

Grafton Group plc
Interim Results
For the Six Months Ended 30 June 2005

Highlights

- Sales were up 42 per cent to €1.3 billion (2004: €0.9 billion).
- Operating profit increased by 37 per cent to €96.5 million (2004: €70.7 million).
- Profit before tax increased by 28 per cent to €87.4 million (2004: €68.4 million).
- Profit before tax and property profit increased by 34 per cent to €81.5 million (2004: €60.9 million).
- Share purchase payment up 21 per cent to 7.25 cent (2004: 6.0 cent).
- Earnings per share before property profit increased by 20 per cent to 29.8 cent (2004: 24.8 cent).
- Basic earnings per share increased by 15 per cent to 32.0 cent (2004: 27.8 cent).
- Heitons ahead of pre-acquisition expectations.
- Scale related synergies bring savings.
- Strong performance by Irish builders merchants.
- UK merchanting contributes satisfactorily in softer market.
- Increasing competition in Irish DIY market.
- Confident of continued growth through 2005.

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

'The strong increase in first half profits and earnings reflects a first time contribution from Heitons, which traded ahead of pre-acquisition expectations, an excellent performance by the Irish merchanting operations in a continuing favourable trading environment and a satisfactory performance by the UK merchanting business in a softening market. The Group remains confident of continued growth in profits and earnings per share in 2005.'

Grafton Group plc

Interim Results

For the Six Months Ended 30 June 2005

Grafton Group plc is pleased to report on a period of considerable development success for the Group and the achievement of record sales, profits and earnings per share.

This is the Group's fourteenth consecutive set of record interim results.

A significant first-time contribution from the Heiton business, which traded ahead of pre-acquisition expectations, and a good level of profit growth in the established Irish and UK builders merchandising businesses led to the significant increase in profits and earnings compared with the first half of 2004. These results reflect a strong performance in the Group's Irish merchandising operations in a continuing favourable trading environment and a satisfactory performance in the Group's UK merchandising business in a softening market.

The Group's presence in Ireland was increased substantially through the acquisition of Heiton Group plc on 7 January 2005. The Heiton businesses merge efficiently with the established Irish operations and consolidate the Group's market leadership position in the Irish builders merchandising and DIY markets. The acquisition of Heiton's also provides the Group with a more balanced spread of operations and profit contributions between the UK and Ireland. Substantial progress is being made on the realisation of integration benefits in the enlarged Irish operations. The Group anticipates that current year benefits will amount to €9 million.

In the UK, demand in the repair, maintenance and improvement market was more subdued towards the end of the half year reflecting the impact of higher interest rates and a slowdown in the rate of increase in house prices. UK turnover was up 15 per cent to €793 million (2004: €690 million) and accounted for 61 per cent (2004: 76 per cent) of Group turnover. The UK business had a good half year reporting operating profit growth of 8 per cent to €54.1 million (2004: €50.2 million) representing 56 per cent (2004: 71 per cent) of Group operating profit. The Group continued its successful strategy of bolt-on acquisitions which involved the purchase of five single branch merchandising businesses in the half year. Greenfield developments resulted in the opening of ten merchandising locations. Since the end of the half year the Group completed the acquisition of four single branch merchandising businesses.

In Ireland, sales and profit more than doubled due to the initial contribution from the Heiton businesses and good growth in the established Irish merchandising business against a positive economic back drop and high levels of construction activity. Turnover increased by 126 per cent to €500 million (2004: €221 million) and operating profit before amortisation of intangibles was up 112 per cent to €43.5 million (2004: €20.5 million). The Irish businesses accounted for 39 per cent (2004: 24 per cent) of Group turnover and 44 per cent (2004: 29 per cent) of Group operating profit in the half year.

The results for the half year demonstrate the advantage of the Group's strategy of developing a good spread of operations between the UK and Ireland and across the construction sector and related markets.

Share Purchase

The Board has decided to purchase one A ordinary share per Grafton Unit for a cash consideration of 7.25 cent on 7 October 2005 (record date). The cash consideration will be paid on 14 October 2005. This represents an increase of 21 per cent on the equivalent share purchase/redemption payments of 6 cent per Grafton Unit for the half year to 30 June 2004. No interim dividend will be declared.

Turnover and Operating Profit – UK and Ireland

	Six months to 30 June 2005 (unaudited) €'000	Six months to 30 June 2004 (unaudited) €'000	Increase
Turnover			
UK	793.3	690.0	15%
Republic of Ireland	<u>500.0</u>	<u>221.4</u>	<u>126%</u>
Total	<u>1,293.3</u>	<u>911.4</u>	<u>42%</u>
Operating Profit			
UK	54.1	50.2	8%
Republic of Ireland	<u>42.4</u>	<u>20.5</u>	<u>106%</u>
Total	<u>96.5</u>	<u>70.7</u>	<u>37%</u>

Heiton Group plc contributed sales of €294.7 million and operating profit of €21.0 million in the half year. The Group's established operations, which incorporate acquisitions and branch openings in 2005 and the incremental effect of acquisitions and branch openings in 2004, contributed growth in sales of €87.2 million (up 9.6 per cent) and operating profit growth of €4.8 million (up 6.8 per cent).

Operating profit of €96.5 million includes a charge of €1.1 million in respect of amortisation of intangible assets arising on the acquisition of Heiton Group plc. There was no charge for amortisation of intangible assets under IFRS in the half year to 30 June 2004.

Currency

The UK results are converted at the average Euro / Sterling rate of exchange of 68.59 cent for the half year. Sterling was on average two per cent weaker in the first half of 2005 compared to the first half of 2004 when the average Euro / Sterling rate was 67.35 cent. This movement gave rise to an adverse translation impact on conversion of UK turnover and operating profit. The reduction in operating profit amounted to €0.9 million.

United Kingdom

UK sales increased by 15 per cent to €793.3 million (2004: €690.0 million) and operating profit increased by 8 per cent to €54.1 million (2004: €50.2 million). The operating profit margin reduced to 6.8 per cent (2004: 7.3 per cent). The operating profit margin was broadly in line with the first half of 2004 when adjusted for the dilutive effect of Heiton's UK business and the benefit of one additional trading day in the first half of 2004.

The UK economy slowed below its long run growth rate in the second half of 2004 and this trend continued into the first half of 2005 as business investment eased and consumer spending weakened in response to a tightening of interest rates. Demand in the UK repair, maintenance and improvement market proved resilient despite the weakening economy and reduced consumer spending. The Group achieved overall like for like merchandising sales growth of 2.3 per cent with demand softening towards the end of the half year.

Overall UK profits improved in the half year due principally to like for like growth and incremental profit from acquisitions made in 2004.

UK Builders Merchandising

The UK builders merchandising division made solid progress in the half year with like for like sales growth of 5.1 per cent and good operating profit growth. Operating profit growth was driven by like for like sales growth, ongoing integration and efficiency improvement measures, incremental profit growth from the seventeen small acquisitions completed during 2004 and the acquisition of Heiton's UK business, which comprises a six branch specialist drainage and ground engineering business.

Geographic coverage was extended through two single branch acquisitions and the opening of four greenfield branches which increased the builders merchandising branch network to 175 at the end of the half year.

Buildbase had a good half year due to like for like sales growth, the integration of acquisitions made during 2004 and tight control of costs. The development of the Buildbase branch network has benefited from significant acquisition led growth over the past decade combined with a good track record for the smooth integration of acquired businesses into ongoing operations. Buildbase is also focused on organic growth and successfully opened three greenfield branches in the half year.

Jacksons, one of the UK's largest regional merchandising brands, achieved good like for like sales growth and increased half year operating profit in a more competitive market. The results of the 20 branch East-Midlands business also benefited from tight cost control and continued development of the two new branches added to the network during 2004.

In Northern Ireland, Macnaughton Blair, the province's leading merchant where it trades from twelve branches, increased sales and operating profit in the half year. The builders merchandising branch in Coleraine acquired in 2004 was relocated to a purpose built facility adjoining the Group's established plumbers merchandising branch in the town. In July 2005, Macnaughton Blair acquired MFBP the leading builders merchandising business on the Isle of Man.

UK Plumbers Merchants

Plumbase, the Group's plumbing heating and sanitary ware business, continued to develop its strong regional market position in England and Scotland with the opening of six new branches and the acquisition of three single branch plumbers merchandising businesses in the half year increasing its branch network to 156.

Overall half year sales were unchanged and the business reported a small reduction in operating profit. The businesses mainly trade related sales held up well in the half year but the retail element of turnover was lower due to weakness in consumer demand and this led to lower like for like sales.

UK Mortar

EuroMix, the market leader in the supply of dry mortar using on-site silo technology to produce a range of quality mortars for use in block and brick laying, increased sales in the half year. Like for like sales were similar to the first half of 2004 and the business reported a small decline in operating profit due to margin pressure from competitors who have added capacity to the market.

The plant at Harlow, which commenced production in 2003, continued to trade strongly and the Southampton plant, which opened in the second half of 2004, grew volumes in the South of England. Market coverage in the West Country improved with the commencement in July of production at the eighth dry mortar plant which is located near Bristol.

Operations Review – Republic of Ireland

Irish turnover increased by 126 per cent to €500.0 million (2004: €221.4 million) and operating profit increased by 106 per cent to €42.4 million (2004: €20.5 million). The operating profit margin declined to 8.5 per cent from 9.3 per cent reflecting a lower margin in Heiton's Irish business and a decline in the profit margin in Woodie's DIY business.

The Irish economy continued on a firm growth path during the first half of 2005. Forecast growth rates for the full year and for both 2006 and 2007 are in line with the economy's medium term growth potential. Employment growth in Ireland has been very strong due to buoyancy in the services and industrial sectors with the increase accounted for mainly by demographic factors and net inward migration. The positive performance of the Irish economy has also been supported by a low rate of inflation, interest rates which remain at a 50 year low and increased consumer spending.

Overall construction output is forecast to grow by 2.5 per cent in 2005. This is based on strong residential construction, a continuing recovery in the volume of private non-residential construction and a strong increase in public sector construction volumes. House completions in 2004 were a record 77,000 units, the eleventh successive year of growth, and current indications are that completions for 2005 will be close to last year's record level. House price inflation slowed during 2004 and this trend continued in 2005 with mid single digit growth forecast for the year.

Irish Merchancing

The Irish merchancing division performed strongly increasing sales by 143 per cent to €337.5 million (2004: €138.8 million). The acquisition of Heiton's in January more than doubled the Group's existing Irish merchancing operations. Heiton Buckley, which trades from 25 branches nationally, is Ireland's largest merchancing brand. The Heiton Buckley branch network is an excellent geographic fit with Chadwicks 31 branch national merchancing business with limited overlap between the two chains. The Heiton Buckley branches have enabled the Group to widen its geographic coverage in the Irish market and gain a valuable presence in Cork City, along the Western seaboard and in other locations across the country where Chadwicks was not previously represented. The acquisition consolidates the enlarged Group's position as the leading player in the Irish builders merchancing market where the Group now trades nationally under the Heiton Buckley and Chadwicks brands and regionally under the Cork Builders Providers and Telfords brands. Heiton's Irish merchancing operations also incorporate Heiton Steel, Ireland's largest steel stock holding business, and Sam Hire, the leading player in the small plant and tool hire business, trading from 14 branches.

The newly acquired Heiton merchancing businesses traded strongly in the half year with all divisions reporting operating profit ahead of the previous year and pre-acquisition expectations.

The Group's established Chadwicks and Telfords merchancing businesses achieved good growth and increased operating profit in the half year.

Heiton Buckley and Chadwicks experienced strong demand in the half year due to the very favourable trading conditions in the residential construction and repair, maintenance and improvement markets. Like for like sales in the Heiton Buckley and Chadwicks merchancing business were up eight per cent. While the merchancing market enjoyed good volume growth, there was strong competition in the sector from both the national chains and independent operators.

The enlarged merchancing operation in Ireland is working successfully with suppliers to realise opportunities for purchasing synergies through improved pricing, rebate and sourcing arrangements. A contribution from these new supplier arrangements is included in the half year results.

Irish Retailing

Sales in the Group's Irish retailing business increased by 97 per cent from €64.8 million to €127.4 million principally reflecting the impact of Heiton's acquired Irish retailing activities and new Woodie's stores.

Retail spending in Ireland gradually gained momentum during 2004 following two years of subdued demand and this trend continued into 2005 aided by a recovery in consumer confidence and growth in household incomes and employment. The pick up in retail spending however coincided with a significant increase in retail capacity with the opening of new retail centres across the country providing greater choice for customers and a more competitive environment generally for retailers.

The Group's Irish retailing operations trade from 20 stores under the Woodie's DIY brand and, following the acquisition of Heiton's, from 16 Atlantic Homecare stores and 4 In-House at the Panelling Centre stores.

Like for like sales in the Woodie's and Atlantic Homecare businesses were down four per cent. Competition in the Irish DIY market continued to intensify over the past year with further store openings by competitors.

Woodie's relocated its Cork store in April 2005 and opened its 20th store in Naas in June 2005. Both stores are performing well and developments in the second half include the recent relocation of the Bray, Co. Wicklow store and the planned opening of new stores in Carrickmines, South Dublin and Drogheda, Co. Louth.

Heiton's Atlantic Homecare and In-House at the Panelling Centre businesses materially increased turnover and operating profit in the Group's Irish retailing division in the half year and consolidated the Group's leading position in the Irish DIY market. Atlantic Homecare opened its 16th store in Limerick in April. In-House at the Panelling Centre traded strongly in the half year and the business plans to open its fifth unit in Galway early in 2006.

Irish Manufacturing

CPI grew its EuroMix dry mortar business strongly in the half year with increased sales to housing and commercial projects.

The Wright window and door manufacturing business acquired with Heiton's turned in a good performance in its first half year as part of the Group benefiting from a buoyant residential construction market.

Finance

Cashflow from operating activities increased to €115.9 from €93.1 million principally due to higher operating profit.

The cost of acquisitions completed during the half year including acquired debt was €382.9 million (2004: €28.7 million). This included expenditure of €359.0 million to acquire the remaining 71 per cent of the shares in Heiton's not already owned by the Group and €23.9 million on five bolt on acquisitions. Deferred consideration paid in the half year on prior year acquisitions amounted to €5.6 million (2004: €3.7 million). The total consideration paid for Heiton's of €359.0 million comprised the issue of 21.4 million Grafton Units valued at €173.6 million to shareholders in Heiton's, the payment of €100.2 million in cash under the cash element of the offer, debt acquired at completion of €75.2 million and expenses of €10 million associated with the offer.

The Group issued a total of 23.6 million Grafton Units during the half year comprising the Units issued in connection with the Heiton offer, 1.2 million Units issued to UK employees under the Grafton Group (UK) plc Savings Related Share Option Scheme and 1 million Units issued under the Group's executive share schemes.

Capital expenditure increased to €58.4 million from €45.4 million on the comparable half year reflecting routine replacement expenditure of €30.7 and expenditure of €27.7 on continued investment in the enlarged business including the opening of 12 new branches and various development initiatives intended to support the continued profitable growth of the Group.

The Group realised a profit of €5.9 million mainly on the sale of surplus Irish properties at Clonmel, Co. Tipperary, Naas, Co. Kildare and Walkinstown, West Dublin. The total proceeds on disposal of fixed assets amounted to €18.6 million.

Net interest payable of €15.1 million (2004: €11.4 million) includes the cost of servicing increased debt associated with the acquisition of Heiton's. Interest cover was 6.9 times (2004: 7.0 times).

Net borrowings at 30 June 2005 were €539.8 million (30 June 2004: €373.5million) compared to €349.2 million at 31 December 2004 giving gearing of 73 per cent compared to 70 per cent at 31 December 2004 and 84 per cent 30 June 2004.

In June, the Group raised \$325 million through a private placement of seven year and ten year Senior Notes with a group of US investors. The proceeds were converted into Sterling and used partly to re-finance existing borrowings with the remainder held for general corporate purposes. This competitively priced source of funds has strengthened the Group's balance sheet and improved the maturity profile of Group debt.

Outlook

In Ireland, the outlook for the economy is positive. The favourable medium term prospects are based on a continuation of low interest rates, a strong labour market and low inflation which together with reasonable income growth should support healthy consumer spending. This favourable background should stimulate continued RMI growth in the Heiton Buckley and Chadwicks merchanting businesses. Our Irish merchanting business will also benefit from scale related purchasing and other synergies. The number of house completions in Ireland in 2005 is forecast to be close to last year's all time high and we expect completions in 2006 and beyond to gradually moderate as demand for second homes and rented properties is satisfied.

The market backdrop for our Woodie's and Atlantic Homecare DIY businesses in Ireland is also positive but the market will continue to experience more intense competition and pricing pressure as additional capacity is added in the sector. Woodie's and Atlantic Homecare should continue to benefit from an overall strong market position and from an increased contribution from the five stores that opened in 2004, two store openings in the half year and relocation of the two Cork stores. The Irish DIY business will also benefit from the recent relocation of Woodie's Bray store and the planned opening of new Woodie's stores in Carrickmines and Drogheda.

In the UK, the economy slowed in the first half following a decade of above average growth and stability. Consumer spending has weakened in response to interest rate increases, a lower rate of growth in real disposable incomes and a slow down in the property market. Recent data points to a softer outlook which we expect will lead to a continuation of more subdued demand in the RMI sector experienced in recent months. The UK business continues to focus on realising benefits and scale related synergies throughout the merchanting network and we expect to further strengthen our market position through bolt-on acquisitions and greenfield developments.

The Group remains confident of continued growth in profits and earnings per share in 2005 and, with a strong balance sheet and healthy cash flows, is well placed to participate in further consolidation in the Irish and UK merchanting markets.

There will be an analyst meeting today at 08.45 (BST) in Dublin. A dial-in facility will be available for this meeting:

Ireland: 01 439 0433
UK: 0207 769 6433
Other: +353 1 439 0433

Ends
For reference:

13 September 2005

Michael Chadwick
Executive Chairman
Grafton Group plc
Telephone: (++353) (01) 216 0600

Joe Murray
Murray Consultants
Telephone: (++353) (01) 498 0300

Colm Ó Nualláin
Finance Director
Grafton Group plc
Telephone: (++353) (01) 216 0600

Ginny Pulbrook
Citigate Dewe Rogerson
Telephone: (++44) (0207) 282 2945

Grafton Group plc

Group Income Statement For The Six Months Ended 30 June 2005

	Six Months To 30 June 2005 (Unaudited) €'000	Six Months To 30 June 2004 (Unaudited) €'000	Twelve months To 31 Dec 2004 (Audited) €'000
Revenue	1,293,329	911,352	1,872,346
Cost of sales	(887,497)	(614,841)	(1,255,207)
Gross profit	<u>405,832</u>	<u>296,511</u>	<u>617,139</u>
Operating costs	(309,282)	(225,780)	(457,595)
Operating profit	96,550	70,731	159,544
Profit on disposal / development of property	<u>5,928</u>	<u>7,521</u>	<u>7,521</u>
Profit before net finance costs and income from financial assets	102,478	78,252	167,065
Income from financial assets	-	1,541	1,541
Finance costs (net)	(15,089)	(11,381)	(22,780)
Profit before tax	87,389	68,412	145,826
Income tax expense	(12,081)	(9,319)	(19,936)
Profit after tax for the financial period	<u>75,308</u>	<u>59,093</u>	<u>125,890</u>
Profit attributable to: Equity holders of the Company	75,308	59,093	125,890
Earnings per share - basic	<u>31.99c</u>	<u>27.79c</u>	<u>59.14c</u>
Diluted earnings per share	<u>31.25c</u>	<u>27.06c</u>	<u>57.69c</u>

Grafton Group plc

Group Balance Sheet As At 30 June 2005

	30 June 2005 (Unaudited) €'000	30 June 2004 (Unaudited) €'000	31 Dec 2004 (Audited) €'000
ASSETS			
Non-current assets			
Property, plant and equipment	596,494	399,934	406,207
Intangible assets – goodwill	478,233	234,347	247,155
Intangible assets – other	16,635	-	-
Financial assets	234	47,047	47,019
Deferred income tax assets	31,123	12,299	14,313
Total non-current assets	1,122,719	693,627	714,694
Current assets			
Inventories	337,867	230,270	237,680
Trade and other receivables	495,061	331,757	318,165
Derivative financial instruments	3,291	-	-
Cash and cash equivalents	396,748	125,744	135,868
Total current assets	1,232,967	687,771	691,713
Total assets	2,355,686	1,381,398	1,406,407
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Equity share capital	12,042	10,846	10,864
Share premium account	280,505	102,418	103,600
Capital redemption reserve	251	206	227
Revaluation reserve	34,868	35,107	34,988
Other reserve – shares to be issued	1,810	419	971
Cash flow hedge reserve	(245)	-	-
Foreign currency translation reserve	9,200	8,579	(2,156)
Retained earnings	397,088	288,410	347,044
Total equity	735,519	445,985	495,538
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	728,794	381,771	378,401
Deferred income tax liabilities	70,521	47,335	59,330
Retirement benefit obligations	70,651	30,459	35,597
Deferred acquisition consideration	1,093	1,748	1,552
Total non-current liabilities	871,059	461,313	474,880
Current liabilities			
Interest-bearing loans and borrowings	209,444	117,460	106,696
Trade and other payables	514,409	333,309	310,786
Current income tax liabilities	20,121	20,335	14,074
Derivative financial instruments	1,577	-	-
Deferred acquisition consideration	3,557	2,996	4,433
Total current liabilities	749,108	474,100	435,989
Total liabilities	1,620,167	935,413	910,869
Total equity and liabilities	2,355,686	1,381,398	1,406,407

Grafton Group plc
Consolidation Cash Flow Statement
For The Six Months Ended 30 June 2005

	Six Months to 30 June 2005 (Unaudited) €'000	Six Months to 30 June 2004 (Unaudited) €'000	Twelve months to 31 Dec 2004 (Audited) €'000
Cash flows from operating activities			
Operating profit	96,550	70,731	159,544
Property development profit	-	6,729	6,729
Depreciation	22,980	16,645	34,626
Intangible amortisation	1,060	-	-
Share based payments charge	839	340	892
(Increase) / decrease in working capital	(4,292)	168	(21,432)
Net profit on sale of fixed assets	(1,189)	(1,523)	(2,179)
Cash from operating activities	<u>115,948</u>	<u>93,090</u>	<u>178,180</u>
Interest paid	(15,522)	(11,850)	(27,111)
Tax paid	(5,357)	(3,917)	(7,301)
Net cash inflow from operating activities	<u>95,069</u>	<u>77,323</u>	<u>143,768</u>
Cash flows from investing activities			
Proceeds from sale of fixed assets	18,578	7,048	25,437
Interest received	1,093	1,565	4,849
Dividends received	-	823	2,364
Acquisition of subsidiary undertakings and businesses	(307,636)	(22,601)	(61,805)
Net cash/(debt) acquired with subsidiary undertakings	15,083	1,045	718
Deferred acquisition consideration	(5,586)	(3,670)	(3,750)
Purchase of property, plant and equipment	(58,400)	(45,390)	(88,917)
Purchase of financial asset	-	(13,351)	(13,351)
Net cash flows from investing activities	<u>(336,868)</u>	<u>(74,531)</u>	<u>(134,455)</u>
Cash flows from financing activities			
Proceeds from issue of share capital	178,107	68	1,288
Proceeds from long term borrowings	346,970	21,394	64,170
Redemption of redeemable shares	-	(23,392)	(23,392)
Purchase of A ordinary shares	(16,542)	-	(2,131)
Dividends paid	-	(53)	(53)
Capital element of finance leases repaid	(978)	(612)	(23,834)
Redemption of loan notes payable	(19,872)	(11,812)	(24,758)
Net cash flows from financing activities	<u>487,685</u>	<u>(14,407)</u>	<u>(8,710)</u>
Net increase in cash and cash equivalents	<u>245,886</u>	<u>(11,615)</u>	<u>603</u>
Cash and cash equivalents at the beginning of the year	105,822	106,557	106,557
Exchange movements (cash and cash equivalents)	791	(1,311)	(1,338)
Cash and cash equivalents at the end of the year	<u>352,499</u>	<u>93,631</u>	<u>105,822</u>
Cash and cash equivalents consists of:			
Cash at bank and short term deposits	396,748	125,744	135,868
Overdrafts	(44,249)	(32,113)	(30,046)
	<u>352,499</u>	<u>93,631</u>	<u>105,822</u>
Reconciliation of Net Cash Flow to Movement in Net Debt			
For the year ended 31 December 2004			
Increase in cash and cash equivalents	245,886	(11,615)	603
Cash-flow from increase in debt and lease financing	(326,120)	(8,970)	(15,578)
Net movement in derivative financial instruments	(1,937)	-	-
Change in net debt resulting from cash flows	(82,171)	(20,585)	(14,975)
Loan notes issues on acquisition of subsidiary undertakings	(867)	(6,050)	(9,085)
Bank loans and loan notes acquired with subsidiary undertakings	(81,861)	-	-
Finances leases acquired with subsidiary undertakings	(7,652)	(1,147)	(1,388)
Translation adjustment	(19,653)	(22,502)	(578)
Movement in net debt in the period	<u>(192,204)</u>	<u>(50,284)</u>	<u>(26,026)</u>
Derivatives financial instruments included in opening debt	1,657	-	-
Net debt at 1 January	(349,229)	(323,203)	(323,203)
Net debt at 30 June 2005	<u>(539,776)</u>	<u>(373,487)</u>	<u>(349,229)</u>

Grafton Group plc
Group Statement Of Recognised Income And Expense
For The Six Months Ended 30 June 2005

	Six Months To 30 June 2005 (Unaudited) €'000	Six Months to 30 June 2004 (Unaudited) €'000	Audited 2004 €'000
Items of income and expense recognised directly within equity:			
Currency translation effects - on foreign currency net investments	13,501	10,956	(2,176)
- on foreign currency borrowings	(2,145)	(2,377)	20
Actuarial loss on Group defined benefit pension schemes	(10,828)	(4,695)	(11,760)
Deferred tax asset on Group defined benefit pension schemes	1,726	378	1,186
Deferred tax recognised through equity	260	17	123
Losses relating to cash flow hedges (net)	(1,695)	-	-
Net expense recognised directly in equity	819	4,279	(12,607)
Profit after tax for the financial period	75,308	59,093	125,890
Total recognised income and expense for the financial period	76,127	63,372	113,283
Attributable to:			
Equity holders of the Company	76,127	63,372	113,283
Total recognised income and expense for the financial period	76,127	63,372	113,283

Group Statement Of Changes In Equity

	Six Months to 30 June 2005 (Unaudited) €'000	Six Months to 30 June 2004 (Unaudited) €'000	Twelve month To 31 Dec 2004 (Audited) €'000
At beginning of period	495,538	405,651	405,651
Impact of adoption of IAS 32 & 39	55,424	-	-
At beginning of period as adjusted	550,962	405,651	405,651
Elimination of fair value reserve arising on acquisition of Heiton Group plc	(53,974)	-	-
Issue of ordinary and A ordinary share (net of issue expenses)	178,107	280	1,501
Adjustment re share option expense	839	340	892
Dividends paid	-	(266)	(266)
Redemption of redeemable share	-	(23,392)	(23,392)
Purchase of A ordinary share	(16,542)	-	(2,131)
Total recognised income and expense for the financial period	76,127	63,372	113,283
At end of period	735,519	445,985	495,538

Grafton Group plc

Interim Results For The Half Year Ended 30 June 2004

Supplementary Information

1. International Financial Reporting Standards

Basis of Preparation

The financial information presented in these Interim Results has been prepared in accordance with the Group's accounting policies under International Financial Reporting Standards (IFRS). It is mandatory from 2005 onwards for the Financial Statements of the Group to be prepared in accordance with IFRS as endorsed by the EU. The transition date for implementation of IFRS by the Group was 1 January 2004. The financial statements for the first six months ended 30 June 2004 and for the year ended 31 December 2004, which were prepared in accordance with Irish GAAP, have been restated under the recognition and measurement principles of IFRS. The restated financial statements together with reconciliations between the results as reported under Irish GAAP and under IFRS accounting policies were published on 6 July 2005 and are available on the Group's website www.graftonplc.com and this interim report should be read in conjunction with that document.

The interim financial information has been prepared in accordance with the recognition and measurement principles of IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations expected to be applicable at 31 December 2005. The IFRS and IFRIC interpretations that will be applicable at 31 December 2005, including those that will be applicable on an optional basis, are subject to amendments and interpretations by the International Accounting Standards Board (IASB) and IFRIC and there is an ongoing process of review and endorsement by the European Commission and accordingly, the accounting policies for 2005 will only be finally determined when the annual financial statements are prepared for the year ending 31 December 2005. As a result, this could lead to changes in the basis of accounting or in the basis of presentation of certain financial information from that adopted in this Interim Report. In particular the Directors have assumed that the European Commission will endorse the Amendment to IAS 19 Employee Benefits, Actuarial Gains and Losses, Group Plans and Disclosures issued by the IASB in December 2004. It is also possible that further changes may be required to the financial information contained in this document for the 2004 financial year prior to its inclusion for comparative purposes in the 2005 financial statements prepared under IFRS. The Group applied the exemption available within IFRS 1 that permits hedge accounting applied under Irish / UK GAAP to be used in the comparative period to 31 December 2004. Note 8 below shows the impact of adoption of IAS 32 and IAS 39 on the Consolidated Balance Sheet as at 1 January 2005.

2. Acquisition of Heiton Group plc

The Group's presence in Ireland was increased substantially through the acquisition of Heiton Group plc on 7 January 2005. The contribution of Heiton Group plc has been detailed in the Interim Results commentary.

3. Revenue and Operating Profit by Geographic Segment

The amount of revenue by geographic segment is as follows:

	Six months to 30 June 2005 (Unaudited) €'000	Six months to 30 June 2004 (Unaudited) €'000	Twelve months to 31 Dec 2004 (Audited) €'000
Revenue			
Republic of Ireland	499,995	221,328	451,742
United Kingdom	793,334	690,024	1,420,604
	<u>1,293,329</u>	<u>911,352</u>	<u>1,872,346</u>
Operating profit before amortisation of intangible assets			
Ireland	43,486	20,554	51,360
United Kingdom	<u>54,124</u>	<u>50,177</u>	<u>108,184</u>
Operating profit before amortisation of intangible assets	97,610	70,731	159,544
Amortisation of intangible assets – Republic of Ireland	(1,060)	-	-
Operating profit	<u>96,550</u>	<u>70,731</u>	<u>159,544</u>
Operating profit			
Ireland	42,426	20,554	51,360
United Kingdom	<u>54,124</u>	<u>50,177</u>	<u>108,184</u>
Operating profit	<u>96,550</u>	<u>70,731</u>	<u>159,544</u>
Profit on disposal / development of property			
Ireland	4,251	6,729	6,729
United Kingdom	<u>1,677</u>	<u>792</u>	<u>792</u>
	<u>5,928</u>	<u>7,521</u>	<u>7,521</u>

4. Analysis of Revenue by Business Segment

	Six months to 30 June 2005 (Unaudited) €'000	Six months to 30 June 2004 (Unaudited) €'000	Twelve months to 31 Dec 2004 (Audited) €'000
Revenue			
UK merchanting	761,774	659,771	1,359,923
Irish merchanting	337,483	138,831	286,126
Irish DIY	127,383	64,775	129,783
Irish and UK manufacturing	<u>66,689</u>	<u>47,975</u>	<u>96,514</u>
	<u>1,293,329</u>	<u>911,352</u>	<u>1,872,346</u>

5. Share Purchase

The Board has approved the purchase of one A ordinary share per Grafton Unit for a cash consideration of 7.25 cent. The purchase of the A ordinary share will take effect in respect of Grafton Units on the register at close of business 7 October 2005 (record date) and the cash consideration will be paid on 14 October 2005.

6. Earnings Per Share

The computation for basic and diluted earnings per share and adjusted basic and adjusted diluted earnings per share is set out in the table below. The weighted average number of shares in issue increased by 11 per cent to 235.4 million (2004: 212.7 million) principally as a consequence of the issue of 21.4 million shares to part fund the acquisition of Heiton Group plc in January 2005.

	Half Year 30 June 2005 €'000	Half Year 30 June 2004 €'000	Year Ended 31 Dec 2004 €'000
Numerator for basic and diluted earnings per share			
Profit attributable to equity holders	75,308	59,093	125,890
Numerator for basic and diluted earnings per share	<u>75,308</u>	<u>59,093</u>	<u>125,890</u>
Profit on disposal/development of property after tax	(5,116)	(6,393)	(6,442)
Numerator for adjusted basic and adjusted diluted earnings per share	<u>70,192</u>	<u>52,700</u>	<u>119,448</u>
	Number of Grafton Units	Number of Grafton Units	Number of Grafton Units
Denominator for basic earnings per share			
Weighted average number of Grafton Units in issue	235,445,159	212,660,602	212,875,181
Effect of potential dilutive Grafton Units	5,517,180	5,714,746	5,329,373
Denominator for diluted earnings per share	<u>240,962,339</u>	<u>218,375,348</u>	<u>218,204,554</u>
Earnings per share (cent)			
- basic	31.99	27.79	59.14
- diluted	31.25	27.06	57.69
Adjusted earnings per share (cent)			
- basic	29.81	24.78	56.11
- diluted	29.13	24.13	54.74

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 2005 and 30 June 2004 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 2005 was Stg68.59p (six months to 30 June 2004: Stg67.35p and twelve months to 31 December 2004: Stg67.86p). The Euro / Sterling exchange rate at 30 June 2005 was Stg67.42p (30 June 2004: Stg67.08p and 31 December 2004: Stg70.51p).

8. Impact of Adoption of IAS 32 & IAS 39 – Financial Instruments

As permitted under IFRS 1, the Group applied hedge accounting in accordance with Irish GAAP for the year ended 31 December 2004 and adopted IAS 32 and IAS 39 from 1 January 2005. The effect of adopting IAS 32 and IAS 39 on the balance sheet of the Group at 1 January 2005 is shown in the table below:

		IFRS 31 Dec 2004 €'000	Effect of adoption of IAS 32 & 39 €'000	IFRS 1 Jan 2005 €'000
Non-current assets	(a)	714,694	53,974	768,668
Current assets	(b)	691,713	1,657	693,370
Total assets		<u>1,406,407</u>	<u>55,631</u>	<u>1,462,038</u>
Equity		<u>495,538</u>	<u>55,424</u>	<u>550,962</u>
Non-current liabilities	(c)	474,880	(1,650)	473,230
Current liabilities	(d)	435,989	1,857	437,846
Total Liabilities		<u>910,869</u>	<u>207</u>	<u>911,076</u>
Total equity and liabilities		<u>1,406,407</u>	<u>55,631</u>	<u>1,462,038</u>

(a) Non Currents Assets – Financial Assets

Non-current assets of €53,974,000 arises from restating the investment in Heiton Group plc to market value at 1 January 2005. The investment was previously carried at original cost under Irish GAAP.

(b) Derivative Financial Instruments

Included in current assets as derivative financial instruments is €1,657,000 representing the fair value of cash flow hedges with a corresponding cash flow hedge reserve included within equity net of deferred tax.

(c) Interest bearing loans and borrowings

Non-current interest bearing loans and borrowings have been reduced by €1,857,000 to reflect the fair value hedge on cross currency swap's with a corresponding derivative financial liability included within current liabilities.

(d) Interest bearing loans and derivative financial instruments

Current interest bearing loans and borrowings have been reduced by €619,000 to reflect the fair value hedge on cross currency swap's with a corresponding derivative financial liability included within current liabilities. The net €1,857,000 included in current liabilities represents a liability for derivative financial instruments.

Independent review report to Grafton Group plc

Introduction

We have been engaged by the company to review the financial information attached and we have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

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 Listing Rules of the Irish Stock Exchange. 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 interim report, including the financial information contained therein, is the responsibility of and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual financial statements except where any changes, and the reasons for them, are disclosed.

As disclosed in Note 1 to the financial information, the next annual financial statements of the group will be prepared in accordance with International Financial Reporting Standards (IFRSs) adopted for use in the European Union.

The accounting policies that have been adopted in preparing the financial information are consistent with those that the directors currently intend to use in the next annual financial statements. There is, however, a possibility that the directors may determine that some changes to these policies are necessary when preparing the full annual financial statements for the first time in accordance with those IFRSs endorsed for use by the European Union. This is because, as disclosed in the basis of preparation, the directors have anticipated that a standard, which has yet to be formally endorsed for use in the EU, will be so endorsed in time to be applicable to the next annual financial statements. Similarly, changes may arise from further interpretations issued between now and the year end date which may result in the directors revising the accounting policies applied. The directors have applied IFRS in accordance with IFRS 1 *First-time Adoption of International Financial Reporting Standards* and have taken advantage of certain exemptions available in that standards and, in particular, IAS 32 *Financial Instruments: Disclosure and Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement* have not been applied to the preliminary IFRS financial information relating to 2004 and the impact of these standards has been treated as a transition adjustment at 1 January 2005.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 *Review of interim financial information* issued by the Auditing Practices Board for use in the Republic of Ireland and United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2005.

KPMG
Chartered Accountants

12 September 2005