



Grafton Group plc 2009 Half-yearly Financial Report

For further information please contact:

Grafton Group plc + 353 1 216 0600

Michael Chadwick, Executive Chairman

Colm Ó Nualláin, Finance Director

Murray Consultants + 353 1 498 0300

Joe Murray

Citigate Dewe Rogerson + 44 207 282 2945

Ginny Pulbrook

28 August 2009



Highlights

Grafton Group plc announces its interim results for the six months ended 30 June 2009. Grafton has a significant presence in the UK Builders Merchanting market which accounted for two thirds of turnover in the half year and is the leading builders merchanting and DIY operator in Ireland.

	2009	2008
Revenue	€0.99 bn	€1.44 bn
Operating (loss)/profit	(€8.3 m)	€71.8 m
Profit before tax	€3.7 m	€53.4 m
Earnings per share	1.5 c	20.2 c
'A' ordinary share purchase	2.5 c	10.0 c

FINANCIAL HIGHLIGHTS:

- Turnover down by 31 per cent and by 24 per cent in constant currency terms.
- Investment and property profit of €28 million and restructuring costs of €9 million.
- Cash generated from operations of €77 million in the period.
- Secure funding position and good liquidity with cash balances of €270 million at period end.
- Net debt down by €56 million to €380 million and gearing down to 41 per cent.
- Shareholders' funds up by €61 million to €930 million.

OPERATIONAL HIGHLIGHTS:

- Range of actions taken in response to sharp deterioration in economic environment and decline in the Group's markets.
- Cost reduction programme achieved annualised savings of over €70 million.
- Continued emphasis on integration of the merchanting business in the UK and Ireland.



OUTLOOK:

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

“Grafton’s focus remains firmly on maximising operational efficiencies and cash generation. The intensity of the downturn in our markets has moderated and recent months have seen more stable sales levels. In the UK, housing starts are rising and leading indicators for repair, maintenance and improvement work are positive. Grafton has strong competitive operating units and a conservatively managed securely funded balance sheet with good liquidity. The Group is confident of trading successfully through this major cyclical downturn and is well positioned to capitalise on upturns in activity in its markets.”

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 Countries:	+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	207 769 6425
US:	+1 630	652 3111
Other:	+353	1 436 4267

The digital replay security code is: 1998361#

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



Interim Management Report

For the six months ended 30 June 2009

Overview

The Group's performance for the half year is set against the backdrop of a sharp deterioration in economic activity. The severity of the downturn, which is without precedent in recent history, led to very tough trading conditions and a sharp fall in demand from our customers in the UK and especially Ireland. The Group's markets declined significantly in the second half of 2008 and this trend continued into 2009 before stabilising in recent months. The priority of delivering operational efficiencies and performance improvement over all aspects of the business was combined with a strong focus on cash generation. The strength of the Group's brands and operating model together with the significant reduction in costs helped to mitigate the impact on profitability of the very difficult trading environment.

Group turnover for the half year of €0.99 billion was down 31 per cent from €1.44 billion due to much weaker demand and the adverse translation effect of a fall in the average sterling / euro exchange rate for the period. Profit before tax fell to €3.7 million from €53.4 million due primarily to a decline of 26 per cent in average daily like for like sales. In more competitive markets the overall gross margin of the Group was down by 0.3 per cent. Measures implemented over the past year to realign the cost base of the Group reduced like for like overheads by €33 million compared to the first half of 2008.

Rationalisation and related costs of €9.1 million were incurred during the half year. The result for the period includes an investment profit of €22.1 million realised in cash on a financial investment previously written down in full and a property profit of €6.1 million.

Management responded to the progressively sharper decline in volumes experienced over the past year by implementing significant cost reduction programmes and undertaking a closer integration of the merchanting businesses. The change in emphasis has already achieved very significant outcomes with annualised cost savings of over €70 million secured across the Group by the end of the half year.

The Group has over the long-term balanced the risk of operating in cyclical markets with a conservative approach to managing its balance sheet. This approach has provided the flexibility to maintain a secure funding position and good liquidity. Cash generation was strong during the half year enabling net debt to be reduced by €56 million. Cash balances amounted to €270 million at 30 June 2009 and net gearing reduced to 41 per cent.

Capital expenditure levels have been reduced to less than half of the Group's depreciation charge reflecting the spare capacity created in the branch network due to the fall in volumes. Development expenditure is being restricted to strategically important projects and opportunities that are an inevitable outcome of cyclical downturn and offer the prospect of compelling returns on invested capital.

Share Purchase

The Board has evaluated its share purchase policy and, in keeping with its objective of striving to maintain its twice yearly share purchase subject to prevailing market conditions, the Group will purchase one A Ordinary share per Grafton unit for a cash consideration of 2.5 cent payable on 9 October 2009. This compares to a payment of 5 cent per share for the last share purchase which was in April 2009.



Operations Review - Merchanting

Turnover in the merchanting business, which accounts for 85 per cent of Group turnover, was down 32 per cent. The business recorded a fall of 26 per cent in average daily like for like sales in constant currency terms. Operating profit before property profit and restructuring costs declined to €3.4 million from €74.9 million. The performance of the division in the half year compares to the relatively strong performance of the UK business in the first half of 2008 and also reflects a further sharp deterioration in the Irish trading environment.

UK Merchanting

Turnover was down 26 per cent to €647 million (2008: €879 million). The decline in sterling turnover was 15 per cent and average daily like for like sales declined by 16.8 per cent. Operating profit before rationalisation costs was €12.8 million (2008: €49.9 million).

Demand in the repair, maintenance and improvement market fell sharply against the background of an economy which in the first quarter experienced its sharpest decline in output for more than fifty years. Weak consumer confidence, concerns about employment prospects, tighter credit conditions and falling house prices weighed on activity in the sector. Housing transactions and mortgage approvals, key drivers of RMI demand, were at historically low levels. The market showed some signs of starting to stabilise towards the end of the half year. The decline in average daily sales moderated a little in May and June. This was due to a weaker relative performance, as the market progressively deteriorated during 2008, rather than to an improvement in underlying market conditions.

Management responded to the decline in sales volumes through overhead reductions. Employment numbers were reduced by 321 following a reduction of 800 in the workforce during the second half of 2008.

The integration programme continued and will lead to a single management and reporting structure supporting the Buildbase, Plumbase, Jacksons and specialist merchanting brands. The specialist brands have integrated during the half year and integration of Plumbase will complete before the year end. These developments allow for significant savings in employment costs over a range of support office services including Information Technology, Finance, Administration, Property and Human Resources while also enabling a more harmonised approach to the delivery of these services.

Significant progress was made in securing new projects and contracts under the Partnering initiative which coordinates a response to the supply of materials to Local Authorities, Housing Associations and national contractors.

Selco, the trade only warehouse format performed resiliently throughout the period. The five stores that opened last year performed to expectation and the network increased to twenty eight stores with the opening of three stores in Sidcup, Romford and Nottingham.

In Northern Ireland, Macnaughton Blair encountered challenging trading conditions due to the sharp contraction in economic activity. There was a steep decline in house prices and a sharp reduction in the volume of transactions.

Irish Merchanting

Turnover in the Irish merchanting business was down by 46 per cent to €193 million from €355 million. The business reported an operating loss before rationalisation costs and property profit of €9.4 million, compared to a profit of €25.0 million last year.

The Irish economy is now in its second year of recession and is forecast to contract by over 8 per cent this year due to the international downturn and domestic difficulties centred on the market and availability of credit. Turnover weakness in the merchanting business deepened in the second half of 2008 and the first four months of 2009. Lower investment in residential construction was the most



significant contributor to the very difficult trading conditions. House completions are forecast to fall to circa 20,000 units this year, a drop of over 60 per cent from last year's output of 52,000 units and less than a quarter of peak output in 2006 when 88,000 units were completed. The sharp correction in prices, very low interest rates and excess supply have combined to substantially improve housing affordability. Transaction levels have nevertheless remained low due to weak consumer confidence against the background of a sharply contracting economy, rising unemployment, higher taxes and tighter credit conditions.

The Heiton Buckley and Chadwicks brands were focused on defending margins in a competitive pricing environment. The sharp decline in volumes was partly offset by significant overhead savings. Continuing actions to reduce costs, while regrettable, remain a priority for the long term prosperity of the business and further measures continue to be implemented. The transition to a single management structure and support office was completed during the period. Some adjustments were made to the Group's merchanting capacity in response to lower demand and in order to position the business for a return to profitability.

Trading in Heiton Steel, in common with other operators in the sector, was severely impacted by much weaker demand in the commercial and agricultural sectors and by more intense price competition and the fall in steel prices.

The decline in Irish merchanting turnover over the past 18 months has significantly altered the end-use balance of the business. The more resilient repair, maintenance and improvement (RMI) market is now the principal end-use market with housing expected to account for less than a quarter of current year turnover.

The business has also been well served by its long term disciplined approach to credit control management. Exposure to segments of our market that carried a higher credit risk has reduced over the past two years. The change in the end-use balance of the business towards RMI has also contributed to a broader spread of credit risk.

Operations Review - Retailing

Turnover declined by 18 per cent to €127 million from €155 million. The business reported an operating loss of €3.2 million before rationalisation costs compared to a profit of €4.6 million last year.

The retailing segment, which comprises 41 DIY stores and 7 kitchen showrooms in Ireland, had a challenging half year due to weakness in consumer demand and lower housing completions. The weak trend in consumer spending that was evident during 2008 intensified in the half year. This trend was heightened by the comparative period benefiting from relatively better weather which influenced stronger demand for gardening and related products. Turnover in the half year was 25 per cent below the peak level achieved in the first half of 2007.

The business responded to the difficult market conditions by implementing a significant reduction in overheads. Lower volumes and improved staff productivity enabled average employment costs to be reduced. The focus on reducing costs while centred on variable overheads also extended to reaching agreement with landlords to reduce rents on a number of properties in recognition of the substantial fall in property prices and more difficult trading environment for DIY retailing. Improved sourcing and supply chain management enabled better value to be delivered to customers during the recession at broadly unchanged margins. The business continued to pilot new product ranges that compliment its existing seasonal ranges and provide opportunities for profitable turnover growth during the recession and beyond.

Operations Review - Manufacturing

Turnover in the manufacturing segment was €23 million down 53 per cent from €50 million. The segment made an operating loss before rationalisation costs of €4.2 million compared to a break-even position last year. Significant cost reductions partly mitigated the effect of sharply reduced volumes and pricing pressures in all businesses.



Financial Review

Cash flow

The Group's operations continued to generate strong cash flow. Management of working capital resulted in a cash inflow of €68.2 million. This included a significant reduction in inventory and a reduced investment in debtors due to the decline in like for like sales.

Debt and Liquidity

Net debt at 30 June 2009 fell to €379.7 million (30 June 2008: €510.4 million), a decline of €55.9 million from €435.6 million at the end of 2008. The net debt to shareholders' funds ratio was 41 per cent (31 December 2008: 50 per cent).

The Group continued to retain good liquidity by holding significant deposits and cash balances amounting to €270.1 million at 30 June 2009 (31 December 2008: €224.8 million).

The Group is required to maintain a minimum level of net assets under the terms of its finance facilities. Since the period end, agreement was reached with the Group's principal lenders to exclude the Foreign Currency Translation Reserve in the Group's balance sheet for the purposes of determining minimum net assets from time to time. This development increases the headroom with US Note Holders and our principal bankers to circa €300 million and protects the Group's net assets for covenant purposes from movements in the euro / sterling exchange rate. The Group's other principal banking covenants are a maximum net debt to equity ratio of one hundred per cent and a current liabilities to current assets ratio not to exceed 1.2:1. The Group has no interest cover or EBITDA to debt covenants.

The net interest charge, excluding the investment profit of €22.1 million, was down to €10.1 million from €18.4 million as the Group's floating rate debt benefited from historically low sterling and euro interest rates.

Shareholders' Funds

Shareholders' funds were €929.6 million at 30 June 2009, an increase of €60.7 million since 31 December 2008. A strengthening of the sterling exchange rate resulted in an increase in the value of the Group's net investment in sterling assets on translation into euro. This represents a partial recovery of the translation loss that was reflected in the balance sheet at 31 December 2008 which arose due to sterling weakness in 2008.

Shareholders' funds at 30 June 2009 were equivalent to net assets per share of €4.03.

Risks and Uncertainties

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

Trading in the Group's business is affected by economic conditions in the UK and Ireland where the Group's earnings are generated. Demand in the UK and Irish builders merchanting markets and in the Irish DIY and UK mortar markets are sensitive to economic conditions generally including credit conditions, consumer confidence, interest rates, employment trends, inflation, demographic factors and housing market conditions. More difficult market conditions may reduce demand in the Group's markets resulting in lower volumes with a related impact on performance.



A further deterioration in the UK and Irish economies could lead to lower demand in the Group's merchandising, DIY and mortar businesses. Sterling weakness could lead to lower reported Group numbers on translation of the results of the UK business into euro at the average rate of exchange for the second half of the year.

Outlook

Trading continued to stabilise in July and August.

In the UK, which accounts for two thirds of Group turnover, indicators of recent developments in the economy have been broadly favourable and encouraging. Retail sales and consumer confidence have picked up. Indicators of activity in the housing market and house price trends have been positive. The sound long term fundamentals of the RMI market, including an aged housing stock and low rate of replacement, should over time see a return to growth and recovery of the significant fall in volume that occurred over the past year. The strength of the recovery will be influenced by the availability of credit and willingness of households to borrow to finance house moves and refurbishment projects.

In Ireland, the economy is expected to continue to contract but at a slower pace before stabilising and starting to recover in 2010. While housing completions are forecast to decline further over the remainder of the year and into 2010, housing starts appear to be stabilising at a low level. The timing and nature of any recovery is dependent on the stock of unsold units falling, prices stabilising and an improvement in the wider economy taking hold. Residential RMI activity is also forecast to decline further but to a much lesser extent. The Irish retailing business is expected to sustain a fall in volumes over the remainder of the year as consumer spending continues to come under pressure due to falling disposable incomes, an increase in the rate of unemployment and weak consumer confidence.

The immediate focus will remain on further overhead savings and cash generation. The Group is well placed to deal with the current challenging trading environment and to benefit from the significant operating improvements implemented over the past year. Management is confident that the underlying strengths of its brands and market positions, which have delivered high levels of profitability and cash flow over the past decade, make it well positioned to capitalise on a recovery.



Grafton Group plc

Group Condensed Income Statement

For the six months ended 30 June 2009

	Six months to 30 June 2009 (Unaudited) €'000	Six months to 30 June 2008 (Unaudited) €'000	Twelve months to 31 Dec 2008 (Audited) €'000
Revenue	989,946	1,437,842	2,672,984
Operating costs and income	<u>(998,209)</u>	<u>(1,366,057)</u>	<u>(2,573,759)</u>
Operating (loss)/profit	(8,263)	71,785	99,225
Finance expense	(16,846)	(30,007)	(59,944)
Finance income	<u>28,794</u>	<u>11,576</u>	<u>24,835</u>
Profit before tax	3,685	53,354	64,116
Income tax expense	(295)	(6,949)	(6,418)
Profit after tax for the financial period	<u>3,390</u>	<u>46,405</u>	<u>57,698</u>
Profit attributable to: Equity holders of the company	<u>3,390</u>	<u>46,405</u>	<u>57,698</u>
Earnings per ordinary share - basic	<u>1.47c</u>	<u>20.20c</u>	<u>25.09c</u>
Diluted earnings per share	<u>1.47c</u>	<u>20.09c</u>	<u>25.00c</u>



Group Condensed Statement of Comprehensive Income

For the six months ended 30 June 2009

	Six months to 30 June 2009 €'000	Six months to 30 June 2008 €'000	Twelve months to 31 Dec 2008 €'000
Items of income and expense recognised directly within equity:			
Currency translation effects			
- on foreign currency net investments	99,211	(69,867)	(243,869)
- on foreign currency borrowings	(29,147)	23,144	71,569
Actuarial (loss) on Group defined benefit pension schemes	(2,556)	(685)	(37,414)
Deferred tax on Group defined benefit pension schemes	1,817	(1,299)	4,730
Deferred tax on capital gains tax rate increase	(1,012)	-	-
Fair value movement in cash flow hedges:			
- Fair value (losses)	(1,588)	(41)	(55)
- Included in finance expense	144	(543)	(529)
Deferred tax on cash flow hedge	180	73	73
Net income/(expense) recognised directly in equity	67,049	(49,218)	(205,495)
Profit after tax for the financial period	<u>3,390</u>	<u>46,405</u>	<u>57,698</u>
Total recognised income and expense for the period	<u>70,439</u>	<u>(2,813)</u>	<u>(147,797)</u>
Attributable to:			
Equity holders of the company	<u>70,439</u>	<u>(2,813)</u>	<u>(147,797)</u>

	30 June 2009 €'000	30 June 2008 €'000	31 Dec 2008 €'000
Movement on Group Retained Earnings			
At 1 January	737,817	759,864	759,864
Profit after tax for the financial period	3,390	46,405	57,698
Purchase of 'A' ordinary shares	(11,510)	(27,566)	(50,585)
Actuarial (loss) on pensions (net of tax)	(739)	(1,984)	(32,684)
Deferred tax on capital gains tax rate increase	(1,012)	-	-
Transfer from other reserve – shares to be issued	-	-	2,913
Transfer from revaluation reserve	102	102	611
At end of period	<u>728,048</u>	<u>776,821</u>	<u>737,817</u>



Grafton Group plc

Group Condensed Balance Sheet as at 30 June 2009

	30 June 2009 (Unaudited) €'000	30 June 2008 (Unaudited) €'000	31 Dec 2008 (Audited) €'000
ASSETS			
Non-current assets			
Goodwill	564,077	586,257	532,807
Intangible assets	7,780	9,992	8,877
Property, plant and equipment	642,674	706,484	633,336
Deferred tax assets	28,019	19,054	24,904
Retirement benefit assets	-	7,944	7
Derivative financial instruments	11,405	-	27,810
Investment in associate	3,690	-	-
Financial assets	217	743	227
Total non-current assets	1,257,862	1,330,474	1,227,968
Current assets			
Inventories	314,544	365,474	331,124
Trade and other receivables	365,364	531,352	353,581
Derivative financial instruments	4,028	-	10,943
Cash and cash equivalents	270,143	216,817	224,834
Properties held for sale	13,392	-	-
Total current assets	967,471	1,113,643	920,482
Total assets	2,225,333	2,444,117	2,148,450
EQUITY			
Capital and reserves attributable to the equity holders			
Equity share capital	11,597	11,575	11,579
Share premium account	289,665	288,711	288,951
Capital redemption reserve	902	898	900
Revaluation reserve	32,055	32,666	32,157
Other reserves	7,083	13,538	6,041
Cash flow hedge reserve	(1,264)	-	-
Foreign currency translation reserve	(132,770)	(77,257)	(202,834)
Retained earnings	728,048	776,821	737,817
Treasury shares held	(5,746)	(5,746)	(5,746)
Total equity	929,570	1,041,206	868,865
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	558,066	554,576	579,333
Provisions	16,129	17,553	15,319
Retirement benefit obligations	40,710	14,751	40,899
Derivative financial instruments	845	9,320	-
Deferred tax liabilities	46,568	50,963	40,732
Total non-current liabilities	662,318	647,163	676,283
Current liabilities			
Interest-bearing loans and borrowings	105,787	159,471	119,874
Trade and other payables	463,434	529,972	420,402
Current income tax liabilities	54,565	51,738	55,950
Derivative financial instruments	599	3,832	-
Provisions	9,060	10,735	7,076
Total current liabilities	633,445	755,748	603,302
Total liabilities	1,295,763	1,402,911	1,279,585
Total equity and liabilities	2,225,333	2,444,117	2,148,450



Grafton Group plc Group Condensed Cash Flow Statement

For the six months ended 30 June 2009

	Six Months to 30 June 2009 (Unaudited) €'000	Six Months to 30 June 2008 (Unaudited) €'000	Twelve months to 31 Dec 2008 (Audited) €'000
Profit before taxation	3,685	53,354	64,116
Finance income	(28,794)	(11,576)	(24,835)
Finance expense	16,846	30,007	59,944
Operating (loss)/profit	(8,263)	71,785	99,225
Depreciation	23,822	29,280	54,287
Intangible amortisation	1,097	1,103	2,218
Share based payments charge/(credit)	1,042	2,618	(1,966)
Non cash movement in provisions	1,786	2,478	2,477
Profit on sale of property, plant and equipment	(6,803)	(3,114)	(4,655)
Contributions to pension schemes in excess of IAS 19 charge	(3,722)	(7,568)	(8,094)
Decrease in working capital	68,229	42,995	109,204
Cash generated from operations	77,188	139,577	252,696
Interest paid	(13,108)	(21,415)	(45,593)
Income taxes paid	(836)	(1,310)	(1,579)
Cash flows from operating activities	63,244	116,852	205,524
Investing activities			
Proceeds from sale of property, plant and equipment	2,212	9,437	10,953
Investment profit realised in cash	22,058	-	-
Interest received	1,274	3,702	8,781
Sale of financial assets	35	44	433
	25,579	13,183	20,167
<i>Outflows</i>			
Acquisition of subsidiary undertakings and businesses	-	(24,032)	(24,460)
Net cash acquired with subsidiary undertakings	-	4,818	4,915
Deferred acquisition consideration	-	(5,932)	(8,420)
Purchase of property, plant and equipment	(7,184)	(62,041)	(78,592)
Investment in associate	(3,690)	-	-
	(10,874)	(87,187)	(106,557)
Cash flows from investing activities	14,705	(74,004)	(86,390)
Financing activities			
<i>Inflows</i>			
Proceeds from the issue of share capital	734	1,282	1,528
Proceeds from borrowings	73,679	29,788	91,944
	74,413	31,070	93,472
<i>Outflows</i>			
Repayments of borrowings	(64,624)	-	(74,031)
Purchase of 'A' ordinary shares	(11,510)	(27,566)	(50,585)
Payment of finance lease liabilities	(347)	(683)	(1,209)
Redemption of loan notes payable net of derivatives	(49,207)	(29,778)	(29,842)
	(125,688)	(58,027)	(155,667)
Cash flows from financing activities	(51,275)	(26,957)	(62,195)
Net increase in cash and cash equivalents	26,674	15,891	56,939
Cash and cash equivalents at 1 January	224,827	203,489	203,489
Effect of exchange rate fluctuations on cash held	18,641	(7,766)	(35,601)
Cash and cash equivalents at the end of the period	270,142	211,614	224,827
Cash and cash equivalents are broken down as follows:			
Cash at bank and short-term deposits	270,143	216,817	224,834
Overdrafts	(1)	(5,203)	(7)
	270,142	211,614	224,827



Grafton Group plc

Group Condensed Statement of Changes in Equity

	Equity share capital	Share premium account	Capital redemption reserve	Revaluation reserve	Shares to be issued reserve	Cash Flow hedge reserve	Foreign currency translation reserve	Retained earnings	Treasury shares	Total equity
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Six months to 30 June 2009 (Unaudited)										
At 1 January 2009	11,579	288,951	900	32,157	6,041	-	(202,834)	737,817	(5,746)	868,865
Total recognised income/(expense) for the period	-	-	-	-	-	(1,264)	70,064	1,639	-	70,439
Purchase of 'A' ordinary shares	(2)	-	2	-	-	-	-	(11,510)	-	(11,510)
Issue of Grafton Units (net of issue expenses)	20	714	-	-	-	-	-	-	-	734
Adjustment for share based payments expense	-	-	-	-	1,042	-	-	-	-	1,042
Transfer from revaluation reserve	-	-	-	(102)	-	-	-	102	-	-
At 30 June 2009	11,597	289,665	902	32,055	7,083	(1,264)	(132,770)	728,048	(5,746)	929,570
Six months to 30 June 2008 (Unaudited)										
At 1 January 2008	11,569	287,458	875	32,768	10,920	511	(30,534)	759,864	(5,746)	1,067,685
Total recognised income/(expense) for the period	-	-	-	-	-	(511)	(46,723)	44,421	-	(2,813)
Purchase of 'A' ordinary shares	(23)	-	23	-	-	-	-	(27,566)	-	(27,566)
Issue of Grafton Units (net of issue expenses)	29	1,253	-	-	-	-	-	-	-	1,282
Adjustment for share based payments expense	-	-	-	-	2,618	-	-	-	-	2,618
Transfer from revaluation reserve	-	-	-	(102)	-	-	-	102	-	-
At 30 June 2008	11,575	288,711	898	32,666	13,538	-	(77,257)	776,821	(5,746)	1,041,206
Year to 31 December 2008 (Audited)										
At 1 January 2008	11,569	287,458	875	32,768	10,920	511	(30,534)	759,864	(5,746)	1,067,685
Total recognised income/(expense) for the year	-	-	-	-	-	(511)	(172,300)	25,014	-	(147,797)
Purchase of 'A' ordinary shares	(25)	-	25	-	-	-	-	(50,585)	-	(50,585)
Issue of Grafton Units (net of issue expenses)	35	1,493	-	-	-	-	-	-	-	1,528
Adjustment for share based payments expense	-	-	-	-	(1,966)	-	-	-	-	(1,966)
Transfer from other reserve – shares to be issued	-	-	-	-	(2,913)	-	-	2,913	-	-
Transfer from revaluation reserve	-	-	-	(611)	-	-	-	611	-	-
At 31 December 2008	11,579	288,951	900	32,157	6,041	-	(202,834)	737,817	(5,746)	868,865



Grafton Group plc
Notes to Condensed Interim Financial Statements for the half year ended 30 June 2009

1. General Information

The condensed interim financial statements for the half year ended 30 June 2009 are unaudited but have been reviewed by the auditor whose report is set out on page 22.

The financial information presented in this report has been prepared using accounting policies consistent with International Financial Reporting Standards (IFRS) as adopted by the European Union and in accordance with IAS 34 *Interim Financial Reporting*. These condensed interim financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements in respect of the year ended 31 December 2008 that were filed with Registrar of Companies and are available on the Companies website www.graftonplc.com. The audit report on those financial statements was unqualified and did not contain any matters to which attention was drawn by way of emphasis.

Basis of Preparation and Accounting Policies

The financial information contained in the condensed interim financial statements has been prepared in accordance with the accounting policies set out in the last annual financial statements except for the adoption of the following accounting policies:

Primary Statements

IAS 1 (Amendment) – *Presentation of Financial Statements: A Revised Presentation* requires the presentation of a statement of changes in equity as a primary statement.

Operating Segments

IFRS 8 Operating Segments requires operating segments to be identified on the basis of internal reports that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. Three operating segments have been identified Merchanting, Retailing and Manufacturing and the comparative numbers have been restated to reflect the new basis of segmentation.

Investments in Associates

Investments in associates are accounted for using the equity method and are recognised initially at cost. The consolidated financial statements include the Group's share of the income and expenses and equity movements of investments in associates.

Assets held for Resale

Property assets that are held for sale rather than continuing use, are classified as held for sale. These properties are shown in the balance sheet at the lower of their carrying amount and fair value less any disposal costs. Impairment losses on initial classification as property held for sale and subsequent gains or losses on re-measurement are recognised in the income statement.



Grafton Group plc
Notes to Condensed Interim Financial Statements for the half year ended 30 June 2009

The following are the other new standards that are effective for the financial year of the company ending on 31 December 2009 and that had no impact on the results or financial position of the Group:

- IAS 23 (Amendment) - *Borrowing Costs*
- IFRS 2 (Amendment) - *Share based Payments: Vesting Conditions and Cancellations*
- IAS 27 (Amendment) - *Cost of an investment in a subsidiary, jointly controlled entity or associate*
- IAS 32 (Amendment) - *Puttable financial instruments and obligations arising on liquidation*
- Improvements to IFRS 2008
- IFRIC 13 - *Customer Loyalty Programmes*
- IFRIC 15 - *Construction of Real Estate**
- IFRIC 16 - *Hedges of a Net Investment in a Foreign Operation**

**Not yet endorsed by the EU*



2. Segmental Analysis

The amount of revenue and operating profit under the Group's operating segments of merchandising, retail DIY and manufacturing is as follows:

	Six months to 30 June 2009 (Unaudited) €'000	Six months to 30 June 2008 (Unaudited) €'000	Twelve months to 31 Dec 2008 (Audited) €'000
Revenue			
Merchandising	839,791	1,233,725	2,284,484
Retail	126,785	154,559	303,071
Manufacturing	26,430	55,359	95,621
Less: Inter-segment revenue - manufacturing	<u>(3,060)</u>	<u>(5,801)</u>	<u>(10,192)</u>
	<u>989,946</u>	<u>1,437,842</u>	<u>2,672,984</u>
Operating profit/(loss) before restructuring costs and intangible amortisation			
Merchandising	9,412	74,944	113,427
Retail	(3,212)	4,593	8,728
Manufacturing	<u>(4,235)</u>	<u>109</u>	<u>(3,564)</u>
	<u>1,965</u>	<u>79,646</u>	<u>118,591</u>
Intangible amortisation			
Merchandising	(855)	(860)	(1,729)
Retail	(223)	(224)	(451)
Manufacturing	<u>(19)</u>	<u>(19)</u>	<u>(38)</u>
	<u>(1,097)</u>	<u>(1,103)</u>	<u>(2,218)</u>
Operating profit/(loss) before restructuring costs			
Merchandising	8,557	74,084	111,698
Retail	(3,435)	4,369	8,277
Manufacturing	<u>(4,254)</u>	<u>90</u>	<u>(3,602)</u>
	<u>868</u>	<u>78,543</u>	<u>116,373</u>
Restructuring costs	<u>(9,131)</u>	<u>(6,758)</u>	<u>(17,148)</u>
Operating (loss)/profit	<u>(8,263)</u>	<u>71,785</u>	<u>99,225</u>
Finance expense	(16,846)	(30,007)	(59,944)
Finance income	<u>28,794</u>	<u>11,576</u>	<u>24,835</u>
Profit before tax	<u>3,685</u>	<u>53,354</u>	<u>64,116</u>

The merchandising result in the half year to 30 June 2009 includes a property profit of €6.1 million. Finance income in the six months to 30 June 2009 includes an investment profit of €22.1 million.

Operating segment assets are analysed below:

	30 June 2009 (Unaudited) €'000	30 June 2008 (Unaudited) €'000	31 Dec 2008 (Audited) €'000
Segment assets			
Merchandising	1,717,030	1,960,534	1,660,199
Retail	115,879	136,081	130,422
Manufacturing	<u>74,922</u>	<u>102,944</u>	<u>69,104</u>
	<u>1,907,831</u>	<u>2,199,559</u>	<u>1,859,725</u>
Unallocated assets			
Deferred tax assets	28,019	19,054	24,904
Retirement benefit assets	-	7,944	7
Investment in associate	3,690	-	-
Financial assets	217	743	227
Derivatives and other financial instruments	15,433	-	38,753
Cash and cash equivalents	<u>270,143</u>	<u>216,817</u>	<u>224,834</u>
Total assets	<u>2,225,333</u>	<u>2,444,117</u>	<u>2,148,450</u>



The amount of revenue by geographic area is as follows:

	Six months to 30 June 2009 (Unaudited) €'000	Six months to 30 June 2008 (Unaudited) €'000	Twelve months to 31 Dec 2008 (Audited) €'000
Revenue			
United Kingdom	659,934	907,366	1,687,333
Ireland	<u>330,012</u>	<u>530,476</u>	<u>985,651</u>
	<u>989,946</u>	<u>1,437,842</u>	<u>2,672,984</u>

3. Finance Expense and Finance Income

Finance income for the six months to 30 June 2009 includes an investment profit realised in cash of €22.1 million. Excluding the investment profit of €22.1 million the net finance cost was down to €10.1 million from €18.4 million mainly due to the Group's floating rate debt which benefited from historically low sterling and euro interest rates.

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

	30 June 2009 €'000	30 June 2008 €'000	31 Dec 2008 €'000
Net increase in cash and cash equivalents	26,674	15,891	56,939
Net movement in derivative financial instruments	(1,444)	(584)	(584)
Cash-flow from movement in debt and lease financing	<u>40,499</u>	<u>673</u>	<u>13,138</u>
Change in net debt resulting from cash flows	65,729	15,980	69,493
Other non cash movements relating to debt and leasing	(186)	-	-
Bank loans and loan notes acquired with subsidiaries	-	(179)	(179)
Translation adjustment	<u>(9,644)</u>	<u>24,206</u>	<u>45,455</u>
Movement in net debt in the period	55,899	40,007	114,769
Net debt at 1 January	<u>(435,620)</u>	<u>(550,389)</u>	<u>(550,389)</u>
Net debt at end of the period	(379,721)	(510,382)	(435,620)
Gearing	<u>41%</u>	<u>49%</u>	<u>50%</u>



5. Earnings per Share

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

	Half Year 30 June 2009 (Unaudited) €'000	Half Year 30 June 2008 (Unaudited) €'000	Year Ended 31 Dec 2008 (Audited) €'000
Numerator for basic, adjusted and diluted earnings per share:			
Profit after tax for the period	3,390	46,405	57,698
Numerator for basic and diluted earnings per share	3,390	46,405	57,698
Other income – investment profit	(22,058)	-	-
Intangible amortisation after tax	960	965	1,941
Restructuring costs after tax	7,740	-	14,514
Numerator for adjusted earnings per share	(9,968)	47,370	74,153
	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	230,268,982	229,780,308	229,985,105
Effect of potential dilutive Grafton Units	100,501	1,190,924	828,985
Denominator for diluted earnings per share	230,369,483	230,971,232	230,814,090
Earnings per share (cent)			
- Basic	1.47	20.20	25.09
- Diluted	1.47	20.09	25.00
Adjusted earnings per share (cent)			
- Basic	(4.33)	20.62	32.24
- Diluted	(4.33)	20.51	32.13

6. Share Purchase

The Board has approved the purchase of one 'A' ordinary share per Grafton Unit for a cash consideration of 2.5 cent. The purchase of the 'A' ordinary share will take effect in respect of Grafton Units on the register at close of business on 11 September 2009 (record date) and the cash consideration will be paid on 9 October 2009.

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 2009 and 30 June 2008 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 2009 was Stg89.39p (six months to 30 June 2008: Stg77.52p and twelve months to 31 December 2008: Stg79.63p). The euro / sterling exchange rate at 30 June 2009 was Stg85.21p (30 June 2008: Stg79.23p and 31 December 2008: Stg95.25p).

8. Movement in Working Capital

	Inventory €'000	Trade and other receivables €'000	Trade and other payables €'000	Total €'000
At 1 January 2009	331,124	353,581	(420,402)	264,303
Translation adjustment	20,149	39,300	(48,679)	10,770
Interest accrual and other movements	-	7,678	1,952	9,630
Movement in 2009	(36,729)	(35,195)	3,695	(68,229)
At 30 June 2009	314,544	365,364	(463,434)	216,474

9. Retirement Benefits

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

	Six months ended 30 June			
	Irish Schemes		UK Schemes	
	2009	2008	2009	2008
	%	%	%	%
Rate of increase in salaries	3.00	3.50	2.90	3.25
Inflation	2.00	2.25	3.15	3.50
Discount rate	6.00	6.20	6.40	6.70



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

	Assets		Six months ended 30 June		Liabilities		Net asset/(deficit)	
	2009	2008	2009	2008	2009	2008	2009	2008
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
At 1 January	133,855	223,700	(174,747)	(239,023)	(40,892)	(15,323)		
Expected return on plan assets	4,852	8,000	-	-	4,852	8,000		
Contributions by employer	5,272	13,591	-	-	5,272	13,591		
Contributions by members	1,065	1,373	(1,065)	(1,373)	-	-		
Benefit payments	(2,514)	(29,047)	2,514	29,047	-	-		
Current service cost	-	-	(1,532)	(2,185)	(1,532)	(2,185)		
Past service cost	-	-	-	(734)	-	(734)		
Settlement loss	-	-	(756)	(3,104)	(756)	(3,104)		
Curtailement gain	-	-	738	-	738	-		
Interest cost on scheme liabilities	-	-	(5,406)	(6,512)	(5,406)	(6,512)		
Actuarial gains/(losses)	(3,436)	(34,392)	880	33,707	(2,556)	(685)		
Translation adjustment	7,737	(7,408)	(8,167)	7,553	(430)	145		
At 30 June	146,831	175,817	(187,541)	(182,624)	(40,710)	(6,807)		
Related deferred tax asset/(liability)					6,515	(380)		
Net pension liability					(34,195)	(7,187)		

The defined benefit pension scheme entitlements of the Group Financial Controller/Secretary were transferred to a Revenue approved self administered defined contribution pension scheme. The transfer was agreed by the Remuneration Committee on the basis of independent professional advice. The relevant pension showed a net deficit of €0.76 million in the defined benefit scheme and the Group Condensed Income Statement for the half year reflects a charge for this amount to fund this deficit. The transfer of these pension assets out of the defined benefit scheme eliminates the related obligations and risks from the Group's balance sheet. The solvency of the defined benefit pension scheme has not changed as a result of the transfer. Ongoing contributions by the company to the self administered defined contribution scheme are made on the basis of actuarial advice received by the Remuneration Committee.

10. Acquisition of Subsidiary Undertakings

No acquisitions were completed in the six month period ended 30 June 2009. An investment was made in an associate in the period.

Details of the acquisitions made in 2008 are disclosed in the Group's 2008 Annual Report.



11. Goodwill

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

12. Related Party Transactions

No related party transactions have taken place in the half year that have materially affected the financial position or the performance of the Group during that period except as referred to in note 9.

13. Events after the Balance Sheet Date

There have been no material events subsequent to 30 June 2009 which would require disclosure in this report.

14. Comparative Figures

In the current period insurance claims accruals have been classified as provisions and for consistency insurance claims accruals at 31 December 2008 and 30 June 2008 have been reclassified from trade and other payables to provisions.

15. Cautionary Statement

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

16. Board Approval

This announcement was approved by the Board of Grafton Group plc on 27 August 2009.



Statement of the directors in respect of the half-yearly financial report

Each of the directors confirm that, to the best of each person's knowledge and belief:

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

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

On behalf of the Board:

Michael Chadwick
Executive Chairman

Colm ó Nualláin
Finance Director



Independent Review Report to Grafton Group plc

Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2009 which comprises the Group Condensed Income Statement, the Group Condensed Statement of Comprehensive Income, the Group Condensed Balance Sheet, the Group Condensed Cash Flow Statement and the Group Condensed Statement of Changes in Equity and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Transparency (Directive 2004/109/EC) Regulations 2007 ("the TD Regulations") and the Transparency Rules of the Irish Financial Services Regulatory Authority. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

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

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

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly report for the six months ended 30 June 2009 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU, the TD Regulations and the Transparency Rules of the Irish Financial Services Regulatory Authority.



KPMG
Chartered Accountants
Dublin
27 August 2009