



Grafton Group plc 2006 Interim Results

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Record Sales, Profits and Earnings

Grafton Group plc, the builders merchants and DIY Group with operations in the UK and Ireland, announces its interim results for the six months ended 30 June 2006.

Financial Highlights

	2006	2005	Change
Revenue	€1.43 bn	€1.30 bn	UP 10%
Operating profit*	€106.9 m	€97.6 m	UP 10%
Profit before tax	€118.3 m	€87.4 m	UP 35%
Basic earnings per share	42.8 c	32.0 c	UP 34%
Adjusted earnings per share *	33.0 c	30.2 c	UP 9%
Share purchase	8.25 c	7.25 c	UP 14%
Cash flow per share	53.6 c	42.2 c	UP 27%

**Before property profit and amortisation*

Operating Highlights

Irish merchandising traded strongly in a favourable market

Heitons continued to perform ahead of pre-acquisition expectations

Lower UK profitability in softer merchandising market

UK market now strengthening

Positive trading conditions in competitive Irish DIY market

Operations strongly cash generative

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

“The Irish economy provided a very favourable trading environment for the Group’s Irish merchandising and DIY businesses in the half year and profitability increased strongly. In line with the trends experienced in the second half of 2005, demand in the UK merchandising market was generally softer in the half year compared with the strong trading levels reported in the first half of 2005. The Group remains confident of continued growth in profits and earnings per share in 2006 and, with a very strong financial position and healthy cash flow, is well placed to take advantage of suitable acquisition and development opportunities.”



Grafton Group plc

Interim Results

For the six months ended 30 June 2006

Grafton Group plc is pleased to report on a period of solid progress for the Group and the achievement of new records for sales, profits and earnings.

This was the fifteenth consecutive set of record interim results and demonstrates the Group's long term track record of profitable growth and development.

Highlights

- Sales were up 10 per cent to €1.43 billion (2005: €1.3 billion)
- Operating profit increased by 10 per cent to €106.9 million (2005: €97.6 million)
- Adjusted earnings per share increased by 9 per cent to 33.0 cent (2005: 30.2 cent)
- Basic earnings per share increased by 34 per cent to 42.8 cent (2005: 32.0 cent)

The Irish economy provided a very favourable trading environment for the Group's Irish merchandising and DIY businesses in the half year and profitability increased strongly. In line with the trends experienced in the second half of 2005, demand in the UK merchandising market was generally softer in the half year compared with the strong trading levels reported in the first half of 2005.

This was a positive outcome for the half year in view of market conditions in the UK, the Group's principal market accounting for fifty nine per cent of turnover. The results clearly demonstrate the benefit to shareholders of increasing the Group's exposure to Ireland in 2005 through the Heiton acquisition which performed ahead of pre-acquisition expectations. The strongly performing Irish business compensated for the softer market conditions in the UK.

In a buoyant market, Irish turnover increased by 18 per cent to €590.7 million (2005: €500.0 million) and operating profit increased by 31 per cent to €57.1 million (2005: €43.5 million). The Irish operating profit margin increased to 9.7 per cent from 8.7 per cent. The UK business increased sales by 5.4 per cent to €836.5 million (2005: €793.3 million) and operating profit was lower at €49.8 million (2005: €54.1 million) as operating margins reduced.



Share Purchase

The Board has decided to purchase one A ordinary share per Grafton Unit for a cash consideration of 8.25 cent on 6 October 2006 (record date). The cash consideration will be paid on 18 October 2006. This represents an increase of 14 per cent on the equivalent share purchase payment of 7.25 cent per Grafton Unit for the half year to 30 June 2005. No interim dividend will be declared.

Board

The Board is pleased to announce the appointment of Mr. Leo Martin as Chief Operating Officer with overall responsibility for the Group's Irish and UK Builders and Plumbers Merchenting operations. Leo was appointed to the Board in January 2005 following the acquisition of Heiton Group plc where he was Chief Executive. The Board believes this appointment will bring increased focus and continued synergy benefits to the Group's merchenting operations.

As previously announced, the Board was pleased to appoint Mr. Roderick Ryan and Mr. Peter Wood as Non-Executive Directors with effect from 15th March 2006 and 1st July 2006 respectively. Both bring valuable experience to the Board.

Development

In the UK, the Group continued to benefit in the half year from a steady flow of bolt-on acquisitions completing seven transactions. The seven businesses trade from sixteen branches with an annual turnover of €70 million.

The Group strategy of developing organically progressed further with ten projects completed covering the opening of eight merchenting branches in the UK and two DIY stores in Ireland.

These acquisitions and organic developments improve our market positions, increase the number of trading locations to over 500 and provide a platform for the continued profitable development of the Group.

Operations Review – Republic of Ireland

Irish turnover increased by 18 per cent to €590.7 million (2005: €500.0 million) and operating profit increased by 31 per cent to €57.1 million (2005: €43.5 million). The Irish operating profit margin increased to 9.7 per cent from 8.7 per cent.

The Irish economic background has been very favourable in 2006. The economy continued to grow in line with its potential growth rate of around 5 per cent. Growth has been more broadly based than in recent years and is being led by increased consumer spending and investment. The recovery in consumer spending in recent years became more established in 2006 supported by high levels of job creation and healthy income growth. Economic activity has also been boosted by the growing population.



The volume of building and construction activity in Ireland is forecast to increase by close to 6 per cent in 2006. The Irish housing market has remained exceptionally strong supported by a significant increase in the population, high inward migration, strong employment growth, relatively low mortgage rates and the overall strength of the economy. Further growth in housing output is forecast for 2006 over record completions of 86,000 units in 2005. Significant growth beyond 2006 in residential RMI construction activity is also forecast due in part to a boost from the maturing SSIA accounts.

Irish Merchenting

The Irish merchenting business reported another half year of strong sales and profit growth. Sales were up 21 per cent to €407.6 million (2005: €337.5 million).

The first half performance benefited from a strong economy and exposure to the new housing and RMI markets which operated at record levels. The business also has an exposure to the commercial construction market where the prevailing macro economic environment resulted in increased activity in the retail, offices and industrial sectors.

Trading from 59 builders merchenting locations nationally mainly under the Chadwicks and Heiton Buckley brands, the division delivered strong organic growth with like for like sales up 9 per cent.

The established Chadwicks and Telfords businesses traded at record levels outperforming the overall market and reporting good profit growth.

The Heiton Buckley chain and Cork Builders Providers, now under Group ownership since January 2005, delivered an excellent performance in the half year. Good organic sales growth, a continuing focus on operational efficiencies and purchasing synergies contributed to improved profits and margins. The performance of the business has exceeded the Group's pre-acquisition expectations and the quality of the enlarged Irish business reflects the very positive integration benefits achieved, under a range of headings, by the Chadwicks and Heiton Buckley management teams.

The Davies and Garvey's businesses acquired in December 2005 traded strongly with operating profit contributions for the half year ahead of expectations. The Davies business is well positioned to benefit from growth opportunities in buoyant commercial and infrastructure markets. Garvey's, which is primarily exposed to RMI activity in the Midlands market, benefited from purchasing synergies and good sales growth.

Heiton Steel, the largest steel stockholding business in the Irish market, continued to effectively manage the lower price environment for steel carried into 2006 although prices recovered toward the end of the half year and volumes were strong.

On the development front, the Heiton Buckley branch in Tralee was relocated to a new out of town purpose built facility and a new Heiton Buckley branch opened last month in Mullingar.



Irish Retailing

The 46 store Irish retailing business continued to build on the significant increase in scale achieved in 2005 with turnover growth of 15 per cent to €147.0 million (2005: €127.4 million) and increased profitability in the half year. The overall impact of greater competition in the Irish DIY market, due to an increase in store openings over the past two years, was offset by favourable market conditions and like for like sales were flat for the half year.

There was a continuing recovery in retail spending following several years of weak growth due to an increase in the rate of savings. The volume of retail sales is forecast to grow by over 6 per cent in 2006 reflecting continued growth in employment and earnings. The Groups' DIY business is well placed to benefit from this trend going forward.

The retail business delivered strong organic sales and profit growth despite a more competitive market.

Woodie's continued to consolidate its leadership position in the Irish DIY market with the successful opening of stores in Castlebar and Navan in the half year. Last year's store openings in Carrickmines, South Dublin, Drogheda, Co. Louth and Naas, Co. Kildare traded in line with expectations. In August, Woodie's 25th store in Nenagh opened and a substantial increase in the scale of the Waterford store is currently under construction.

The sixteen store Atlantic Homecare DIY business continued to focus on cost and efficiency improvements and the introduction of new product ranges which have had a positive customer response.

The five store In-House at the Panelling Centre business, which markets a range of high quality kitchen and bedroom panelling products to trade and retail customers, achieved excellent sales and profit growth in the half year. The business has been ideally positioned to benefit from buoyant demand particularly in the RMI market. The fifth store in Galway opened at the end of the half year and further store openings are planned.

Irish Manufacturing

CPI's EuroMix division increased volumes in a growth market for residential and commercial construction.

The Wright window and door manufacturing business performed to expectations aided by positive market conditions.



United Kingdom

Despite softer market conditions, the UK business achieved sales growth of 5.4 per cent to €836.5 million (2005: €793.3 million) through contributions from 2005 and current year acquisitions and brownfield branch developments. Operating profit was lower at €49.8 million (2005: €54.1 million) due to a decline in like for like sales of 1.7 per cent benchmarked against strong growth in a more favourable market in the first half of 2005. The operating profit margin reduced to 6 per cent (2005: 6.8 per cent) due to the impact of lower sales in a more competitive market, some dilution from brownfield branch openings in 2005 and 2006 and a competitive mortar market.

The RMI market progressively weakened during 2005 following a prolonged period of growth supported by a strong economy, rising house prices and lower interest rates. These key drivers of demand weakened in 2005 leading to an overall fall in residential RMI activity for the year. This slowdown continued into the first half of 2006 although market conditions improved in the second quarter supported by broadly based growth in the economy, stable interest rates, a pick up in house price inflation and a sharp increase in mortgage approvals and housing transactions.

UK Builders Merchanting

The UK builders merchanting division has grown rapidly in recent years and further improved its overall market position in the half year with acquisition and brownfield led sales growth. Lower like for like sales in a weaker market resulted in a decline in profits from the record levels achieved in the first half of 2005. The impact of lower volumes on profitability in the established business was partly offset by overhead efficiencies and contributions from acquisitions.

Market coverage improved with the completion of four bolt-on acquisitions trading from 11 branches and the opening of two brownfield branches increasing the number of merchanting locations to 195 at the end of the half year.

Buildbase, whose business primarily services the RMI market, reported overall unchanged sales in a weaker market compared with strong trading levels in the first half of 2005. Trading improved in the second quarter following the slow start to the year. The profit impact of lower activity levels was partially mitigated by the implementation of measures to reduce costs. The five bolt-on acquisitions completed in 2005 were smoothly integrated into the Buildbase branch network. Heiton's UK business was fully integrated into the newly formed Buildbase Civils and Lintels division which was established to more effectively service the needs of the civil engineering and ground works contracting market. Buildbase has successfully established a Partnering initiative, in conjunction with the Group's other UK businesses, to provide a structured approach to developing long term supply chain relationships with Local Authorities and the larger companies operating in the construction and related markets. The acquisition at the end of the half year of Fleming Holdings, the leading independent builders and timber merchant in Scotland where it trades from eight branches, substantially strengthens the position of Buildbase in that market.



Jacksons delivered a robust performance in the half year despite the more competitive trading conditions in the East Midlands market.

Macnaughton Blair, the leading merchant in the Northern Ireland market where it trades from thirteen branches, had an excellent half year in a generally favourable market and delivered a good increase in sales and operating profit. MFBP, a leading builders merchant on the Isle of Man, and Houtman, a long established scaffolding business based in Belfast, which were acquired during 2005 performed well in the half year making good contributions to operating profit.

UK Plumbers Merchanting

Trading levels in Plumbase were generally weaker in the first quarter but improved as the second quarter progressed. Despite less favourable market conditions, the half year was a period of healthy growth in sales and operating profit for Plumbase. The improved performance of the business reflected the impact of contributions from the seven plumbers merchanting businesses acquired in 2005 and the positive impact of measures taken to control costs.

Development of the Plumbase network continued with the opening of six branches and the acquisition of four branches expanding the network to 177 trading locations at the end of the half year.

UK Mortar

EuroMix consolidated its leadership position in the UK mortar market with good sales growth in a stable residential and commercial construction market. The business continued to expand its market position based on the sustained success of its dry mortar products and service offering which has an almost national reach. The competitive environment in the mortar market has evolved over the past two years with expansion in capacity as the sector moves to a more mature stage of development. The more competitive trading environment in the half year resulted in the business absorbing increased energy related raw materials and distribution costs leading to some margin erosion and lower operating profit. The Bristol plant which opened in mid 2005 traded in line with expectations and market coverage improved in July with the opening of the ninth plant near Leeds.

Finance

The Group ended the half year in a very strong financial position. Cashflow generated from operations and property disposals amounted to €144.4 million (2005: €114.7 million) substantially ahead of the comparative period.



Despite an active acquisition and development program in the half year, the Group's very healthy cashflow resulted in a reduction of €40.2 million in net debt to €543.9 million.

Shareholders' funds increased by €93.0 million, after spending €20.2 million on the purchase of A ordinary shares in March 2006.

The ratio of net debt to shareholders funds at 30 June 2006 was down to 60 per cent from 72 per cent at 31 December 2005.

Interest cover improved to 8.6 times (2005: 6.9 times).

Group spending on acquisitions and capital projects amounted to €91.1 million in the half year (2005: €446.9 million). This was down on the comparable half year which included the cost of the Heitons acquisition. Acquisitions and investments made during the half year cost €40.6 million including acquired debt. Capital expenditure of €48.2 million (2005: €58.4 million) comprised routine replacement expenditure of €23.4 million and development expenditure of €24.8 million which is intended to support the continued profitable growth of the Group and included expenditure associated with the opening of ten new locations in the half year.

The Group continued to realise significant value from its property portfolio with the disposal of three properties in Ireland, including the Atlantic Homecare property in Stillorgan, Co. Dublin, and three in the UK. The Group also realised part of its joint venture interest in the Blackwater Retail Park development in Navan, Co. Meath. The total proceeds receivable from these transactions amounted to €64.1 million and the profit on disposals and development profit was €28.1 million.

Outlook

In Ireland, trading has remained strong since the end of the half year and the medium term prospects for the economy are expected to remain favourable. Consumer spending is expected to continue to grow supported by increased employment and disposable incomes and a contribution from the maturing SSIA accounts.

Prospects for the Irish housing market continue to be positive supported by strong demographics, high levels of job creation and growth in disposable incomes although interest rate rises may lead to some moderation in the current strong level of demand.

The favourable economic background should continue to sustain strong demand in the residential construction and RMI markets which are serviced by the Heiton Buckley and Chadwicks merchanting businesses.



Strong consumer spending should continue to be supportive of good levels of demand in the Irish DIY market although the benefit of the favourable market will be partly offset by the addition of significant capacity in the sector in recent years. The Group's Irish DIY business will also benefit from current year store openings in Castlebar, Navan and Nenagh.

In the UK, the improving market conditions identified in the second quarter have been sustained into the second half. After a period of below trend growth, the economy is expected to grow at close to its trend rate over the past decade.

The housing market has improved significantly and is expected to perform well following a significant pick up in transactions and mortgage lending.

These conditions should continue to support a gradual recovery in the RMI market but possibly at a more moderate pace of growth than experienced in recent years. The UK merchandising business will continue to focus on realising scale related synergies and efficiencies. The continued development of the branch network is expected to be supported by further bolt-on acquisitions and brownfield developments. The UK mortar market is anticipated to remain competitive due to the increased capacity in the sector.

The Group remains confident of continued growth in profits and earnings per share in 2006 and, with a very strong financial position and healthy cash flow, is well placed to take advantage of suitable development opportunities and a healthy pipeline of potential acquisitions.

Analyst Meeting

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

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Grafton Group plc

Group Income Statement

For the six months ended 30 June 2006

	Six months to 30 June 2006 (Unaudited) €'000	Six months to 30 June 2005 (Unaudited) €'000	Twelve months to 31 Dec 2005 (Audited) €'000
Revenue	1,427,158	1,293,329	2,629,464
Operating costs	(1,321,334)	(1,196,779)	(2,415,694)
Operating profit before property profit	105,824	96,550	213,770
Property profit	28,123	5,928	9,640
Operating profit	133,947	102,478	223,410
Finance costs	(27,123)	(20,641)	(48,803)
Finance income	11,450	5,552	17,574
Profit before tax	118,274	87,389	192,181
Income tax expense	(16,558)	(12,081)	(26,102)
Profit after tax for the financial period	101,716	75,308	166,079
Profit attributable to: Equity holders of the company	101,716	75,308	166,079
Basic earnings per share	42.77c	31.99c	70.26c
Adjusted earnings per share	33.00c	30.21c	67.80c
Diluted earnings per share	41.90c	31.25c	68.80c



Group Statement of Recognised Income and Expense

For the six months ended 30 June 2006

	Six months to 30 June 2006 €'000	Six months to 30 June 2005 €'000	Twelve months to 31 Dec 2005 €'000
Items of income and expense recognised directly within equity:			
Currency translation effects - on foreign currency net investments	(3,815)	13,501	7,999
- on foreign currency borrowings	189	(2,145)	(811)
Actuarial gain/(loss) on Group defined benefit pension schemes	12,378	(10,828)	(8,946)
Deferred tax on Group defined benefit pension schemes	(2,219)	1,726	1,944
Fair value movement in cash flow hedge	1,052	(1,937)	(1,332)
Deferred tax on cash flow hedge	(132)	242	167
Net income / (expense) recognised directly in equity	7,453	559	(979)
Profit after tax for the financial period	101,716	75,308	166,079
Total recognised income and expense for the period	109,169	75,867	165,100
Attributable to:			
Equity holders of the company	109,169	75,867	165,100

Movement on Group Retained Earnings

	30 June 2006 €'000	30 June 2005 €'000	31 Dec 2005 €'000
At 1 January	475,380	347,044	347,044
Retained profit for the financial period	101,716	75,308	166,079
Purchase of A ordinary shares	(20,204)	(16,542)	(33,751)
Actuarial gain/(loss) on pensions (net of tax)	10,159	(9,102)	(7,002)
Deferred tax on share based payments	258	260	157
Transfer from revaluation reserve	3,530	120	2,853
At end of period	570,839	397,088	475,380

Group Statement of Changes in Equity

	30 June 2006 €'000	30 June 2005 €'000	31 Dec 2005 €'000
At beginning of period	813,811	495,538	495,538
Impact of adoption of IAS 32 & IAS 39	-	55,424	55,424
At beginning of period as adjusted	813,811	550,962	550,962
Elimination of fair value reserve arising on acquisition of Heiton Group plc	-	(49,535)	(49,535)
Issue of Grafton Units (net of issue expenses)	2,011	178,107	178,658
Adjustment for share based payments expense	1,807	839	2,220
Deferred tax on share based payments	258	260	157
Purchase of A ordinary shares	(20,204)	(16,542)	(33,751)
Total recognised income and expense for the period	109,169	75,867	165,100
Closing shareholders' funds – equity	906,852	739,958	813,811



Grafton Group plc

Group Balance Sheet as at 30 June 2006

	30 June 2006 (Unaudited) €'000	30 June 2005 (Unaudited) €'000	31 Dec 2005 (Audited) €'000
ASSETS			
Non-current assets			
Property, plant and equipment	629,388	596,494	623,228
Intangible assets – goodwill	543,258	482,672	532,323
Intangible assets – other	14,422	16,635	15,519
Financial assets	267	234	256
Deferred tax assets	27,567	31,123	25,980
Total non-current assets	1,214,902	1,127,158	1,197,306
Current assets			
Inventories	370,473	337,867	356,647
Trade and other receivables	564,325	495,061	499,308
Derivative and other financial instruments	1,377	3,291	5,708
Cash and cash equivalents	255,250	396,748	334,023
Total current assets	1,191,425	1,232,967	1,195,686
Total assets	2,406,327	2,360,125	2,392,992
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Equity share capital	12,061	12,042	12,037
Share premium account	283,001	280,505	281,038
Capital redemption reserve	298	251	274
Revaluation reserve	33,044	39,307	36,574
Other reserve – shares to be issued	4,998	1,810	3,191
Cash flow hedge reserve	1,205	(245)	285
Foreign currency translation reserve	1,406	9,200	5,032
Retained earnings	570,839	397,088	475,380
Total equity	906,852	739,958	813,811
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	548,315	728,794	713,712
Deferred tax liabilities	44,708	39,159	42,932
Retirement benefit obligations	44,973	70,651	59,032
Provisions	500	1,093	500
Total non-current liabilities	638,496	839,697	816,176
Current liabilities			
Interest-bearing loans and borrowings	235,959	209,444	209,278
Trade and other payables	552,291	514,409	498,717
Current tax liabilities	55,252	51,483	50,610
Derivative financial instruments	16,292	1,577	923
Provisions	1,185	3,557	3,477
Total current liabilities	860,979	780,470	763,005
Total liabilities	1,499,475	1,620,167	1,579,181
Total equity and liabilities	2,406,327	2,360,125	2,392,992



Grafton Group plc Group Cash Flow Statement

For the six months ended 30 June 2006

	Six Months to 30 June 2006 (Unaudited) €'000	Six Months to 30 June 2005 (Unaudited) €'000	Twelve months to 31 Dec 2005 (Audited) €'000
Operating profit before property profit	105,824	96,550	213,770
Depreciation	24,742	22,980	48,248
Intangible amortisation	1,097	1,060	2,176
Share based payments charge	1,807	839	2,220
Net profit on sale of plant and equipment	(1,382)	(1,189)	(2,564)
Contributions to pension schemes in excess of IAS 19 charge	(1,526)	(639)	(10,888)
Increase in working capital	(26,025)	(3,653)	(28,485)
Cash generated from operations	104,537	115,948	224,477
Interest paid	(22,055)	(15,522)	(39,233)
Income taxes paid	(2,462)	(5,357)	(15,226)
Cash flows from operating activities	80,020	95,069	170,018
Investing activities			
<i>Inflows</i>			
Proceeds from sale of property, plant and equipment	57,972	18,578	32,793
Interest received	6,451	1,093	7,738
	<u>64,423</u>	<u>19,671</u>	<u>40,531</u>
<i>Outflows</i>			
Acquisition of subsidiary undertakings and businesses	(39,908)	(307,636)	(395,451)
Net cash acquired with subsidiary undertakings	2,329	15,083	22,897
Deferred acquisition consideration	(2,284)	(5,586)	(6,844)
Purchase of property, plant and equipment	(48,230)	(58,400)	(100,559)
	<u>(88,093)</u>	<u>(356,539)</u>	<u>(479,957)</u>
Cash flows from investing activities	(23,670)	(336,868)	(439,426)
Financing activities			
<i>Inflows</i>			
Proceeds from the issue of share capital	2,011	178,107	178,658
Proceeds from long term borrowings	-	346,970	373,078
	<u>2,011</u>	<u>525,077</u>	<u>551,736</u>
<i>Outflows</i>			
Repayment of long term borrowings	(109,115)	-	(35,673)
Purchase of A ordinary shares	(20,204)	(16,542)	(33,751)
Payment of finance lease liabilities	(1,103)	(978)	(2,061)
Redemption of loan notes payable	(9,842)	(19,872)	(25,237)
	<u>(140,264)</u>	<u>(37,392)</u>	<u>(96,722)</u>
Cash flows from financing activities	(138,253)	487,685	455,014
Net (decrease) / increase in cash and cash equivalents	(81,903)	245,886	185,606
Cash and cash equivalents at the beginning of the period	291,844	105,822	105,822
Effect of exchange rate fluctuations on cash held	(2,655)	791	416
Cash and cash equivalents at the end of the period	207,286	<u>352,499</u>	<u>291,844</u>
Cash and cash equivalents are broken down as follows:			
Cash at bank and short term deposits	255,250	396,748	334,023
Overdrafts	(47,964)	(44,249)	(42,179)
	<u>207,286</u>	<u>352,499</u>	<u>291,844</u>



Grafton Group plc
Notes to interim results for the half year ended 30 June 2006

1. General Information and Accounting Policies

The interim Financial Statements have been prepared in accordance with the Group's accounting policies under International Financial Reporting Standards (IFRS) as set out in the Group's 2005 Annual Report. The comparative numbers at 30 June 2005 have been restated to reflect final accounting policies adopted under IFRS at 31 December 2005.

2. Revenue and Operating Profit by Geographic Segment

The amount of revenue by geographic segment is as follows:

	Six months to 30 June 2006 (Unaudited) €'000	Six months to 30 June 2005 (Unaudited) €'000	Twelve months to 31 Dec 2005 (Audited) €'000
Revenue			
Ireland	590,654	499,995	1,032,899
United Kingdom	<u>836,504</u>	<u>793,334</u>	<u>1,596,565</u>
	<u>1,427,158</u>	<u>1,293,329</u>	<u>2,629,464</u>
Operating profit before property profit and intangible amortisation			
Ireland	57,106	43,486	107,702
United Kingdom	<u>49,815</u>	<u>54,124</u>	<u>108,244</u>
	106,921	97,610	215,946
Intangible amortisation – Ireland	<u>(1,097)</u>	<u>(1,060)</u>	<u>(2,176)</u>
	<u>105,824</u>	<u>96,550</u>	<u>213,770</u>
Operating profit before property profit			
Ireland	56,009	42,426	105,526
United Kingdom	<u>49,815</u>	<u>54,124</u>	<u>108,244</u>
	<u>105,824</u>	<u>96,550</u>	<u>213,770</u>
Property profit			
Ireland	24,104	4,251	7,963
United Kingdom	<u>4,019</u>	<u>1,677</u>	<u>1,677</u>
	<u>28,123</u>	<u>5,928</u>	<u>9,640</u>
Operating profit			
Ireland	80,113	46,677	113,489
United Kingdom	<u>53,834</u>	<u>55,801</u>	<u>109,921</u>
	<u>133,947</u>	<u>102,478</u>	<u>223,410</u>
Finance costs (net)	<u>(15,673)</u>	<u>(15,089)</u>	<u>(31,229)</u>
Profit before tax	<u>118,274</u>	<u>87,389</u>	<u>192,181</u>



3. Analysis of Revenue by Business Segment

	Six months to 30 June 2006 (Unaudited) €'000	Six months to 30 June 2005 (Unaudited) €'000	Twelve months to 31 Dec 2005 (Audited) €'000
Revenue			
UK merchanting	803,121	761,774	1,533,700
Irish merchanting	407,604	337,483	690,549
Irish DIY	147,007	127,383	272,589
Irish and UK manufacturing	69,426	66,689	132,626
	<u>1,427,158</u>	<u>1,293,329</u>	<u>2,629,464</u>

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

For the six months ended 30 June 2006	30 June 2006 €'000	30 June 2005 €'000	31 Dec 2005 €'000
Net (decrease) / increase in cash and cash equivalents	(81,903)	245,886	185,606
Cash-flow from movement in debt and lease financing	<u>120,060</u>	<u>(326,120)</u>	<u>(310,107)</u>
Change in net debt resulting from cash flows	38,157	(80,234)	(124,501)
Loan notes issued on acquisition of subsidiary undertakings	-	(867)	(867)
Bank loans and loan notes acquired with subsidiary undertakings	(2,926)	(81,861)	(89,519)
Finances leases acquired with subsidiary undertakings	(87)	(7,652)	(7,934)
Translation adjustment	4,047	(19,653)	(12,457)
Net movement in derivative financial instruments	1,052	(1,937)	(1,332)
Movement in net debt in the period	<u>40,243</u>	<u>(192,204)</u>	<u>(236,610)</u>
Net debt at 1 January	(584,182)	(349,229)	(349,229)
IAS 32/39 adjustment at 1 January 2005	-	1,657	1,657
Net debt restated at 1 January	<u>(584,182)</u>	<u>(347,572)</u>	<u>(347,572)</u>
Net debt at end of the period	<u>(543,939)</u>	<u>(539,776)</u>	<u>(584,182)</u>



5. Earnings per Share

The computation for basic, diluted and adjusted earnings per share is set out in the table below.

	Half Year 30 June 2006 €'000	Half Year 30 June 2005 €'000	Year Ended 31 Dec 2005 €'000
Numerator for basic, adjusted and diluted earnings per share:			
Profit after tax for the financial period	101,716	75,308	166,079
Numerator for basic and diluted earnings per share	101,716	75,308	166,079
Property profit after tax	(24,186)	(5,116)	(7,731)
Intangible amortisation after tax	960	928	1,904
Numerator for adjusted earnings per share	78,490	71,120	160,252
	Number of Grafton Units	Number of Grafton Units	Number of Grafton Units
Denominator for basic and adjusted earnings per share:			
Weighted average number of Grafton Units in issue	237,841,649	235,445,159	236,371,547
Effect of potential dilutive Grafton Units	4,913,765	5,517,180	5,023,349
Denominator for diluted earnings per share	242,755,414	240,962,339	241,394,896
Earnings per share (cent)			
- Basic	42.77	31.99	70.26
- Diluted	41.90	31.25	68.80
Adjusted earnings per share (cent)			
- Basic	33.00	30.21	67.80

6. Share Purchase

The Board has approved the purchase of one A ordinary share per Grafton Unit for a cash consideration of 8.25 cent. The purchase of the A ordinary share will take effect in respect of Grafton Units on the register at close of business 6 October 2006 (record date) and the cash consideration will be paid on 18 October 2006.

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 2006 and 30 June 2005 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 2006 was Stg68.70p (six months to 30 June 2005: Stg68.59p and twelve months to 31 December 2005: Stg68.38p). The Euro / Sterling exchange rate at 30 June 2006 was Stg69.21p (30 June 2005: Stg67.42p and 31 December 2005: Stg68.53p).



Independent review report to Grafton Group plc

Introduction

We have been engaged by the Company to review the financial information which comprises the Group Interim Income Statement, Group Interim Balance Sheet, Group Interim Statement of Recognised Income and Expense, Group Interim Cash Flow Statement and related notes. 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 and the UK Financial Services Authority. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

This 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.

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 Ireland and the 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 2006.

KPMG
Chartered Accountants
Dublin
12 September 2006