total expenditure on acquisitions and projects of a development nature was €79.0 million (2007: €144.9 million).

OUTLOOK:

Trading in January and February 2009 continued to decline, made worse by the heavy snowfall. Plans are in place to deal with any further contraction in business.

The Group's experience of previous recessions has enabled actions to be taken which are proportionate to the challenges faced in its markets. Management continues to reassess its response in the light of changing market conditions and is implementing deeper cuts to overheads as demand contracts. The Group's focus will remain on cost control, operational efficiencies and cash generation.

In Ireland, the economy is forecast to contract sharply in 2009 resulting in further significant job losses. The adjustment in housing to more sustainable levels of output is now at a very advanced stage and will significantly reduce completions in 2009 leading to a further turnover decline in the Irish merchanting business. These factors and tighter credit are likely to outweigh the potentially positive impact on housing of low interest rates and improved housing affordability.

The Irish DIY business is expected to be affected by the continuing decline in retail sales volumes due to a fall in disposable incomes as a result of increasing unemployment and higher taxation on incomes. Reducing household debt and increasing savings are also expected to weigh on consumer spending.

The UK economy is forecast to contract sharply in the first half of this year before starting to respond to the considerable stimulus measures put in place in recent months. The expectation for 2009 is that demand in the RMI market will continue to weaken as consumer spending contracts further due to lower employment, falling house prices and tight credit conditions.

The UK and Irish economies and Grafton have all been resilient to past economic shocks and will eventually recover from the current downturn. Grafton operates businesses with strong market positions and brands in both economies and expects to emerge from the current market downturn as a more efficient business well placed to take advantage of growth opportunities.



Grafton Group plc

Group Income Statement

For the year ended 31 December 2008

| | Twelve months to 31 December 2008 (Audited) €000 | Twelve months to 31 December 2007 (Audited) €000 |
|--|--|--|
| Revenue | 2,672,984 | 3,205,026 |
| Operating costs (net) | <u>(2,573,759)</u> | <u>(2,934,227)</u> |
| Operating profit | 99,225 | 270,799 |
| Finance expense | (59,944) | (61,569) |
| Finance income | <u>24,835</u> | <u>26,603</u> |
| Profit before tax | 64,116 | 235,833 |
| Income tax expense | (6,418) | (30,658) |
| Profit after tax for the year | <u>57,698</u> | <u>205,175</u> |
| Profit attributable to: Equity holders of the company | <u>57,698</u> | <u>205,175</u> |
| Basic earnings per share | <u>25.09c</u> | <u>86.16c</u> |
| Diluted earnings per share | <u>25.00c</u> | <u>84.78c</u> |



Group Statement of Recognised Income and Expense

For the year ended 31 December 2008

| | Twelve months to 31 December 2008 €000 | Twelve months to 31 December 2007 €000 |
|--|--|--|
| Items of income and expense recognised directly within equity: | | |
| Currency translation effects | | |
| - on foreign currency net investments | (180,087) | (44,583) |
| - on foreign currency borrowings | 7,787 | 829 |
| Actuarial (loss)/gain on Group defined benefit pension schemes | (37,414) | 12,573 |
| Deferred tax on Group defined benefit pension schemes | 4,730 | (2,599) |
| Fair value movement in cash flow hedges: | | |
| - Fair value (losses)/gains | (55) | 521 |
| - Included in finance costs | (529) | (1,784) |
| Deferred tax on cash flow hedge | 73 | 158 |
| Net (expense) recognised directly in equity | (205,495) | (34,885) |
| Profit after tax for the financial year | <u>57,698</u> | <u>205,175</u> |
| Total recognised income and expense for the year | <u>(147,797)</u> | <u>170,290</u> |
| Attributable to: | | |
| Equity holders of the company | <u>(147,797)</u> | <u>170,290</u> |

| | 31 December 2008 €000 | 31 December 2007 €000 |
|---|-----------------------------|-----------------------------|
| Movement on Group Retained Earnings | | |
| At 1 January | 759,864 | 662,726 |
| Profit after tax for the financial year | 57,698 | 205,175 |
| Purchase of 'A' ordinary shares | (50,585) | (49,048) |
| Actuarial (loss)/gain on pensions (net of tax) | (32,684) | 9,974 |
| Deferred tax on share based payments | - | (2,078) |
| Shares bought back and cancelled | - | (67,090) |
| Transfer from other reserve – shares to be issued | 2,913 | - |
| Transfer from revaluation reserve | 611 | 205 |
| At end of year | <u>737,817</u> | <u>759,864</u> |



Grafton Group plc

Group Balance Sheet as at 31 December 2008

| | 31 December 2008 (Audited) €000 | 31 December 2007 (Audited) €000 |
|--|--|--|
| ASSETS | | |
| Non-current assets | | |
| Goodwill | 532,807 | 600,793 |
| Intangible assets | 8,877 | 11,095 |
| Property, plant and equipment | 633,336 | 703,737 |
| Deferred tax assets | 24,904 | 27,309 |
| Retirement benefit assets | 7 | - |
| Derivative and other financial instruments | 27,810 | - |
| Financial assets | 227 | 850 |
| Total non-current assets | 1,227,968 | 1,343,784 |
| Current assets | | |
| Inventories | 331,124 | 386,179 |
| Trade and other receivables | 353,581 | 535,695 |
| Derivative and other financial instruments | 10,943 | 584 |
| Cash and cash equivalents | 224,834 | 204,489 |
| Total current assets | 920,482 | 1,126,947 |
| Total assets | 2,148,450 | 2,470,731 |
| EQUITY | | |
| Capital and reserves attributable to the equity holders | | |
| Equity share capital | 11,579 | 11,569 |
| Share premium account | 288,951 | 287,458 |
| Capital redemption reserve | 900 | 875 |
| Revaluation reserve | 32,157 | 32,768 |
| Other reserve – shares to be issued | 6,041 | 10,920 |
| Cash flow hedge reserve | - | 511 |
| Foreign currency translation reserve | (202,834) | (30,534) |
| Retained earnings | 737,817 | 759,864 |
| Treasury shares held | (5,746) | (5,746) |
| Total equity | 868,865 | 1,067,685 |
| LIABILITIES | | |
| Non-current liabilities | | |
| Interest-bearing loans and borrowings | 579,333 | 523,311 |
| Provisions | 1,680 | 10,228 |
| Retirement benefit obligations | 40,899 | 15,323 |
| Derivative financial instruments | - | 14,967 |
| Deferred tax liabilities | 40,732 | 50,439 |
| Total non-current liabilities | 662,644 | 614,268 |
| Current liabilities | | |
| Interest-bearing loans and borrowings | 119,874 | 213,624 |
| Trade and other payables | 434,041 | 504,203 |
| Current income tax liabilities | 55,950 | 55,427 |
| Derivative financial instruments | - | 3,560 |
| Provisions | 7,076 | 11,964 |
| Total current liabilities | 616,941 | 788,778 |
| Total liabilities | 1,279,585 | 1,403,046 |
| Total equity and liabilities | 2,148,450 | 2,470,731 |



Grafton Group plc Group Cash Flow Statement

For the year ended 31 December 2008

| | Twelve months to 31 December 2008 | Twelve months to 31 December 2007 |
|--|--------------------------------------|--------------------------------------|
| | (Audited) | (Audited) |
| | €000 | €000 |
| Profit before taxation | 64,116 | 235,833 |
| Finance income | (24,835) | (26,603) |
| Finance expense | <u>59,944</u> | <u>61,569</u> |
| Operating profit | 99,225 | 270,799 |
| Depreciation | 54,287 | 56,792 |
| Intangible amortisation | 2,218 | 2,212 |
| Goodwill write-off on termination | - | 88 |
| Share based payments (credit)/ charge | (1,966) | 4,465 |
| Profit on sale of property, plant and equipment | (4,655) | (10,480) |
| Contributions to pension schemes in excess of IAS 19 charge | (8,094) | (5,639) |
| Decrease /(increase) in working capital | <u>111,681</u> | <u>(14,417)</u> |
| Cash generated from operations | 252,696 | 303,820 |
| Interest paid | (45,593) | (50,445) |
| Income taxes paid | <u>(1,579)</u> | <u>(10,564)</u> |
| Cash flows from operating activities | 205,524 | 242,811 |
| Investing activities | | |
| <i>Inflows</i> | | |
| Proceeds from sale of property, plant and equipment | 10,953 | 22,128 |
| Interest received | 8,781 | 14,416 |
| Sale of financial asset | <u>433</u> | <u>-</u> |
| | <u>20,167</u> | <u>36,544</u> |
| <i>Outflows</i> | | |
| Acquisition of subsidiary undertakings and businesses | (24,460) | (84,350) |
| Net cash acquired with subsidiary undertakings | 4,915 | 7,689 |
| Deferred acquisition consideration | (8,420) | (9,461) |
| Purchase of property, plant and equipment | (78,592) | (104,650) |
| Purchase of financial asset | - | (452) |
| | <u>(106,557)</u> | <u>(191,224)</u> |
| Cash flows from investing activities | (86,390) | (154,680) |
| Financing activities | | |
| <i>Inflows</i> | | |
| Proceeds from the issue of share capital | 1,528 | 2,553 |
| Proceeds from term borrowings | <u>91,944</u> | <u>66,742</u> |
| | <u>93,472</u> | <u>69,295</u> |
| <i>Outflows</i> | | |
| Shares bought back and treasury shares acquired | - | (72,836) |
| Repayments of long-term borrowings | (74,031) | - |
| Purchase of 'A' ordinary shares | (50,585) | (49,048) |
| Payment of finance lease liabilities | (1,209) | (1,883) |
| Redemption of loan notes payable net of derivatives | <u>(29,842)</u> | <u>(19,216)</u> |
| | <u>(155,667)</u> | <u>(142,983)</u> |
| Cash flows from financing activities | (62,195) | (73,688) |
| Net increase in cash and cash equivalents | 56,939 | 14,443 |
| Cash and cash equivalents at 1 January | 203,489 | 201,764 |
| Effect of exchange rate fluctuations on cash held | <u>(35,601)</u> | <u>(12,718)</u> |
| Cash and cash equivalents at the end of the year | 224,827 | 203,489 |
| Cash and cash equivalents are broken down as follows: | | |
| Cash at bank and short term deposits | 224,834 | 204,489 |
| Overdrafts | <u>(7)</u> | <u>(1,000)</u> |
| | <u>224,827</u> | <u>203,489</u> |



Grafton Group plc
Notes to Final Results Announcement for the year ended 31 December 2008

1. General Information

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 last financial year ended 31 December 2007 were filed with Registrar of Companies and are available on the Company's website www.graftonplc.com . Those financial statements contained an unqualified audit report.

Basis of Preparation and Accounting Policies

The financial statements and information presented in this preliminary announcement has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), which comprises standards and interpretations approved by the International Accounting Standards Board (IASB) and International Accounting Standards and Standing Interpretations Committee and subsequently adopted by the EU.

The financial information contained in the 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.



2. Revenue and Operating Profit by Geographic Segment

The amount of revenue by geographic segment is as follows:

| | Twelve months to 31 December 2008 (Audited) €000 | Twelve months to 31 December 2007 (Audited) €000 |
|---|---|--|
| Revenue | | |
| Ireland | 985,651 | 1,227,375 |
| United Kingdom | <u>1,687,333</u> | <u>1,977,651</u> |
| | <u>2,672,984</u> | <u>3,205,026</u> |
| | | |
| Operating profit before other income and intangible amortisation | | |
| Ireland | 33,457 | 123,651 |
| United Kingdom | <u>67,986</u> | <u>142,106</u> |
| | <u>101,443</u> | <u>265,757</u> |
| Operating profit before other income and intangible amortisation | | |
| Intangible amortisation – Ireland | (2,218) | (2,212) |
| | <u>99,225</u> | <u>263,545</u> |
| | | |
| Operating profit before other income | | |
| Ireland | 31,239 | 121,439 |
| United Kingdom | <u>67,986</u> | <u>142,106</u> |
| | <u>99,225</u> | <u>263,545</u> |
| | | |
| Other income (property profit) | | |
| Ireland | - | 1,050 |
| United Kingdom | <u>-</u> | <u>6,204</u> |
| | <u>-</u> | <u>7,254</u> |
| | | |
| Operating profit | | |
| Ireland | 31,239 | 122,489 |
| United Kingdom | <u>67,986</u> | <u>148,310</u> |
| | <u>99,225</u> | <u>270,799</u> |
| | | |
| Finance costs (net) | <u>(35,109)</u> | <u>(34,966)</u> |
| Profit before tax | <u>64,116</u> | <u>235,833</u> |



3. Analysis of Revenue by Business Segment

| | Twelve months to 31 December 2008 (Audited) €000 | Twelve months to 31 December 2007 (Audited) €000 |
|----------------------------|--|--|
| Revenue | | |
| UK merchanting | 1,642,005 | 1,905,378 |
| Irish merchanting | 642,479 | 819,164 |
| Merchanting | <u>2,284,484</u> | <u>2,724,542</u> |
| Irish DIY | 303,071 | 339,849 |
| Irish and UK manufacturing | 85,429 | 140,635 |
| | <u>2,672,984</u> | <u>3,205,026</u> |

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

| For the twelve months ended 31 December 2008 | 31 December 2008 €000 | 31 December 2007 €000 |
|---|-----------------------------|-----------------------------|
| Net increase in cash and cash equivalents | 56,939 | 14,443 |
| Net movement in derivative financial instruments | (584) | (1,263) |
| Cash-flow from movement in debt and lease financing | 13,138 | (45,643) |
| Change in net debt resulting from cash flows | <u>69,493</u> | <u>(32,463)</u> |
| Loan notes issued on acquisition of subsidiary undertakings | - | (81) |
| Finances leases acquired with subsidiary undertakings | - | (404) |
| Bank loans and loan notes acquired with subsidiaries | (179) | (2,581) |
| Translation adjustment | 45,455 | 36,000 |
| Movement in net debt in the year | <u>114,769</u> | <u>471</u> |
| Net debt at 1 January | <u>(550,389)</u> | <u>(550,860)</u> |
| Net debt at 31 December | <u>(435,620)</u> | <u>(550,389)</u> |
| Gearing | <u>50%</u> | <u>52%</u> |



5. Earnings per Share

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

| | Year Ended 31 December 2008 €000 | Year Ended 31 December 2007 €000 |
|--|---|---|
| Numerator for basic, adjusted and diluted earnings per share: | | |
| Profit after tax for the year | 57,698 | 205,175 |
| Numerator for basic and diluted earnings per share | 57,698 | 205,175 |
| Other income (property profit) after tax | - | (6,311) |
| Intangible amortisation after tax | 1,941 | 1,935 |
| Restructuring costs after tax | 14,514 | - |
| Numerator for adjusted earnings per share | 74,153 | 200,799 |
| Denominator for basic and adjusted earnings per share: | | |
| Weighted average number of Grafton Units in issue | 229,985,105 | 238,145,757 |
| Effect of potential dilutive Grafton Units | 828,985 | 3,856,396 |
| Denominator for diluted earnings per share | 230,814,090 | 242,002,153 |
| Earnings per share (cent) | | |
| - Basic | 25.09 | 86.16 |
| - Diluted | 25.00 | 84.78 |
| Adjusted earnings per share (cent) | | |
| - Basic | 32.24 | 84.32 |
| - Diluted | 32.13 | 82.97 |

6. Share Purchase

The Board has approved the purchase of one 'A' ordinary share per Grafton Unit for a cash consideration of five cent. The purchase of the 'A' ordinary share will take effect in respect of Grafton Units on the register at close of business on 13 March 2009 (record date) and the cash consideration will be paid on 8 April 2009.

In the year to 31 December 2008, as set out in the 2008 Half-yearly Financial Report, one 'A' ordinary share per Grafton Unit was purchased for a cash consideration of 10.0 cent which was paid on 3 October 2008 at a cost of €23,019,000.

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 31 December 2008 and 31 December 2007 have been translated at the rate of exchange ruling at the balance sheet date.



The average euro / sterling rate of exchange for the year ended 31 December 2008 was Stg79.63p (31 December 2007: Stg68.43p). The euro / sterling exchange rate at 31 December 2008 was Stg95.25p (31 December 2007: Stg73.34p).

8. Movement in Working Capital

| | Inventory €000 | Trade and Other Receivables €000 | Trade and Other Payables €000 | Total €000 |
|--------------------------------------|-------------------|---|--|----------------|
| At 1 January 2008 | 386,179 | 535,695 | (504,203) | 417,671 |
| Translation adjustment | (51,093) | (146,203) | 141,218 | (56,078) |
| Interest accrual and other movements | - | 204 | (1,413) | (1,209) |
| Acquisitions | 3,009 | 8,514 | (9,562) | 1,961 |
| Movement in 2008 | (6,971) | (44,629) | (60,081) | (111,681) |
| At 31 December 2008 | 331,124 | 353,581 | (434,041) | 250,664 |

9. Group Statement of Changes in Equity

| | 31 December 2008 €000 | 31 December 2007 €000 |
|--|-----------------------------|-----------------------------|
| At beginning of period | 1,067,685 | 1,014,339 |
| Shares bought back and cancelled | - | (67,090) |
| Treasury shares acquired | - | (5,746) |
| Issue of Grafton Units (net of issue expenses) | 1,528 | 2,553 |
| Adjustment for share based payments expense | (1,966) | 4,465 |
| Deferred tax on share based payments expense | - | (2,078) |
| Purchase of 'A' ordinary shares | (50,585) | (49,048) |
| Total recognised income and expense for the period | (147,797) | 170,290 |
| Closing shareholders' funds – equity | 868,865 | 1,067,685 |

10. Acquisition of Subsidiary Undertakings

In the twelve months to 31 December 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 | 8,029 |
| Financial assets | 3 |
| Inventories | 3,009 |
| Trade and other receivables | 8,514 |
| Trade and other payables | (9,562) |
| Corporation tax | (272) |
| Deferred tax liability | (801) |
| Bank debt acquired | (179) |
| Net assets acquired excluding cash and overdrafts | <u>8,741</u> |
| Goodwill | <u>10,804</u> |
| Consideration | <u>19,545</u> |

Satisfied by:

| | |
|--|----------------------|
| Cash paid | 24,460 |
| Cash acquired | (4,983) |
| Bank overdrafts assumed on acquisition | 68 |
| Net cash outflow | <u>19,545</u> |

The fair values of net assets acquired was €8,741,000

| | Provisional Fair Values | Consideration | Provisional Goodwill |
|--------------------|----------------------------|---------------|-------------------------|
| | €000 | €000 | €000 |
| Total acquisitions | 8,741 | 19,545 | 10,804 |

The fair values were calculated as follows:

| | Book Value | Provisional Fair Value Adjustments | Provisional Fair Values |
|-------------------------------|---------------|--|----------------------------|
| | €000 | €000 | €000 |
| Financial assets | 3 | | 3 |
| Property, plant and equipment | 8,029 | | 8,029 |
| Working capital | 1,937 | 24 | 1,961 |
| Corporation tax | (272) | | (272) |
| Deferred tax liability | (3) | (798) | (801) |
| Bank debt | (179) | - | (179) |
| | <u>9,515</u> | <u>(774)</u> | <u>8,741</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 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 €29 million and operating profit of €1.9 million for the periods between the dates of acquisition and 31 December 2008. If the acquisitions had occurred on 1 January 2008, Group turnover would have been €2.68 billion and Group operating profit would have been €99.7 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 year were as follows:

| | Year ended 31 st December | | | |
|------------------------------|--------------------------------------|------|------------|-------|
| | Irish Schemes | | UK Schemes | |
| | 2008 | 2007 | 2008 | 2007 |
| | % | % | % | % |
| Rate of increase in salaries | 3.0% | 3.5% | 2.5% | 4.25% |
| Inflation | 1.8% | 2.3% | 2.8% | 3.3% |
| Discount rate | 5.6% | 5.5% | 6.5% | 5.7% |

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

| | Year ended 31 st December | | | | | |
|-------------------------------------|--------------------------------------|----------|------------------|-----------|---------------------|----------|
| | Assets | | Liabilities | | Net asset/(deficit) | |
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| | €000 | €000 | €000 | €000 | €000 | €000 |
| At 1 January | 223,700 | 223,125 | (239,023) | (257,288) | (15,323) | (34,163) |
| Expected return on plan assets | 15,820 | 16,426 | - | - | 15,820 | 16,426 |
| Contributions by employer | 16,331 | 8,846 | - | - | 16,331 | 8,846 |
| Contributions by members | 2,730 | 2,966 | (2,730) | (2,966) | - | - |
| Benefit payments | (31,134) | (4,698) | 31,134 | 4,698 | - | - |
| Current service cost | - | - | (4,325) | (7,326) | (4,325) | (7,326) |
| Past service cost | - | - | (734) | - | (734) | - |
| Settlement loss | - | - | (3,104) | - | (3,104) | - |
| Curtailment gain | - | - | 338 | - | 338 | - |
| Interest cost on scheme liabilities | - | - | (12,868) | (12,307) | (12,868) | (12,307) |
| Actuarial gains/(losses) | (72,585) | (13,792) | 35,171 | 26,365 | (37,414) | 12,573 |
| Translation adjustment | (21,007) | (9,173) | 21,394 | 9,801 | 387 | 628 |
| At 31 December | 133,855 | 223,700 | (174,747) | (239,023) | (40,892) | (15,323) |
| Related deferred tax asset (net) | | | | | 5,110 | 2,677 |
| Net pension liability | | | | | (35,782) | (12,646) |



As already announced in the 2008 Half-yearly Financial Report, three executive directors opted to transfer their pension entitlements out of the Group's defined benefit pension scheme 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 Income Statement for the year reflects a charge of this amount to fund this deficit related to the new arrangements. The transfer of these pension assets out of the defined benefit pension 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. An impairment loss is recognised for the amount, if any, by which an assets carrying amount exceeds its recoverable amount. The recoverable amount is based on the discounted present value of the future cash flows expected to arise from the cash generating unit to which goodwill relates or from the individual asset or asset group. A cash generating unit is based on individual acquisitions or group of acquisitions.

The cash flow forecasts employed are extracted from the budget for 2009 and cash flows for the subsequent four years are projected for individual cash generating units based on a current assessment of anticipated market conditions over that period. This involves making assumptions concerning turnover trends, gross margins and operating margins. Cash flows beyond this five year period are estimated, in accordance with IFRS, into perpetuity using a terminal growth rate of three per cent. The recoverable amount resulting from this exercise represents the present value of the future cash flows, including the terminal value, discounted at a weighted average cost of capital of eight per cent. An increase in the discount rate to 10% would not indicate any material impairment.

If different estimates of the projected future cash flows were made or a different long term growth rate or a higher discount rate was used, these changes could materially alter the discounted present value of future cash flows. No account has been taken of property revaluations. As a consequence the carrying value of goodwill could be materially different from the amount stated in the balance sheet.

13. Group 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 year to 31 December 2008 the level of property profit was not material.

14. Related Party Transactions

No related party transactions have taken place in the 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 31 December 2008 which would require disclosure in this report.

16. Board Approval

This announcement was approved by the Board of Grafton Group plc on 26 February 2009.