Grafton Group plc
Annual Report 2008

Contents

Group Profile

Grafton Group plc is an independent, profit growth oriented company with operations primarily in the UK and also in Ireland. The Group has strong national and regional positions in the merchanting, DIY retailing and mortar markets.

The Group aims to achieve above average returns for shareholders. Grafton's strategy is to build on strong positions in businesses serving the UK and Irish construction sectors, to develop in related markets, and to grow in businesses with which it is familiar.

In Great Britain, Grafton is the fourth largest merchanting business trading from 430 locations comprising 219 Builders Merchanting branches trading principally under the Buildbase and Jackson brands and 211 Plumbers Merchanting branches trading mainly under the Plumbase brand. EuroMix is the market leader in the UK dry mortar market where it trades from a network of nine manufacturing plants in England and Scotland.

In Northern Ireland, Macnaughton Blair is one of the leading builders merchants in the province where it trades from 20 locations.

In the Republic of Ireland, the Group is the largest builders and plumbers merchanting business trading nationally from 62 branches under the Chadwicks and Heiton Buckley brands. The Group is the market leader in DIY retailing in the Republic of Ireland, trading nationally from 41 stores and is also engaged in the manufacture of mortar, plastics and windows in the Republic of Ireland.

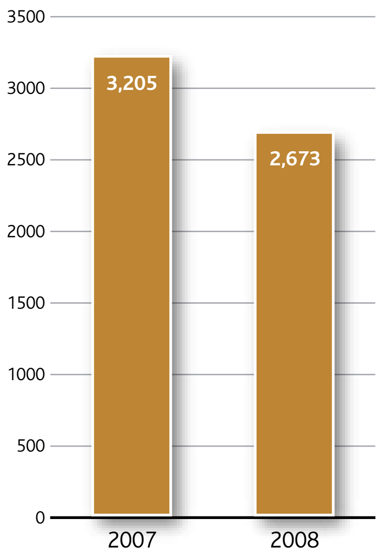
Financial Overview 2008

	2008	2007	Change %
Revenue (€ million)	**2,673**	3,205	(17%)
EBITDA (€ million)	**156**	330	(53%)
Operating profit (€ million)	**99**	271	(63%)
Adjusted operating profit (€ million) *	**119**	266	(55%)
Profit before taxation (€ million)	**64**	236	(73%)
EPS – basic (cent)	**25.1**	86.2	(71%)
Adjusted EPS (cent) *	**32.2**	84.3	(62%)
Share purchase per Grafton unit (cent)	**15.0**	22.0	(32%)
Share purchase cover (times)	**2.1**	3.8	-
Net finance cost cover (times)	**2.9**	7.8	-
Cash flow per share (cent) **	**50**	111	(55%)
Net assets per share (cent)	**377**	464	(19%)
Net debt to shareholders' funds	**50%**	52%	-
Depreciation charge (€ million)	**54.3**	56.8	
Intangible amortisation (€ million)	**2.2**	2.2	
Acquisition expenditure (€ million)	**28**	89	
Capital expenditure (€ million)	**79**	105	

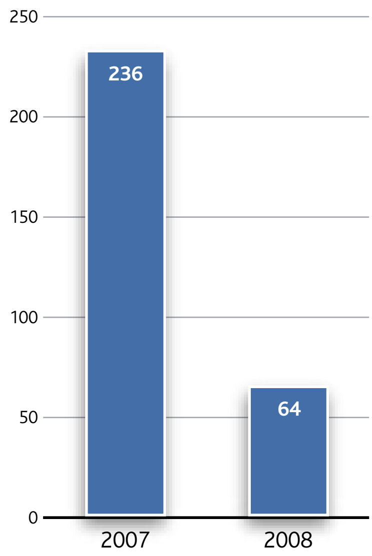
** Before intangible amortisation, restructuring costs and 2007 property profit.*

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

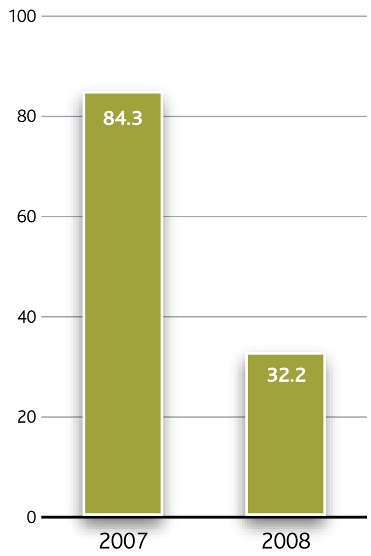
REVENUE
(€ million)



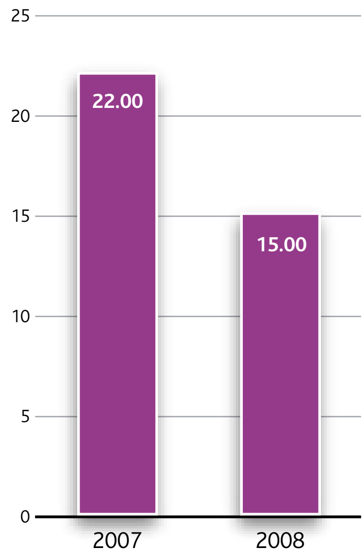
PROFIT BEFORE TAX
(€ million)



ADJUSTED EARNINGS PER SHARE
(€ cent)



SHARE PURCHASE PER GRAFTON UNIT
(€ cent)

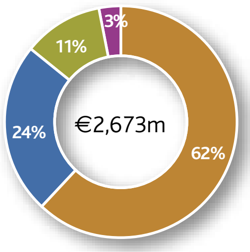


Regions and Divisions

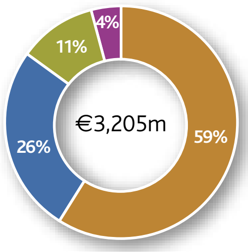
	Trading Locations		
	UK	Ireland	**Total**
Builders Merchants	239	71	**310**
Plumbers Merchants	211	8	**219**
Manufacturing Plants	9	3	**12**
Retail	-	48	**48**
Total	459	130	**589**

Divisional Turnover

- UK Merchanting
- Irish Merchanting
- Irish DIY Retailing
- Irish and UK Manufacturing



2008

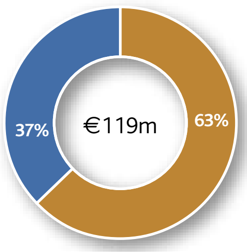


2007

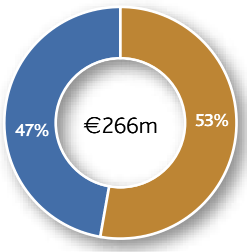
Adjusted Operating Profit

Before intangible amortisation, restructuring costs and 2007 property profit

- UK
- Ireland

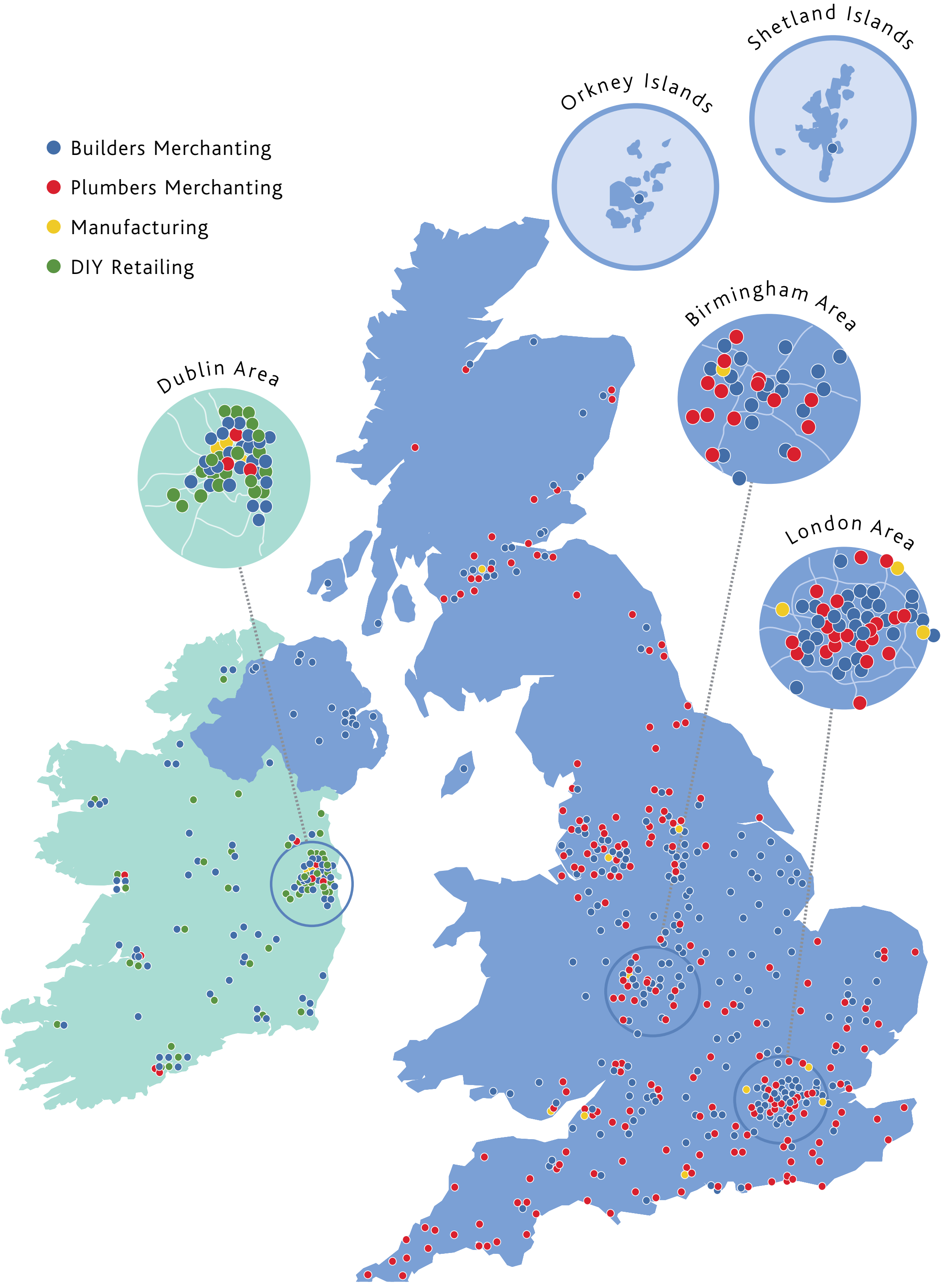


2008



2007

Trading Locations



Principal Brands

UK Builders Merchanting

The UK builders merchants division trades from 239 branches, principally under the Buildbase, Jackson and Selco brands, and has a strong presence in the South East, Midlands and North of England.

UK Plumbers Merchanting

The UK plumbers merchanting division, trading primarily under the Plumbase brand from 211 branches, has a strong presence in the South East, Midlands, East Anglia, West Country and Scotland.

Mortar Manufacturing

EuroMix, the UK's largest manufacturer of silo based mortar for use in a range of residential and commercial construction projects, trades from nine plants which provide market coverage across most of England and Scotland.

Irish Merchanting

In the Republic of Ireland, the Group operates the largest builders and plumbers merchanting business trading from 62 branches nationally under the Chadwicks and Heiton Buckley brands.

DIY Retailing

In the Republic of Ireland, the Group is the largest DIY retailer trading from 41 stores nationally.

Chairman's Statement

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

In the year under review 63 per cent of turnover was generated in the UK and 37 per cent in Ireland.

Financial Overview

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

Operational Highlights

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

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

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

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

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

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

Share Purchase

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

Operations Review – United Kingdom

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

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

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

UK Merchanting

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

An evaluation of procurement saving opportunities on indirect goods and services was completed in the second half. This identified significant price reduction benefits through consolidation of volumes, including sourcing services through internet based tendering.

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

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

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

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

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

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

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

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

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

UK Mortar

EuroMix manufactures a range of mortars from nine plants in England and Scotland for supply to residential, commercial and public sector construction. While the business remained profitable throughout the year, turnover and operating profit declined significantly due to the dramatic fall in residential construction. Sharply reduced volumes in a competitive market prevented recovery of higher energy and raw materials costs.

Demand from the commercial sector weakened in the second half. Decisive action was taken to reduce the cost base of the business to partially mitigate the effects of the very weak market.

Operations Review – Republic of Ireland

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

Irish Merchanting

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

Stable levels of activity were maintained throughout the year in the commercial agricultural and infrastructure end-use markets. The decline in new housing has increased exposure to the RMI market which performed well although down from the record levels in 2007 due to weakness in the last quarter in line with the slowdown in consumer spending.

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

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

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

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

Irish Retailing

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

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

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

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

Development

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

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

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

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

Cash flow will be concentrated only on essential asset replacement projects until evidence starts to emerge of an improving outlook for the UK and Irish economies. Development expenditure will be limited to projects which offer exceptional value and position the Group to take advantage of opportunities for market share growth that are an inevitable consequence of the current cyclical downturn.

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

Management and Staff

A key strength of the Group is the commitment and loyalty of the management and staff throughout the business. On behalf of the Board, we wish to thank the management and staff for the commitment and initiative displayed in response to the very difficult trading environment encountered by the Group's businesses.

Outlook

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

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

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

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

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

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

On behalf of the Board

Michael Chadwick
Chairman

Cash Flow

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

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

Liquidity and Debt

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

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

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

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

Shareholders' Funds

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

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

Financial Position

The Group expects to continue generating strong cash flow, to retain good liquidity and to maintain its secure funding position. The Group's financial position should benefit from ongoing working capital management and low sterling and euro interest rates.

On behalf of the Board

Colm Ó Nualláin
Finance Director

Board of Directors and Secretary

Michael Chadwick
BA, MSc

EXECUTIVE CHAIRMAN

Michael Chadwick (57) joined the Group in 1975, was appointed to the Board in 1979 and became Executive Chairman in 1985. He is a Director of Pochin's Plc and of other companies in which he has invested.

Anthony E. Collins
MA, B Comm, Solicitor

DEPUTY CHAIRMAN – NON-EXECUTIVE

Anthony Collins (69) became a non-executive Director in 1988 and was appointed Deputy Chairman in 1995. A former President of the Law Society of Ireland, he is Senior Partner of Eugene F. Collins, Solicitors and a Director of the Institute of Directors in Ireland Ltd. He was formerly Chairman of the Automobile Association Ireland and Deputy Chairman of the Leinster Leader Ltd.

Colm Ó Nualláin
B Comm, FCA

FINANCE DIRECTOR

Colm Ó Nualláin (55) joined the Group as Financial Controller in 1989 and was appointed Finance Director in 1990. He previously held senior financial positions in a number of public and semi-state companies.

Leo J. Martin
BBS, MA, FCA

CHIEF OPERATING OFFICER

Leo Martin (57) was appointed to the Board in January 2005 following the acquisition of Heiton Group plc and was appointed Chief Operating Officer with overall responsibility for Irish and UK merchanting in September 2006. He was Chief Executive of Heiton Group plc, having joined Heiton and the Board of Heiton as Finance Director in 1986. He is a Director of Buy4Now and is a member of the Chartered Accountants Regulatory Board.

Fergus Malone
BE, MBA

EXECUTIVE DIRECTOR

Fergus Malone (66) joined the Group's plastics division in 1972 having previously worked as an engineer in various industries. He was appointed to the Board in 1978 and is responsible for the Group's manufacturing businesses in the UK and Ireland.

Gillian Bowler
(UK)

NON-EXECUTIVE DIRECTOR

Gillian Bowler (56) joined the Board in 1995. She is Chairman of Irish Life & Permanent plc and is a Director of the VHI. She is also a member of the Advisory Board of the Smurfit Business School. She formerly served as Chairman of Fáilte Ireland and The Irish Museum of Modern Art, was a member of the Independent Radio and Television Commission and is Past President of the Institute of Directors in Ireland Ltd.

Richard W. Jewson
(UK) MA

NON-EXECUTIVE DIRECTOR

Richard Jewson (64) joined the Board in 1995. He is non-executive Chairman of Archant Ltd and non-executive Chairman of Raven Russia plc. He is also a Director of Temple Bar Investment Trust plc and Clean Energy Brazil plc. He was previously Chairman of Savills plc, Queens Moat House plc, Meyer International plc and PFI Infrastructure plc.

Roderick Ryan
B.Comm, FCA, AITI

NON-EXECUTIVE DIRECTOR

Roderick Ryan (52) joined the Board in 2006. He is a non-executive Director of Glen Dimplex and of Education Media and Publishing Group Limited. He is a member of the Chartered Accountants Regulatory Board. He was Managing Partner of Arthur Andersen in Ireland from 1995 to 2002 and a member of Andersen's European Executive Committee from 1998 to 2002. He was formerly a member of the Government appointed IFSC Banking and Treasury Committee, the Executive Committee of the Financial Services Industry Association, the Revenue Powers Group and previously served as Chairman of the Foundation for Fiscal Studies.

Peter S. Wood
(UK) FCA

NON-EXECUTIVE DIRECTOR

Peter Wood (61) joined the Board in 2006. He is non-executive Chairman of Yule Catto plc and non-executive Director of RPC Group plc. He was formerly non-executive Chairman of White Young Green plc and Chief Executive of BSS Group plc and Ellis & Everard plc.

Charles Rinn
MBA FCCA

GROUP FINANCIAL CONTROLLER and SECRETARY

Board Committees

Audit
R.W. Jewson (Chairman)
G. Bowler
A.E. Collins
R. Ryan

Remuneration
G. Bowler (Chairman)
A.E. Collins
R.W. Jewson

Nomination
A.E. Collins (Chairman)
G. Bowler
M. Chadwick
R.W. Jewson
P. S. Wood
R. Ryan

Finance
M. Chadwick (Chairman)
C. Ó Nualláin
L. J. Martin
C. Rinn

Financial Review

	IFRS					Under Irish GAAP			
Group Income Statements	**2008 €'m**	2007 €'m	2006 €'m	2005 €'m	2004 €'m	2003 €'m	2002 €'m	2001 €'m	2000 €'m
Revenue	**2,673.0**	3,205.0	2,933.9	2,629.5	1,872.3	1,496.0	1,152.4	988.8	830.5
Operating profit	**99.2**	263.5	242.7	213.8	161.1	115.8	89.7	77.3	64.6
Property profit	**-**	7.3	38.0	9.6	7.5	3.4	3.7	2.3	-
Finance cost (net)	**(35.1)**	(35.0)	(31.4)	(31.2)	(22.8)	(17.2)	(13.2)	(12.4)	(11.8)
Profit before taxation	**64.1**	235.8	249.3	192.2	145.8	102.0	80.2	67.2	52.8
Taxation	**(6.4)**	(30.6)	(32.4)	(26.1)	(19.9)	(15.3)	(12.0)	(8.7)	(6.9)
Profit after taxation	**57.7**	205.2	216.9	166.1	125.9	86.7	68.2	58.5	45.9
Balance Sheets	**2008 €'m**	2007 €'m	2006 €'m	2005 €'m	2004 €'m	2003 €'m	2002 €'m	2001 €'m	2000 €'m
Capital employed									
Goodwill and intangibles	**541.7**	611.9	596.2	547.8	247.1	210.8	100.4	62.5	51.7
Property, plant and equipment	**633.3**	703.7	686.2	623.2	406.2	346.8	302.3	251.5	209.6
Financial assets	**0.2**	0.9	0.4	0.3	47.0	33.7	33.6	33.6	18.9
Net current assets#	**187.7**	350.3	335.6	303.2	195.2	198.5	144.3	129.5	106.5
Other net non-current liabilities	**(58.4)**	(48.7)	(53.2)	(76.5)	(50.8)	(28.3)	(18.0)	(17.7)	(16.1)
	1,304.5	1,618.1	1,565.2	1,398.0	844.7	761.5	562.6	459.4	370.6
Financed as follows:									
Shareholders' funds equity	**868.9**	1,067.7	1,014.3	813.8	495.5	449.8	322.0	264.5	216.5
Net debt/(cash)	**435.6**	550.4	550.9	584.2	349.2	311.7	240.6	194.9	154.1
	1,304.5	1,618.1	1,565.2	1,398.0	844.7	761.5	562.6	459.4	370.6
Other Information									
Acquisitions & investments	**28.1**	89.2	87.1	477.7	88.7	220.1	88.8	61.8	56.6
Purchase of fixed assets	**78.6**	104.7	124.4	100.6	88.9	69.3	68.0	42.0	43.2
	106.7	193.9	211.5	578.3	177.6	289.4	156.8	103.8	99.8
Depreciation and intangible amortisation	**56.5**	59.0	55.4	50.4	34.6	37.6	26.6	21.9	16.5
Financial Highlights	**2008**	2007	2006	2005	2004	2003	2002	2001	2000
Adjusted EPS before amortisation, restructuring costs & property profit (cent)	**32.2**	84.3	78.0	67.8	56.1	45.1	37.0	32.1	25.9
Share purchase/dividend per share (cent)	**15.0**	22.0	18.75	15.75	13.0	10.5	8.5	7.5	6.1
Cashflow per share (cent)*	**49.5**	108.3	100.4	88.3	72.4	58.7	52.0	44.9	36.2
Net assets per share (cent)	**376.6**	464.2	424.0	342.8	232.2	211.5	181.6	150.2	124.3
Net finance cost cover (times)	**2.9**	7.8	9.0	7.2	7.4	7.5	7.4	6.7	5.7
Share purchase/dividend cover	**2.1**	3.8	4.2	4.3	4.3	4.3	4.4	4.3	4.3
Net debt to shareholders' funds	**50%**	52%	54%	72%	70%	69%	75%	74%	71%

The summary financial information is stated under IFRS for 2004 to 2008 and under Irish GAAP for all years from 1988 to 2003.

Excluding net debt/(cash)
* Based on profit after tax, excluding material property profits, plus depreciation and intangible amortisation

Under Irish GAAP

1999 €'m	1998 €'m	1997 €'m	1996 €'m	1995 €'m	1994 €'m	1993 €'m	1992 €'m	1991 €'m	1990 €'m	1989 €'m	1988 €'m
620.2	427.6	327.6	244.0	195.7	169.0	133.2	122.4	119.9	109.5	87.8	67.6
46.3	33.1	25.6	19.1	14.2	11.3	6.1	6.5	6.1	7.3	5.7	3.3
-	-	-	1.8	0.8	-	-	-	-	-	-	-
(8.1)	(4.9)	(2.4)	(1.3)	(1.1)	(1.2)	(0.9)	(1.6)	(1.6)	(0.7)	(0.8)	(0.5)
38.2	28.2	23.2	19.6	13.9	10.1	5.2	4.9	4.5	6.6	4.9	2.8
(4.6)	(4.0)	(3.5)	(2.9)	(2.5)	(2.1)	(1.1)	(1.2)	(1.1)	(2.1)	(1.8)	(0.7)
33.6	24.2	19.7	16.7	11.4	8.0	4.1	3.7	3.4	4.5	3.1	2.1
1999 €'m	1998 €'m	1997 €'m	1996 €'m	1995 €'m	1994 €'m	1993 €'m	1992 €'m	1991 €'m	1990 €'m	1989 €'m	1988 €'m
31.7	9.8	-	-	-	-	-	-	-	-	-	-
175.9	140.7	61.8	48.5	43.2	40.1	35.9	33.0	33.7	30.6	21.2	19.4
19.0	0.2	12.5	0.1	-	1.2	3.4	1.0	1.9	1.3	-	-
76.2	60.2	29.4	21.4	21.5	18.2	17.9	18.4	18.6	18.7	16.1	11.1
(14.1)	(12.4)	(1.2)	(1.1)	(1.1)	(1.1)	(1.1)	(1.0)	(1.0)	(1.0)	(0.6)	(0.5)
288.7	198.5	102.5	68.9	63.6	58.4	56.1	51.4	53.2	49.6	36.7	30.0
181.3	139.8	78.6	70.6	57.7	49.9	45.7	42.2	40.7	38.7	36.0	25.1
107.4	58.7	23.9	(1.7)	5.9	8.5	10.4	9.2	12.5	10.9	0.7	4.9
288.7	198.5	102.5	68.9	63.6	58.4	56.1	51.4	53.2	49.6	36.7	30.0
63.6	53.4	29.7	8.0	1.4	5.8	2.7	-	1.2	7.8	0.1	1.6
29.5	20.6	14.6	7.6	7.7	5.7	5.2	2.4	5.9	7.8	3.5	2.7
93.1	74.0	44.3	15.6	9.1	11.5	7.9	2.4	7.1	15.6	3.6	4.3
12.6	7.2	5.4	4.2	3.6	3.0	2.6	2.1	2.1	1.4	1.0	0.9
1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
19.5	14.2	11.6	9.0	6.5	4.8	2.5	2.2	2.0	2.7	2.3	1.6
4.5	3.3	2.7	2.1	1.5	1.0	0.9	0.8	0.7	0.7	0.6	0.5
27.5	19.4	15.7	12.2	9.0	7.0	4.3	3.7	3.5	3.8	3.3	2.4
104.9	84.9	48.8	44.2	36.6	31.7	29.3	27.0	26.2	24.9	23.1	20.2
5.8	6.8	10.6	15.4	13.1	9.8	7.0	4.1	3.8	10.2	6.9	6.7
4.3	4.3	4.3	4.3	4.3	4.7	2.9	2.9	2.7	3.8	3.8	3.3
59%	42%	30%	-	10%	17%	23%	22%	31%	28%	2%	19%

Report of the Directors

The Directors present their report to the shareholders together with the audited financial statements for the year ended 31 December 2008.

Group Results

Group revenue of €2.67 billion was 17 per cent lower than Group revenue of €3.2 billion in 2007. Group profit before taxation amounted to €64.1 million compared with €235.8 million in the previous year. Basic earnings per share amounted to 25.1 cent compared with 86.2 cent in the previous year. Adjusted earnings per share (before intangible amortisation and reorganisation costs) decreased by 62 per cent to 32.2 cent compared to 84.3 cent in 2007. After deducting taxation of €6.4 million, retained profit of €57.7 million was transferred to reserves.

The cost of purchasing two 'A' ordinary shares per Grafton Unit on 11 April 2008 and 3 October 2008 amounted to €50.6 million. The financial statements for the year ended 31 December 2008 are set out in detail on pages 38 to 96.

Share Purchase

Following the purchase of one 'A' ordinary share per Grafton Unit for a cash consideration of 10.0 cent paid on 3 October 2008, the Board approved the purchase of one 'A' ordinary share per Grafton Unit for a cash consideration of 5.0 cent payable on 8 April 2009, giving total payments for the year of 15.0 cent. This compares to the share purchase payments of 22.0 cent paid in respect of 2007.

At each Annual General Meeting, the Directors seek shareholders' approval to make purchases of 'A' ordinary shares under section 213 of the Companies Act, 1990. The Directors exercise this power to purchase 'A' ordinary shares only at price levels which they consider to be in the best interests of the shareholders generally, after taking account of the Company's overall financial position. If such purchases take place, it is unlikely that a dividend would also be paid, and vice versa.

Review of the Business

Shareholders are referred to the Chairman's Statement and Group Finance Review which contain a review of operations and the financial performance of the Group for 2008 and the outlook for 2009. The Group Finance review also sets out the key performance indicators used to assess the performance of the Group.

Principal Risks and Uncertainties

The Group is required under Irish Company Law to give a description of the principal risks and uncertainties which it faces. The principal risks and uncertainties are set out below:

- Trading in the Group's business is affected by economic conditions in the UK and Ireland where the Group's earnings are generated.
- Contraction in economic growth in the UK and Ireland could result in lower demand in the Group's businesses.
- 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 consumer confidence, interest rates, employment trends, inflation, demographic factors and housing market conditions. More difficult market conditions may reduce demand in the Group's markets resulting in lower volumes and a material change in the financial performance of the Group.
- A deterioration in financial and credit markets is having an impact on the wider economy and housing markets in the UK and Ireland and could lead to a further fall in demand in the Group's merchanting, DIY and mortar businesses.
- Sterling weakness could lead to lower reported Group earnings on translation of the results of the UK business into euro at the average rate of exchange for the year.
- The Group also faces strong ongoing competition in its Irish merchanting, DIY and manufacturing businesses and in its UK merchanting and mortar businesses.
- The principal financial risks faced by the Group relate to liquidity and funding, credit risks connected to collection of trade debtors, increased sterling and euro interest rates and adverse movements in exchange rates relative to the euro.

Cautionary Statement

The Chairman's Statement and Group Finance Review contain forward-looking statements. These statements have been made on behalf of the Board in good faith based on the information available to them up to 26 February 2009, the date the Financial Statements were approved by the Board. Due to the inherent uncertainties including both economic and business risk factors underlying such forward-looking information, the actual results of operations, financial position and liquidity may differ materially from those expressed or implied by these forward-looking statements. The Directors and the Board undertake no obligation to update any forward-looking statements contained in this Annual Report, whether as a result of new information, future events, or otherwise.

Board of Directors

Mr. A.E. Collins, Ms. G. Bowler and Mr. R.W. Jewson have served on the Board for more than nine years and, in accordance with Board Policy, they resign and, being eligible, offer themselves for re-election. Mr. R. Ryan, Mr. L.J. Martin and Mr. F. Malone retire by rotation and, being eligible, offer themselves for re-election. Further details on the appointment and re-election of Directors is set out on page 24.

The Directors seeking re-election do not have service contracts with the Company with a period of notice extending beyond twelve months.

Share Capital

At 31 December 2008, a Grafton Unit comprised one ordinary share of 5c and nineteen 'A' ordinary shares of 0.001 cent each in Grafton Group plc and one 'C' ordinary Share of Stg0.0001p in Grafton Group (UK) plc. The composition of the Company's share capital including a summary of the rights and obligations attaching to the three components of a Grafton Unit is set out in note 17 to the financial statements.

The Company has in place a number of employee share schemes, the details of which are set out in note 38 to the financial statements.

At each Annual General Meeting, in addition to the power to buy back shares, the Directors seek power to allot shares for cash, otherwise than in accordance with statutory pre-emption rights, by way of rights issues up to the amount of the unissued share capital of the Company, or otherwise up to approximately 5 per cent of the nominal value of the issued share capital of the Company. Under the Articles of Association, shareholders are requested to renew this power at each year's Annual General Meeting.

Substantial Holdings

So far as the Company is aware, in addition to the Chairman, Mr. Michael Chadwick, whose holding of 19,656,921 Units represents 8.54 per cent of the Units in issue (excluding treasury shares), the following held shares representing 3 per cent or more of its ordinary share capital (excluding treasury shares) at 26 February 2009:

Name	No. of units	%
Bank of Ireland Nominees Ltd NRI Account*	20,041,219	8.71
Capital Research and Management Company	19,162,000	8.32
Sprucegrove Investment Management Limited *	15,694,481	6.82
Goodbody Stockbrokers Nominees Ltd GSCLT Account*	11,033,279	4.79
Bank of Ireland Nominees Ltd NRS Account*	8,654,570	3.76
Irish Life Investment Managers *	7,171,080	3.12
Invesco Limited	7,149,732	3.11

*The Company has been advised that these units are not beneficially owned.

Apart from these holdings, the Company has not been notified at 26 February 2009 of any interest of 3 per cent or more in its ordinary share capital.

Directors' and Secretary's interests in the share capital of the Company are set out in the Directors' Report on Remuneration.

Accounting Records

The Directors are responsible for ensuring that proper books and accounting records are kept by the Company as required by Section 202 of the Companies Act, 1990. The Directors believe that they have complied with this requirement by providing adequate resources to maintain proper books and accounting records throughout the Group including the appointment of personnel with appropriate qualifications, experience and expertise. The books and accounting records of the Company are maintained at Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18.

Subsidiaries

The Group's principal operating subsidiary undertakings are set out on pages 95 and 96.

Auditor

In accordance with Section 160 (2) of the Companies Act, 1963, the Auditor, KPMG, Chartered Accountants are willing to continue in office.

Annual General Meeting

The Annual General Meeting of the Company will be held at the IMI Conference Centre, Sandyford Road, Dublin 16 on Wednesday 29 April 2009 at 10.30 am and your attention is drawn to the circular enclosed with this report (and available online at www.graftonplc.com for shareholders who have elected to receive Grafton communications electronically) which sets out details of the matters to be considered at the Annual General Meeting.

On behalf of the Board

M. Chadwick
C. Ó Nualláin

Directors

26 February 2009

Corporate Social Responsibility

The Group recognises the importance of conducting its business in a socially responsible manner. This is demonstrated in the way we deal with our employees, customers, suppliers and the communities in which we do business. The Group considers that corporate social responsibility is an integral element of good business management.

The Environment

Group companies are committed to reducing the amount of waste they produce and to limiting the impact which our businesses have on the environment. The Group's Irish businesses are members of Repak and our UK businesses are members of Biffpack. Continued improvement in environmental performance is sought through various initiatives including reducing waste going to landfill through the use of bailers for recycling packaging. The Woodie's DIY business stocks a range of environmentally friendly products including energy-saving lamps, solar garden lights and composters for recycling garden and household waste. Buildbase works closely with its timber suppliers and the Forest Stewardship Council ("FSC") and stocks FSC certified timber at its branches. Buildbase is promoting the sale of a range of energy-saving and eco-friendly products including solar panels, ground and air source heating pumps, a rainwater collection system, heating controls that reduce energy costs and carbon emissions and energy-saving insulation materials. Jacksons joined the Carbon Trust in 2006 with a view to the business minimising carbon emissions. Heiton Buckley branches stock a range of products to reduce the impact of climate change through better building including heat pumps, solar panels and condensing boilers that reduce demand for fossil fuel. Controlled ventilation systems and insulation products designed to conserve heat are also stocked.

Health and Safety

The Group is committed to achieving the best practicable standard of health and safety for our employees, customers and visitors to our trading locations. We consider health and safety to be an important element in the overall management of our businesses. Group companies invest significant resources in health and safety management and actively work to identify and minimise health and safety risks. They aim to ensure that all reasonable precautions are taken to provide and maintain conditions for employees, customers and visitors alike which are safe and healthy and in compliance with statutory requirements. Accidents are monitored so that corrective action may be taken where considered necessary and in order to reduce the number of incidents and the cost of claims from employees and customers. The commitment of Buildbase to a high standard of health and safety was recognised by the British Safety Council who awarded the business the International Safety Award.

Human Resources

The success of the Group is dependent on the exceptional contribution and commitment of its management and staff. The Group's decentralised culture, which is well supported at Group level, gives management and staff the autonomy to use their expertise, skills and talents both for their own career development and for the success of the Group.

The Group and its businesses are committed to high standards of employment practice and is recognised as a good employer in both the UK and Ireland. The Group aims to reward management and staff fairly by reference to skills, performance, peers and local market conditions. The Group provides incentives to management and staff through remuneration policies that promote commitment and reward achievement. It is Group policy that all employees receive fair and equal treatment regardless of gender, age, ethnic origin, nationality, religion or disability.

The Group is committed to offering equal opportunities to all individuals in their recruitment, training and career development having regard to their particular aptitudes and abilities. Training and development programmes are important to the growth and prosperity of our business. Significant attention and resources are devoted to this area. Training programmes organised internally by Group businesses and in conjunction with external bodies, such as the Builders Merchant Federation in the UK, cover a range of issues including sales development, customer service, product training, health and safety and leadership skills. These programmes help to ensure that we develop, retain and attract the best individuals at all levels in the business. We aim to fill vacancies through internal promotions and complement internal appointments with recruitment from outside the organisation.

Corporate Social Responsibility

The Group has Revenue approved share schemes in place in the UK and Ireland which enable employees to share in the success and growth of the Group. The majority of our employees in Ireland are members of the Group's Share Participation Scheme which enables them to benefit from acquiring shares in the Group tax efficiently. The Group operates a Save As You Earn (SAYE) Scheme for UK employees.

Community

We recognise our responsibility as a member of the communities where our branches/plants are located and where we do business. We are committed to developing close relationships with those communities through local management supporting a range of initiatives covering health, welfare, sport, education and community projects. The Group also supports a range of charitable causes, mainly at local level, by giving donations.

During 2008, Buildbase staff throughout the UK succeeded in raising over £106,000 for Macmillan Cancer Support. Woodie's DIY sponsor the Athletic Association of Ireland track and field, cross country and indoor competitions.

Corporate Governance

Compliance with the Combined Code

The Board is committed to maintaining high standards of Corporate Governance. The Board is accountable to the Company's shareholders and this statement describes how it applies the principles of good governance set out in the 2006 FRC Combined Code on Corporate Governance which is appended to the Listing Rules of the Irish and London Stock Exchanges.

The Board

The Board of Directors was made up of nine members at 31 December 2008 comprising the Executive Chairman, three other executive Directors and five non-executive Directors. Mr. Anthony Collins, Deputy Chairman, is Senior Independent Director. Directors biographical details are set out on page 15. The Board believes that it has the skills, knowledge and experience required by the scale, geographic spread and complexity of the Group's operations.

The Board routinely meets seven times a year and additionally as required by time critical business needs. There is also contact with the Board between meetings as required in order to progress the Group's business. The Board takes the major decisions while allowing management sufficient scope to run the business within a centralised reporting framework. The Board has a formal schedule of matters specifically reserved for its decision. This covers the key areas of the Group's business including financial statements, budgets, acquisitions, major items of capital expenditure and the strategic development of the Group. The Board's responsibilities also include ensuring that appropriate management, development and succession plans are in place; reviewing the environmental and health and safety performance of the Group; approving the appointment of Directors and the Company Secretary; approving policies relating to Directors' remuneration and severance and ensuring that satisfactory dialogue takes place with shareholders.

The Directors have access to the advice and services of the Company Secretary who is responsible for advising the Board through the Chairman on governance matters. The Company's Articles of Association and Schedule of Matters reserved for the Board for decision provide that the appointment or removal of the Company Secretary is a matter for the full Board.

Directors have full and timely access to all relevant information in a form appropriate to enable them to discharge their duties. Reports and papers are circulated to Directors in preparation for Board and committee meetings. The non-executive Directors, together with the executive Directors, also receive monthly management accounts, various reports and other information to enable them to review the performance of the Group on an ongoing basis.

All Directors have access to independent professional advice at the Group's expense where they consider that advice is necessary to enable them to discharge their responsibilities as Directors.

The Board periodically holds meetings at Group locations and meets senior management of the individual businesses in order to help Directors gain a deeper understanding of the Group's operations and markets.

The Board continues to hold the view that there are compelling commercial benefits to the Group and its shareholders in combining the roles of Chairman and Chief Executive and the holding of the combined roles by Mr. Michael Chadwick. The combination of the roles is balanced from a governance point of view by the strong input of the five independent non-executive Directors on the Board and the Board's committee structure.

Directors' Independence and Board Balance

It is Board policy that the Board should include a balance of executive and non-executive Directors such that no individual or small group of individuals can dominate the Board's decision making.

Five non-executive Directors, Mr. Anthony E. Collins, Ms. Gillian Bowler, Mr. Richard W. Jewson, Mr. Roderick Ryan and Mr. Peter S. Wood are considered by the Board to be independent of management and free from any relationship which could materially interfere with the exercise of their independent judgement. The Board has therefore determined all five Directors to be independent.

Mr. Collins was appointed to the Board in 1988 and both Ms. Bowler and Mr. Jewson were appointed to the Board in 1995. The length of their service on the Board exceeds nine years and the 2006 FRC Combined Code provides that an explanation be made to shareholders concerning their continued independence. The Board considers that the integrity and independence of these Directors is beyond doubt. All three Directors are financially independent of the Company and have other significant commercial and professional commitments. Over the past fifteen years Grafton Group plc has grown from its small mainly Irish base to being the market leader in the Irish merchanting and DIY markets and the fourth largest builders merchanting business in the UK market. Mr. Collins, Ms. Bowler and Mr. Jewson have made a valuable contribution to the Board during this period of growth. Each of these non-executive Directors brings her/his own senior level experience gained in their own field of international business and professional practice. Their experience and long-term perspective on the Group's business provides the Board with stability and an invaluable resource to support its continued growth and development.

The Company's Articles of Association provide that one third of the Directors retire by rotation each year and that each Director seek re-election at the Annual General Meeting every three years. New Directors are subject to election by shareholders at the next Annual General Meeting following their appointment. It is Board Policy that non-executive Directors are normally appointed for an initial period of three years, which is then reviewed. It is also Board Policy that a non-executive Director who has served on the Board for more than nine years will retire annually and will offer himself/herself for re-election in any case where it is proposed to exceed nine years.

Mr. Collins, Ms. Bowler, Mr. Jewson, Mr. Ryan, Mr. Martin and Mr. Malone retire from the Board and offer themselves for re-election at the AGM on 29 April 2009 in accordance with Board Policy and rules governing retirement by rotation as applicable.

The overall composition and balance of the Board is kept under review.

The Board plans to manage the orderly succession of non-executive Directors over the coming years without compromising the effectiveness and continuity of the Board and its committees.

Induction and Training

It is the policy of the Board that formal induction is offered to all Directors appointed to the Board. This includes on-site visits and meetings with Senior Management in the Group's businesses and briefings from executive Directors and the Company Secretary. Induction covers matters such as the operations of the Group, the role of the Board and matters reserved for its decision, powers delegated to Board committees, corporate governance policies and the latest financial information about the Group. Directors are advised on appointment of their legal and other duties and of their obligations as Directors of a listed company.

Evaluation of Board

The Board has put in place procedures which involve the conduct of an annual evaluation process to periodically assess its performance, the performance of Board committees and the performance of individual Directors. This process also seeks to identify areas in which the effectiveness of the Board may be improved. Evaluation of the Board is achieved through annual discussion between each Director and the Senior Independent Director. The Independent non-executive Directors met during the year both with and without the Chairman present to evaluate his performance. The results of the evaluation process are presented to the Board for consideration of issues identified.

Succession Planning

The Board plans for succession with the assistance of the Nomination Committee. The Board believes that it is necessary to have appropriate executive Director and non-executive Director representation to provide Board balance and to provide the Board with the breadth of experience required by the scale, geographic spread and complexity of the Group's operations.

Communication with Shareholders

The Company recognises the importance of communication with shareholders. Presentations are made to both existing and prospective institutional shareholders principally after the release of half-yearly and annual results. Interim Management Statements were issued in compliance with the EU Transparency (Directive 2004/109/EC) Regulations 2007 and the Group also issued trading updates in January and July 2008. Any major acquisitions are also notified to the market and the Company's website www.graftonplc.com presents information about the Group including half-yearly and annual results and announcements. The Chairman and Finance Director give feedback to the Board on issues raised by investors during the course of presentations following the half-yearly and annual results and Analysts' reports on the Group are circulated to all Directors. Non-executive Directors are offered an opportunity to attend meetings with major shareholders. The Annual General Meeting is normally attended by all Directors and shareholders are invited to ask questions during the meeting and to meet with Directors after the formal proceedings have ended. The Senior Independent Director is available to meet with shareholders if they have concerns which have not been resolved through the normal channels of Chairman or Finance Director or where such contacts are not appropriate.

Board Committees

The number of Board meetings and committee meetings held during the year and attended by each Director was as follows:

	Board		Audit Committee		Finance Committee		Remuneration Committee		Nomination Committee	
Number of Meetings	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**
M. Chadwick	8	8	-	-	44	36	-	-	2	2
A. E. Collins	8	8	3	3	-	-	6	6	2	2
C. Ó Nualláin	8	8	-	-	44	34	-	-	-	-
L. J. Martin	8	8	-	-	44	35	-	-	-	-
J. F. Malone	8	8	-	-	-	-	-	-	-	-
G. Bowler	8	7	3	2	-	-	6	6	2	2
R. W. Jewson	8	8	3	3	-	-	6	5	2	2
R. Ryan	8	8	3	3	-	-	-	-	2	1
P. S. Wood	8	7	-	-	-	-	-	-	2	1

Column A – refers to the number of meetings held during the period the Director was a member of the Board and/or Committee

Column B – refers to the number of meetings attended during the period the Director was a member of the Board and/or Committee

The Board is assisted by committees of Board members which focus on specific aspects of its responsibilities. The terms of reference of the Audit Committee, Remuneration Committee and Nomination Committee were approved by the Board and comply with the 2006 FRC Combined Code and are available from the Company and can also be found on the Group's website at www.graftonplc.com. Membership of the various committees is shown on page 15. The Company Secretary is secretary of the Audit, Remuneration and Nomination Committees.

Audit Committee

During the year the Audit Committee comprised Mr. Richard W. Jewson, who chairs the Committee, Ms. Gillian Bowler, Mr. Anthony E. Collins and Mr. Roderick Ryan. All members of the Committee are determined by the Board to be independent non-executive Directors. The Audit Committee met three times during the year.

The Board believes that Mr. Richard W. Jewson brings to the Committee recent and relevant financial experience. It will be seen from the Directors' biographical details appearing on page 15 that members of the Committee bring a wide range of financial, taxation, legal, commercial and business experience to the Committee.

Under its terms of reference, the Audit Committee monitors the integrity of the Group's financial statements and announcements relating to the Group's performance. The Committee is responsible for monitoring the effectiveness of the external audit process and making recommendations to the Board in relation to the appointment, reappointment and remuneration of the external auditor. It is responsible for ensuring that an appropriate relationship between the Group and the external auditor is maintained, including reviewing non-audit services and fees. A new Group Audit Partner is appointed every five years and senior audit staff are rotated. Non-audit tax, procurement consultancy and secretarial compliance services were provided by KPMG during 2008. The Committee believes that the provision of these services by KPMG does not conflict with its independence as auditor.

The Committee reviews the Group's systems of internal control and the processes in place for monitoring and evaluating the risks facing the Group.

The Committee is satisfied that its role and authority include those matters envisaged by the 2006 FRC Combined Code to fall within its jurisdiction and the Board has delegated authority to the Committee to address those tasks for which it has responsibility. The Chairman of the Committee reports to the Board at each Board meeting.

The KPMG Audit Partner and Tax Partner, together with the Finance Director attend Audit Committee meetings at the request of the Chairman of the Committee. The Committee also meets in private session and twice yearly the Committee meets with the external auditor without the executive management present. The Committee's terms of reference are available from the Company and are displayed on the Group's website www.graftonplc.com.

In 2008 the Audit Committee discharged its responsibilities by:

- Reviewing the Group's draft Financial Statements and draft Half-yearly Results before recommending their approval to the Board. The Committee discussed with the Finance Director and KPMG any significant accounting policies, estimates and judgements that had been applied in preparing these reports and received their views in relation to these matters;
- Reviewing the Group's development and trading updates prior to release;
- The Committee received reports prepared by the Group Internal Audit Manager which summarised the findings of internal audit reports prepared by the Group Internal Audit function. These reports covered the work undertaken, findings made, actions recommended and the response of executive management of the Group's businesses to recommendations made. The Committee met with the Group Internal Audit Manager on two occasions during the year;
- Reviewing the External Auditor's plan for the 2008 audit of the Group. This included an assessment of the scope of the audit work and key risk areas and confirmation of auditor independence;
- Reviewing the External Auditor's Reports on internal controls in the Group's individual businesses prepared by KPMG as part of the Group's audit process;

- Reviewing risks associated with the business;
- The Committee continued to monitor compliance with the Group's Whistleblowing Policy ensuring that appropriate arrangements were maintained for employees to raise matters of possible impropriety in confidence with suitable follow up action.

Remuneration Committee

The Committee comprises Ms. Gillian Bowler, who chairs the Committee, Mr. Anthony E. Collins and Mr. Richard W. Jewson all of whom are determined by the Board to be independent. The Committee met six times during the year. The Committee's responsibilities include making recommendations on the terms of engagement and remuneration of the executive Directors. The terms of reference of the Committee are available from the Company and can also be found on the Group's website at www.graftonplc.com . The Chairman of the Remuneration Committee is available at the Annual General Meeting to respond to any shareholder questions concerning the Committee's activities. The Committee receives independent advice concerning matters within its remit when considered necessary.

The Committee's principal responsibilities are:

- Setting, reviewing and recommending to the Board for approval the Group's overall remuneration policy and strategy;
- Setting, reviewing and approving individual remuneration packages including salary, bonus, pension and other benefits for executive Directors, the Executive Chairman and Company Secretary including terms and conditions of employment and any changes to their packages;
- Reviewing the salary structure and terms, conditions and benefits of employment of any other members of the executive management it is designated to consider;
- Approving the rules of any Group share, share option or other share incentive scheme and approving the grant, award, allocation or issue of shares, share options or other benefits conferred by such schemes;
- Further details of the Committee's remit and work are set out in the Report on Directors' Remuneration on pages 30 to 34.

Nomination Committee

The Nomination Committee comprises Mr. Anthony E. Collins, Chairman of the Committee, Mr. Michael Chadwick, Ms. Gillian Bowler, Mr. Richard W. Jewson, Mr. Peter S. Wood and Mr. Roderick Ryan. Mr. Wood and Mr. Ryan were appointed to the Nomination Committee on 1 July 2008. The Nomination Committee met twice during the year to consider the Board's membership and to consider additional skills and experience which might benefit the Board's performance.

The Nomination Committee's terms of reference are available from the Company and can also be found on the Group's website at www.graftonplc.com.

Finance Committee

The Finance Committee comprises Mr. Michael Chadwick, Executive Chairman, Mr. Colm Ó Nualláin, Finance Director, Mr. Leo J. Martin, Chief Operating Officer and Mr. Charles Rinn, Secretary and Group Financial Controller. The Committee deals with acquisition opportunities up to Board approval stage, capital expenditure under the limit reserved for the Board, and routine Group finance and management issues.

Internal Control

The Directors acknowledge that they have overall responsibility for the Group's system of internal control and for reviewing its effectiveness. The Directors recognise that such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

A process for identifying, evaluating and managing significant risks faced by the Group, in accordance with the Guidance for Directors on the 2006 FRC Combined Code, has been in place throughout the accounting period and up to the date the financial statements were approved.

Group management are responsible for implementing strategy and for the continued development of the Group's businesses within parameters set down by the Board. Similarly, day to day management of the Group's businesses is devolved to operational management within clearly defined authority limits and subject to very tight reporting of financial performance. Group and operating company management are responsible for internal control including the identification and evaluation of significant risks and for implementation of appropriate internal controls to manage such risks. Group management report to the Board on key risks and internal control issues including the way in which these issues are managed.

The key features of the Group's system of internal control include:

- A clear focus on implementing the Group's strategy.
- Defined structures and authority limits for the operational and financial management of the Group and its businesses.
- A comprehensive system of reporting on trading, operational issues and financial performance incorporating results and cash flows, working capital management, return on capital employed and other relevant measures of performance.
- Board approval of major capital expenditure proposals and all acquisition proposals.

The internal audit function focuses on areas of greatest risk to the Group, monitors compliance and considers the effectiveness of internal control throughout the Group. The Audit Committee receives reports from and meets with the Group Internal Audit Manager and the KPMG Audit Partner in order to satisfy itself on the adequacy of the Group's internal control system. The Chairman of the Audit Committee reports to the Board on all significant matters considered by the Committee.

In the Board's view, the ongoing information it received was sufficient to enable it to review the effectiveness of the Company's system of internal control.

The Directors confirm that they have reviewed the effectiveness of internal control. In particular, they have during the year considered the significant risks affecting the business and the way in which these risks are managed, controlled and monitored.

Going Concern

The Directors, having made enquiries, believe that the Group has adequate resources to continue in operational existence for the foreseeable future and they continue to adopt the going concern basis in preparing the financial statements.

Compliance Statement

The Company applied the principles set out in Section 1 of the 2006 FRC Combined Code to the extent applicable for the year under review and has complied with the provisions of the 2006 FRC Combined Code except that the roles of Chairman and Chief Executive are held by the same individual. More than half the Board comprises non-executive Directors, all of whom are determined by the Board to be independent.

Report on Directors' Remuneration

The Remuneration Committee comprises Ms. Gillian Bowler, who chairs the Committee, Mr. Anthony E. Collins and Mr. Richard W. Jewson, all of whom are non-executive Directors with no personal financial interest other than as shareholders in the matters to be decided by the Committee, no potential conflicts of interest arising from cross-directorships and no day to day involvement in the running of the business. The Committee is responsible for the formulation of the Group's policy on remuneration in relation to all executive Directors.

The fee payable to non-executive Directors is determined by the Board within the provisions and limits set out in the Articles of Association.

Remuneration Policy

In making its recommendations the Remuneration Committee has given consideration to the provisions of the 2006 FRC Combined Code and the Irish Stock Exchange's requirements on Directors' remuneration. The remuneration policy adopted by the Group is to reward its executive Directors competitively having regard to comparable companies and the need to attract, retain and motivate executives of appropriate calibre. The Executive Chairman is fully consulted about remuneration proposals and outside advice is sought by the Remuneration Committee when necessary. The elements of the remuneration package for executive Directors are basic salary and benefits, performance related pay, pension and the ability to participate in the 1999 Grafton Group Share Scheme and the Grafton Group Employee Share Participation Scheme.

Service Contracts

Mr. L.J. Martin, an executive Director, has a service contract with a period of notice of twelve months.

Basic Salary and Benefits

The basic salaries of executive Directors are reviewed annually having regard to personal performance, Company performance and competitive market practice. No salary increases have been granted to Directors since 1 July 2007.

Performance Related Pay

The level of performance pay is determined for each individual executive Director. The level earned in any one year depends on the Remuneration Committee's assessment of each individual's performance for that year and also on an assessment of the overall performance of the Group.

Retirement Benefits

Three executive Directors ceased to participate in a Group defined benefit pension scheme as detailed on page 32. Following the transfer of the defined benefit entitlement of the three Directors to schemes external to the Grafton Group, payments are no longer made to the defined benefit scheme on behalf of these Directors. Instead, taxable payments are now paid to these Directors in lieu of future pension benefits. This allowance, which is calculated based on independent and external actuarial advice, ceases to be payable on the earlier of a Director leaving the service of the Company or on reaching normal retirement age. The transfers eliminate related liabilities and risks from the Group's balance sheet that could include additional funding costs associated with shortfalls in investment returns and longevity.

Share Schemes

It is the practice of the Group to enable key executives throughout the Group to acquire shares in the Group so as to provide an incentive to perform strongly over an extended period and to align their interests with those of shareholders. Under the terms of the 1999 Grafton Group Share Scheme, two types of share are available subject to the conditions set out below:

(i) Basic shares which cannot be converted before the expiration of five years, unless the Remuneration Committee agrees to a shorter period which shall not be less than three years, and may be converted any time after that to the end of their contractual life provided the Company's earnings per share has grown at not less than the rate of growth in the Consumer Price Index plus 5 per cent compounded during that period.

(ii) Second tier shares which cannot be converted before the expiration of five years and at any time thereafter up to the end of their contractual life, only if over a period of at least five years, the growth in the Group's earnings per share would place it in the top 25 per cent of the companies listed on the Irish Stock Exchange Index over the same period and also provided that such shares shall be acquired only if the Company's earnings per share growth over the relevant period is greater, by not less than 10 per cent on an annualised basis, than the increase in the Consumer Price Index over that period.

The share scheme has a ten year life and the percentage of share capital which may be issued under the scheme and individual grant limits comply with Institutional Guidelines. Basic shares granted after 8 May 2008 cannot be converted before the expiration of three years.

Share Participation Scheme

The Grafton Group Employee Share Participation Scheme is open to all Irish based employees who have at least eighteen months continuous service and executive Directors are entitled to participate in the scheme on the same basis as all other employees.

Directors' Remuneration and Retirement Benefits

The following table presents the remuneration of the Directors in accordance with the Irish Stock Exchange Listing Rules.

Remuneration for 2008	**Basic salary 2008 (i) €'000**	**Performance related pay 2008 (ii) €'000**	**Other benefits 2008 €'000**	**Total 2008 €'000**	Total 2007 €'000
Executive Directors					
M. Chadwick	635	-	45	**680**	964
C.Ó Nualláin	500	125	37	**662**	764
L. J. Martin	490	125	61	**676**	750
J.F. Malone	250	63	27	**340**	404
	1,875	313	170	**2,358**	2,882

	Fees 2008 €'000	**Total 2008 €'000**	Total 2007 €'000
Non-Executive Directors			
A.E. Collins	70	**70**	70
G. Bowler	70	**70**	70
R.W. Jewson	70	**70**	70
R. Ryan	70	**70**	70
P. S. Wood	70	**70**	70
	350	**350**	350

	2008	2007
Sub-total	**2,708**	3,232
Share-based payments (credit)/charge	**(240)**	429
Pension charge – refer to note on page 32	**938**	398
Total Directors' Remuneration	**3,406**	4,059

(i) No basic salary increases have been granted to Directors since 1 July 2007.
(ii) Mr. M. Chadwick waived his entitlement to performance related pay for 2008 of €158,750.

Directors' Retirement Benefits

The liabilities and risks associated with the defined benefit scheme have been reduced following the decision of three directors to transfer their defined pension entitlements from the scheme to revenue approved defined contribution schemes, as already announced in the 2008 Half-yearly Report and the 2008 Preliminary Statement. The three executive directors ceased to be members of the Group's defined benefit scheme on 1 January 2008 and were paid a taxable allowance, determined on the basis of independent and external actuarial advice, with effect from that date in lieu of future pension benefits as set out below:

	Retirement benefits expense		Defined Benefit Scheme: Increase in accrued pension during the year		Defined Benefit Scheme: Accumulated total accrued pension at the year end		Defined Benefit Scheme: Transfer value of the increase in accumulated accrued benefits at the year end	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	€'000	€'000	**€'000**	€'000	**€'000**	€'000	**€'000**	€'000
M. Chadwick	**307**	-	-	42	-	523	-	785
C. Ó Nualláin	**337**	-	-	30	-	311	-	446
L.J. Martin	**294**	-	-	28	-	325	-	436
	938	-						

Arrangements for the transfers from the defined benefit pension schemes were negotiated with these Directors by the Remuneration Committee based on independent professional advice. The relevant pensions showed a deficit of €4.74 million in the defined benefit scheme and the Group Income Statement for the year reflects a charge in this amount to fund the deficit related to the new arrangements. Obligations under the Pensions Act to have sufficient funds to purchase annuities for these Directors on retirement have ceased as a result of these transfers. The purchase of annuities is currently more expensive than transfer payments. The transfers also eliminate related liabilities and risks from the Group's balance sheet that could include additional funding costs associated with shortfalls in investment returns and longevity. The solvency of the pension schemes has not changed as a result of the transfers and the removal of significant obligations in respect of these pensions introduces greater stability for the remaining active members. Each of these directors has long service with the Group and their pension benefits have been built up over the duration of their employment. The final transfer values from the defined benefit pension scheme in respect of their accrued entitlements and benefits were M. Chadwick €11.7 million, C. Ó Nualláin €7.9 million and L.J. Martin €6.7 million.

Directors' and Secretary's Interests

The beneficial interests of the Directors in the share capital of the Company were as follows:

Director	**31 December 2008** Grafton Units *	31 December 2007 Grafton Units
M. Chadwick	**19,656,921**	18,840,230
A.E. Collins	**450,000**	450,000
C. Ó Nualláin	**1,141,759**	1,138,068
L.J. Martin	**204,605**	184,605
J.F. Malone	**693,963**	531,080
G. Bowler	**132,000**	132,000
R.W. Jewson	**42,204**	42,204
R. Ryan	**25,000**	25,000
P. Wood	**5,000**	5,000

Mr. M. Chadwick purchased 813,000 Grafton Units on 7 January 2008 at a market price of €5.30 per unit. On 17 September 2008, Mr. Chadwick was appropriated 3,691 Grafton Units under the Grafton Group Share Participation Scheme at a market price of €3.44 per unit.

Mr. Chadwick also holds a non-beneficial interest in 2,986,560 (2007: 2,986,560) Grafton Units in his capacity as a Trustee of a family trust. He also holds a non-beneficial interest as nominee in 178,640 (2007: 178,640) Grafton Units. Mr. M. Chadwick and Mr. C. Ó Nualláin have a non-beneficial interest in 1,126,645 (2007: 647,735) Grafton Units as Trustees of the Grafton Group plc Employee Share Participation Scheme.

On 17 September 2008, Mr. C. Ó Nualláin was appropriated 3,691 Grafton Units at a market price of €3.44 per unit under the Grafton Group Share Participation Scheme. Mr. L. J. Martin acquired 10,000 Grafton Units on 23 September 2008 at a market price of €3.67 per Grafton Unit. Mr. Martin acquired a further 10,000 Grafton Units on 24 September 2008 at a market price of €3.69 per Grafton Unit. Mr. J. F. Malone acquired 159,192 Grafton Units on 7 April 2008 at €2.21 per Unit in accordance with the rules of the Grafton Group Share Schemes. The market value of a Grafton Unit on 7 April 2008 was €5.85. On 17 September 2008, Mr. Malone was appropriated 3,691 Grafton Units at a market price of €3.44 per unit under the Grafton Group Share Participation Scheme.

There have been no changes in the interests of the Directors between 31 December 2008 and the date of this report.

Mr. C. Rinn, Secretary, had a beneficial interest in 263,396 Grafton Units at 31 December 2008 (2007: 259,705). Mr. Rinn was appropriated 3,691 Grafton Units on 17 September 2008 under the Grafton Group Share Participation Scheme at a market price of €3.44 per unit.

*At 31 December 2008 a Grafton Unit comprised one ordinary share of 5 cent each and nineteen 'A' ordinary shares of 0.001 cent each in Grafton Group plc and one 'C' ordinary share of Stg0.0001p in Grafton Group (UK) plc.

Directors' and Secretary's Interests under the Grafton Group Share Schemes

The interests of the Directors and the Secretary to acquire Grafton Units in accordance with the Grafton Group Share Schemes are shown below:

	Number of Units						
	1 January 2008	31 December 2008	Basic	Second Tier	Price €	Period over which Grafton Units may be acquired	
L. J. Martin	120,000	120,000	60,000	60,000	8.11	Oct 2010	Oct 2015
	120,000	120,000	60,000	60,000	11.50	Oct 2011	Oct 2016
	120,000	120,000	60,000	60,000	8.48	Sept 2012	Sept 2017
	360,000	360,000	180,000	180,000			
C.Ó Nualláin	160,000	160,000	80,000	80,000	5.45	Nov 2008	Oct 2013
	160,000	160,000	87,500	72,500	6.20	May 2009	April 2014
	120,000	120,000	60,000	60,000	8.11	Oct 2010	Oct 2015
	120,000	120,000	60,000	60,000	11.50	Oct 2011	Oct 2016
	120,000	120,000	60,000	60,000	8.48	Sept 2012	Sept 2017
	680,000	680,000	347,500	332,500			
J. F. Malone	159,192	-	-	-	2.21	June 2003	May 2008
	159,192	159,192	90,209	68,983	1.81	July 2004	July 2009
	159,192	159,192	84,902	74,290	2.07	May 2005	April 2010
	477,576	318,384	175,111	143,273			

Mr. J. F. Malone acquired 159,192 Grafton Units at €2.21 per Unit on 7 April 2008 in accordance with the rules of the Grafton Group Share Schemes. The market value of a Grafton Unit on 7 April 2008 was €5.85.

Mr. C. Rinn had an interest to acquire 440,177 Grafton Units at 31 December 2008 at prices ranging between €4.00 and €11.50 (31 December 2007: 440,177) in accordance with the 1999 Grafton Group Share Scheme.

The closing price of a Grafton Unit on 31 December 2008 was €2.30 (31 December 2007: €5.40) and the price range during the year was between €2.07 and €6.27 (2007: €5.20 and €12.88).

There has not been any contract or arrangement with the Company or any subsidiary undertaking during the year in which a Director of the Company was materially interested and which was significant in relation to the Company's business except for the pension arrangements outlined on page 32.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the Group and Company financial statements, in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and Company financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and have elected to prepare the Company financial statements in accordance with IFRSs as adopted by the EU and as applied in accordance with the Companies Acts 1963 to 2006.

The Group and Company financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and performance of the Group and Company. The Companies Acts 1963 to 2006 provide in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the Group and Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRSs as adopted by the EU and in the case of the Company as applied in accordance with the Companies Acts 1963 to 2006; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

Under applicable law and the requirements of the Listing Rules issued by the Irish Stock Exchange, the Directors are also responsible for preparing a Directors' Report and reports relating to Directors' remuneration and Corporate Governance that comply with that law and those Rules. In particular, in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007 (the Transparency Regulations), the Directors are required to include in their report a fair review of the business and a description of the principal risks and uncertainties facing the Group and the Company and a responsibility statement relating to these and other matters, included below.

The Directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Acts 1963 to 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the Republic of Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility Statement, in accordance with the Transparency Regulations

Each of the Directors, whose names and functions are listed on page 15 confirm that, to the best of each person's knowledge and belief:

- the Group financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities and financial position of the Group at 31 December 2008 and its profit for the year then ended;
- the Company financial statements, prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the Companies Acts 1963 to 2006, give a true and fair view of the assets, liabilities and financial position of the Company at 31 December 2008; and
- the Report of the Directors contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that they face.

On behalf of the Board

M. Chadwick
C. Ó Nualláin

Independent Auditor's Report

To the Members of Grafton Group plc

We have audited the Group and Company financial statements (the ''financial statements'') of Grafton Group plc for the year ended 31 December 2008 which comprise the Group Income Statement, the Group and Company Statements of Recognised Income and Expense, the Group and Company Balance Sheets, the Group and Company Cash Flow Statements, and the related notes on pages 38 to 96. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 193 of the Companies Act 1990. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's 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 and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditor

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 35.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with IFRSs as adopted by the EU, and have been properly prepared in accordance with the Companies Acts 1963 to 2006 and, in the case of the Group financial statements, Article 4 of the IAS Regulation. We also report to you, in our opinion whether proper books of account have been kept by the Company; whether at the balance sheet date, there exists a financial situation requiring the convening of an extraordinary general meeting of the Company; and whether the information given in the Report of the Directors is consistent with the financial statements. In addition, we state whether we have obtained all the information and explanations necessary for the purposes of our audit, and whether the Company balance sheet is in agreement with the books of account.

We also report to you if, in our opinion, any information specified by law or the Listing Rules of the Irish Stock Exchange regarding Directors' remuneration and Directors' transactions is not disclosed and, where practicable, include such information in our report.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2006 FRC Combined Code specified for our review by the Listing Rules of the Irish Stock Exchange, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Report of the Directors, the Chairman's Statement and the Group Finance Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent Auditor's Report

To the Members of Grafton Group plc

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2008 and of its profit for the year then ended;

- the Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Acts 1963 to 2006, of the state of the Company's affairs as at 31 December 2008;

- the Group financial statements have been properly prepared in accordance with the Companies Acts 1963 to 2006 and Article 4 of the IAS Regulation; and

- the Company financial statements have been properly prepared in accordance with the Companies Acts 1963 to 2006.

Other matters

We have obtained all the information and explanations which we consider necessary for the purposes of our audit. In our opinion proper books of account have been kept by the Company. The Company balance sheet is in agreement with the books of account.

In our opinion the information given in the Report of the Directors is consistent with the financial statements.

The net assets of the Company, as stated in the Company balance sheet are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2008 a financial situation which under Section 40 (1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the Company.

KPMG
Chartered Accountants
Registered Auditor
Dublin

26 February 2009

Group Income Statement

For the year ended 31 December 2008

	Notes	2008 €'000	2007 €'000
Revenue	1	**2,672,984**	3,205,026
Operating costs and income	3	**(2,573,759)**	(2,934,227)
Operating profit		**99,225**	270,799
Finance expense	6	**(59,944)**	(61,569)
Finance income	6	**24,835**	26,603
Profit before tax		**64,116**	235,833
Income tax expense	8	**(6,418)**	(30,658)
Profit after tax for the financial year		**57,698**	205,175
Profit attributable to equity holders of the Company		**57,698**	205,175
Earning per ordinary share – basic	10	**25.09c**	86.16c
Diluted earnings per share	10	**25.00c**	84.78c

On behalf of the Board

M Chadwick
C Ó Nualláin
Directors

26 February 2009

Group Statement of Recognised Income and Expense

For the year ended 31 December 2008

	Notes	2008 €'000	2007 €'000
Items of income and expense recognised directly within equity:			
Currency translation effects			
- on foreign currency net investments	22	**(180,087)**	(44,583)
- on foreign currency borrowings	22	**7,787**	829
Actuarial (loss)/gain on Group defined benefit pension schemes	37	**(37,414)**	12,573
Deferred tax asset/(liability) on Group defined benefit pension schemes	30	**4,730**	(2,599)
Fair value movement on cash flow hedges:			
- Fair value (losses)/gains	23	**(55)**	521
- Included in finance expense	23	**(529)**	(1,784)
Deferred tax on cash flow hedge	23	**73**	158
Net income/(expense) recognised directly in equity		**(205,495)**	(34,885)
Profit after tax for the financial year		**57,698**	205,175
Total recognised income and expense for the financial year		**(147,797)**	170,290
Attributable to:			
Equity holders of the Company		**(147,797)**	170,290

Movement on Group Retained Earnings	Notes	2008 €'000	2007 €'000
At 1 January		**759,864**	662,726
Profit after tax for the financial year		**57,698**	205,175
Purchase of 'A' ordinary shares	9	**(50,585)**	(49,048)
Actuarial (loss)/gain on pensions (net of tax)		**(32,684)**	9,974
Deferred tax on share-based payments	30	**-**	(2,078)
Shares bought back and cancelled		**-**	(67,090)
Transfer from other reserve – shares to be issued	21	**2,913**	-
Transfer from revaluation reserve	20	**611**	205
At 31 December		**737,817**	759,864
The retained earnings is analysed as follows:			
Parent company		**331,837**	333,930
Subsidiary undertakings		**405,980**	425,934
		737,817	759,864

Group Balance Sheet

As at 31 December 2008

	Notes	2008 €'000	2007 €'000
ASSETS			
Non-current assets			
Goodwill	11	**532,807**	600,793
Intangible assets	11	**8,877**	11,095
Property, plant and equipment	12	**633,336**	703,737
Deferred tax assets	30	**24,904**	27,309
Retirement benefit assets	37	**7**	-
Derivative financial instruments	26	**27,810**	-
Financial assets	13	**227**	850
Total non-current assets		**1,227,968**	1,343,784
Current assets			
Inventories	14	**331,124**	386,179
Trade and other receivables	15	**353,581**	535,695
Derivative financial instruments	26	**10,943**	584
Cash and cash equivalents	24	**224,834**	204,489
Total current assets		**920,482**	1,126,947
Total assets		**2,148,450**	2,470,731
EQUITY			
Capital and reserves attributable to the equity holders			
Equity share capital	17	**11,579**	11,569
Share premium account	18	**288,951**	287,458
Capital redemption reserve	19	**900**	875
Revaluation reserve	20	**32,157**	32,768
Other reserves	21	**6,041**	10,920
Cash flow hedge reserve	23	**-**	511
Foreign currency translation reserve	22	**(202,834)**	(30,534)
Retained earnings		**737,817**	759,864
Treasury shares held	17	**(5,746)**	(5,746)
Total equity		**868,865**	1,067,685
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	24	**579,333**	523,311
Provisions	27	**1,680**	10,228
Retirement benefit obligations	37	**40,899**	15,323
Derivative financial instruments	26	**-**	14,967
Deferred tax liabilities	30	**40,732**	50,439
Total non-current liabilities		**662,644**	614,268
Current liabilities			
Interest-bearing loans and borrowings	24	**119,874**	213,624
Trade and other payables	28	**434,041**	504,203
Current income tax liabilities		**55,950**	55,427
Derivative financial instruments	26	**-**	3,560
Provisions	27	**7,076**	11,964
Total current liabilities		**616,941**	788,778
Total liabilities		**1,279,585**	1,403,046
Total equity and liabilities		**2,148,450**	2,470,731

On behalf of the Board

M Chadwick
C Ó Nualláin
Directors

26 February 2009

Group Cash Flow Statement

For the year ended 31 December 2008

	Notes	2008 €'000	2007 €'000
Profit before taxation		**64,116**	235,833
Finance income		**(24,835)**	(26,603)
Finance expense		**59,944**	61,569
Operating profit		**99,225**	270,799
Depreciation		**54,287**	56,792
Intangible amortisation		**2,218**	2,212
Goodwill write-off on termination		**-**	88
Share-based payments (credit)/charge		**(1,966)**	4,465
Profit on sale of property, plant and equipment		**(4,655)**	(10,480)
Contributions to pension schemes in excess of IAS 19 charge		**(8,094)**	(5,639)
Decrease/(increase) in working capital	32	**111,681**	(14,417)
Cash generated from operations		**252,696**	303,820
Interest paid		**(45,593)**	(50,445)
Income taxes paid		**(1,579)**	(10,564)
Cash flows from operating activities		**205,524**	242,811
Investing activities			
Inflows			
Proceeds from sale of property, plant and equipment		**10,953**	22,128
Interest received		**8,781**	14,416
Sale of financial assets		**433**	-
		20,167	36,544
Outflows			
Acquisition of subsidiary undertakings and businesses	33	**(24,460)**	(84,350)
Net cash acquired with subsidiary undertakings	33	**4,915**	7,689
Deferred acquisition consideration		**(8,420)**	(9,461)
Purchase of property, plant and equipment		**(78,592)**	(104,650)
Purchase of financial assets		**-**	(452)
		(106,557)	(191,224)
Cash flows from investing activities		**(86,390)**	(154,680)
Financing activities			
Inflows			
Proceeds from the issue of share capital		**1,528**	2,553
Proceeds from borrowings		**91,944**	66,742
		93,472	69,295
Outflows			
Repayments of borrowings		**(74,031)**	-
Share bought back and treasury shares acquired		**-**	(72,836)
Purchase of 'A' ordinary shares	9	**(50,585)**	(49,048)
Payment of finance lease liabilities		**(1,209)**	(1,883)
Redemption of loan notes payable net of derivatives		**(29,842)**	(19,216)
		(155,667)	(142,983)
Cash flows from financing activities		**(62,195)**	(73,688)
Net increase in cash and cash equivalents		**56,939**	14,443
Cash and cash equivalents at 1 January		**203,489**	201,764
Effect of exchange rate fluctuations on cash held		**(35,601)**	(12,718)
Cash and cash equivalents at 31 December		**224,827**	203,489
Cash and cash equivalents are broken down as follows:			
Cash at bank and short-term deposits		**224,834**	204,489
Overdrafts		**(7)**	(1,000)
		224,827	203,489

Company Balance Sheet

As at 31 December 2008

	Notes	2008 €'000	2007 €'000
ASSETS			
Non-current assets			
Property, plant and equipment	12	**484**	252
Deferred tax asset	30	**130**	234
Investment in subsidiary undertakings	13	**359,197**	360,174
Financial assets	13	**13**	13
Total non-current assets		**359,824**	360,673
Current assets			
Receivables from Group companies	15	**697,793**	670,515
Other receivables	15	**7,016**	8,821
Cash and cash equivalents		**8,198**	23,536
Total current assets		**713,007**	702,872
Total assets		**1,072,831**	1,063,545
EQUITY			
Capital and reserves attributable to the equity holders			
Equity share capital	17	**11,579**	11,569
Share premium account	18	**288,951**	287,458
Capital redemption reserve	19	**900**	875
Other reserve	21	**6,041**	10,920
Retained earnings		**331,837**	333,930
Treasury shares held	17	**(5,746)**	(5,746)
Total equity		**633,562**	639,006
LIABILITIES			
Non-current liabilities			
Retirement benefit obligations	37	**925**	1,856
Total non-current liabilities		**925**	1,856
Current liabilities			
Interest-bearing loans and borrowings	24	**4**	7,758
Payables to Group companies	28	**423,961**	386,743
Other payables	28	**14,365**	26,654
Current income tax liabilities		**14**	10
Derivative financial instruments	26	**-**	1,518
Total current liabilities		**438,344**	422,683
Total liabilities		**439,269**	424,539
Total equity and liabilities		**1,072,831**	1,063,545

On behalf of the Board

M. Chadwick
C Ó Nualláin
Directors

26 February 2009

Company Cash Flow Statement

For the year ended 31 December 2008

	Notes	2008 €'000	2007 €'000
Profit before tax		**49,095**	106,545
Finance income		**(1,456)**	(1,622)
Finance expense		**869**	2,247
Dividends received		**(63,000)**	(110,450)
Operating loss		**(14,492)**	(3,280)
Depreciation		**123**	122
Share-based payments (credit)/charge		**(393)**	766
Contributions to pension schemes in excess of IAS 19 charge		**(3,992)**	(197)
(Increase)/decrease in working capital	32	**(10,494)**	12,160
Cash generated from operations		**(29,248)**	9,571
Interest paid		**(295)**	(656)
Income taxes paid		**(3)**	277
Cash flows from operating activities		**(29,546)**	9,192
Investing activities			
Inflows			
Interest received		**548**	-
Dividends received		**63,000**	110,450
		63,548	110,450
Outflows			
Investment in subsidiary undertakings		**(596)**	(6,770)
Purchase of property, plant and equipment		**(355)**	(21)
		(951)	(6,791)
Cash flows from investing activities		**62,597**	103,659
Financing activities			
Inflows			
Proceeds from the issue of share capital		**1,528**	2,553
Movement on Group payables		**37,218**	29,635
		38,746	32,188
Outflows			
Shares bought back and treasury shares acquired		**-**	(72,836)
Purchase of 'A' ordinary shares	9	**(50,585)**	(49,048)
Redemption of loan notes payable		**(8,593)**	(9,086)
Movement on Group receivables		**(27,278)**	(2,459)
		(86,456)	(133,429)
Cash flows from financing activities		**(47,710)**	(101,241)
Net (decrease)/increase in cash and cash equivalents		**(14,659)**	11,610
Cash and cash equivalents at 1 January		**23,532**	13,612
Effect of exchange rate fluctuations on cash held		**(679)**	(1,690)
Cash and cash equivalents at 31 December		**8,194**	23,532
Cash and cash equivalents are broken down as follows:			
Cash at bank and short-term deposits		**8,198**	23,536
Overdrafts		**(4)**	(4)
		8,194	23,532

Company Statement of Recognised Income and Expense

For the year ended 31 December 2008

	Notes	2008 €'000	2007 €'000
Items of income and expense recognised directly within equity:			
Actuarial loss on Company defined benefit pension schemes	37	**(3,405)**	(514)
Deferred tax asset on Company defined benefit pension schemes	30	**426**	64
Net expense recognised directly in equity		**(2,979)**	(450)
Profit after tax for the financial year		**48,558**	106,526
Total recognised income and expense for the financial year		**45,579**	106,076
Attributable to:			
Equity holders of the Company		**45,579**	106,076

Accounting Policies

Statement of Compliance

The consolidated and Company financial statements of Grafton Group plc have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), which comprise standards and interpretations approved by the International Accounting Standards Board (IASB) and International Accounting Standards and Standing Interpretations Committee and subsequently adopted by the EU.

The Company financial statements have been prepared in accordance with IFRSs as adopted by the European Union (EU) and as applied in accordance with the Companies Acts, 1963 to 2006. The Company has taken advantage of the exemption in Section 148(8) of the Companies Act 1963 from presenting to its members the Company Income Statement and related notes which forms part of the approved financial statements of the Company as the Company publishes Company and Group financial statements together.

The standards and interpretations applied in these financial statements were those effective for accounting periods beginning on or after 1 January 2008.

The Group has not applied the following standards and interpretations that have been issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee but are not yet effective:

- IFRS 8 – *Operating Segments*
- IFRS 2 *Share-based Payments – Vesting Conditions and Cancellations Amendment*
- IFRS 3 *Business Combinations Revised*
- IAS 1 *Presentation of Financial Statements Amendment*
- IAS 23 *Borrowing Costs Amendment*
- IAS 32 *Financial Instruments Presentation Amendment*
- IAS 27 *Consolidated and Separate Financial Statements Revised*
- IAS 39 *Financial Instruments Recognition and Measurement Amendment*
- IFRIC Interpretation 13 *Customer Loyalty Programmes*
- IFRIC Interpretation 15 *Agreements for the Construction of Real Estate*
- IFRIC Interpretation 16 *Hedges of a Net Investment in a Foreign Operation*

Whilst the application of IFRS 8 will result in amendments to the segmental information note accompanying the Group financial statements, these amendments will not be of a recognition and measurement nature, given the disclosure focus of the standard.

The revised IFRS 3 introduces a number of changes to the accounting for business combinations that may impact the amount of goodwill recognised on future acquisitions, the reported results in the period when the acquisition occurs and future reported results.

The application of the revised IAS 1 will result in some presentational changes to the Group financial statements.

Application of the other standards and interpretations is not expected to have a material impact on the Group or Company financial statements.

Accounting Policies

Basis of Preparation

The consolidated and Company financial statements, which are presented in euro rounded to the nearest thousand are prepared on a going concern basis. The Statements have been prepared under the historical cost convention, as modified by the previous revaluation of land and buildings and the measurement at fair value of share-based payments at initial date of award and derivative financial instruments. The carrying values of recognised assets and liabilities that are fair value hedged are adjusted to record changes in the fair values attributable to the risks that are being hedged.

The accounting policies set out below have been applied consistently by all the Group's companies in all periods presented in these consolidated financial statements.

The preparation of financial statements in conformity with IFRS as adopted by the EU requires management to exercise judgement in the process of applying the Company's accounting policies. The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant in relation to the consolidated financial statements, relate primarily to accounting for defined benefit pension schemes, financial instruments, share-based payments, impairment provisions, leases, intangible assets, goodwill impairment and taxation.

The financial year-ends of the Group's subsidiaries are coterminous.

Basis of Consolidation

The consolidated financial statements include the financial statements of the Company, all subsidiaries and the proportionally consolidated joint venture drawn up to 31 December each year.

Subsidiaries

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control over the operating and financial decisions is obtained and cease to be consolidated from the date on which control is transferred out of the Group. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain economic benefits from its activities.

Joint ventures

In line with the benchmark accounting methodology in IAS 31 Interests in Joint Ventures, the Group's share of results and net assets of joint ventures, which are entities in which the Group holds an interest on a long-term basis and which are jointly controlled by the Group and one or more other venturers, are accounted for on the basis of proportionate consolidation from the date on which joint control is finalised and are derecognised when joint control ceases. The Group combines its share of the joint ventures individual income and expenses, assets and liabilities and cash flows on a line by line basis with similar items in the Group's financial statements.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains and losses arising from such transactions, are eliminated in preparing the consolidated financial statements. Transactions with joint ventures are similarly eliminated to the extent of the Group's proportionate share of the joint venture.

Revenue Recognition

Revenue is the value of goods and services supplied to external customers and excludes inter-company sales and value added tax.

In general, revenue is recognised to the extent that it is subject to reliable measurement, that it is probable that economic benefits will flow to the Group and that the significant risks and rewards of ownership have passed to the buyer. Revenue on long-term contracts is recognised in accordance with the percentage-of-completion method with the completion percentage being computed on an input cost basis.

Segment Reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns different to those of other segments. Geographical segmentation is the Group's primary reporting segment.

Foreign Currency Translation

Functional and presentation currency

The consolidated financial statements are presented in euro which is the Company's functional currency. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates which is primarily euro and sterling.

Transaction and balances

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated to the relevant functional currency at the rate of exchange ruling at the balance sheet date. All currency translation differences on monetary assets and liabilities are taken to the income statement except for differences on foreign currency borrowings designated as a hedge of a net investment which are taken directly to equity together with the exchange difference on the carrying amount of the related investment.

Group companies

Results and cash flows of subsidiaries which do not have the euro as their functional currency are translated into euro at average exchange rates for the year and the related balance sheets are translated at the rates of exchange ruling at the balance sheet date. Adjustments arising on translation of the results of such subsidiaries at average rates and on the restatement of the opening net assets at closing rates are dealt with in a separate translation reserve within equity, net of differences on related currency borrowings designated as a hedge of the net investment.

Goodwill and fair value adjustments arising on acquisition of operations trading in currencies other than the euro are regarded as assets and liabilities of the foreign currency denominated operation, are expressed in its functional currency and are recorded at the exchange rate at the date of the transaction and subsequently retranslated at the applicable closing rates.

Exceptional Items

The Group has adopted a policy in relation to its income statement which seeks to highlight any significant items within the Group results. Such items may include significant restructuring, profit and loss on disposal or termination of operations, litigation costs and settlements and impairment of assets. Judgement is used by the Group in assessing the particular items, which by virtue of their scale and nature, should be disclosed in the income statement or related notes.

In accordance with accounting standards property profit is not disclosed as a separate line item on the face of the Income Statement. Where a material profit arises on the disposal of property, the Board will bring this to shareholders attention. In the year to 31 December 2008, the level of property profit was not material.

Finance Expense

Finance expense comprises interest payable on borrowings calculated using the effective interest rate method, foreign exchange gains and losses on borrowings and gains and losses on hedging instruments that are recognised in the income statement. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method. Where appropriate the fair value adjustment to hedged items that are the subject of a fair value hedge is also included as finance expense or finance income.

The finance cost on pension scheme liabilities is recognised as finance expense in the income statement as permitted by IAS 19.

Finance Income

Interest income is recognised in the income statement as it accrues using the effective interest method.

The expected return on plan assets is recognised as finance income in the income statement as permitted by IAS 19.

Business Combinations

The purchase method of accounting is employed in accounting for the acquisition of subsidiaries by the Group. The Group availed of the exemption under IFRS 1, "First-time Adoption of International Financial Reporting Standards", whereby business combinations prior to the transition date of 1 January 2004 are not restated. IFRS 3, "Business Combinations", has been applied with effect from the transition date of 1 January 2004 and goodwill amortisation ceased from that date.

The cost of a business combination is measured as the aggregate of the fair value at the date of exchange of assets given, liabilities incurred or assumed and equity instruments issued in exchange for control together with any directly attributable expenses. In the case of a business combination the identifiable assets and liabilities acquired are measured at their provisional fair values at the date of acquisition. Adjustments to provisional values allocated to assets and liabilities are made within twelve months of the acquisition date and reflected as a restatement of the acquisition balance sheet.

Goodwill

Goodwill is the excess of the consideration paid over the fair value of the identifiable assets, liabilities and contingent liabilities in a business combination and relates to assets which are not capable of being individually identified and separately recognised.

Goodwill is subject to impairment testing on an annual basis and throughout the year if an indicator of impairment exists.

Goodwill arising on acquisitions between 1 January 1998 and 1 January 2004 was capitalised and the related amortisation, which was based on a presumed maximum useful life of 20 years, was charged against operating income in the income statement on a straight-line basis from the date of initial recognition. Goodwill was stated at cost less accumulated amortisation and any impairment in value. Goodwill arising on acquisitions made prior to 1 January 1998 was written-off immediately against reserves and was not reinstated on implementation of IFRS as adopted by the EU. In accordance with IFRS 1, this goodwill was not recognised as goodwill in the IFRS transition Balance Sheet and remains eliminated against reserves.

Goodwill arising in respect of acquisitions completed prior to 1 January 2004 (being the transition date to IFRS as adopted by the EU) is included at its net book value recorded under previous GAAP. In line with IFRS 3, goodwill amortisation ceased with effect from the transition date being 1 January 2004.

Where a subsidiary is sold, any goodwill arising on acquisition, net of any impairments, which has not been amortised through the income statement is included in determining the profit or loss arising on disposal.

Intangible Assets (Other than Goodwill)

An intangible asset, which is a non-monetary asset without a physical substance, is recognised to the extent that it is probable that the expected future economic benefits attributable to the asset will flow to the Group and that its fair value can be measured. The asset is deemed to be identifiable when it is separable (i.e. capable of being divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability) or when it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the Group or from other rights and obligations.

Intangible assets acquired as part of a business combination are capitalised separately from goodwill if the intangible asset meets the definition of an asset and the fair value can be reliably measured on initial recognition.

Intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The carrying values of intangible assets are reviewed for indicators of impairment at each reporting date and are subject to impairment testing when events or changes in circumstances indicate that the carrying values may not be recoverable.

The amortisation of intangible assets is calculated to write-off the book value of intangible assets over their useful lives which is currently eight years on a straight-line basis on the assumption of zero residual value.

Property, Plant and Equipment

Property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses. The Group's Irish properties were revalued to fair value in 1998 and are measured on the basis of deemed cost being the revalued amount at the date of that revaluation less accumulated depreciation.

Property, plant and equipment are depreciated over their useful economic life on a straight line basis at the following rates:

Freehold buildings	50-100 years
Freehold land	Not depreciated
Leasehold buildings	Lease term or up to 100 years
Plant and machinery	5-20 years
Motor vehicles	5 years
Plant hire equipment	4-8 years

The residual value and useful lives of property, plant and equipment are reviewed and adjusted if appropriate at each balance sheet date.

On disposal of property, plant and equipment the cost and related accumulated depreciation and impairments are removed from the balance sheet and the net amount, less any proceeds, is taken to the income statement.

The carrying amounts of the Group's property, plant and equipment are reviewed at each balance sheet date to determine whether there is any indication of impairment. An impairment loss is recognised whenever the carrying amount of an asset or its cash generation unit exceeds its recoverable amount. Impairment losses are recognised in the income statement unless the asset is recorded at a revalued amount in which case it is firstly dealt with through the revaluation reserve relating to that asset with any residual amount being transferred to the income statement.

Subsequent costs are included in an asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the replaced item can be measured reliably. All other repair and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Investments

All investments are initially recognised at the fair value of the consideration paid including any related acquisition charges.

Where investments are actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date. Where it is impracticable to determine fair value in accordance with IAS 39, unquoted equity investments are recorded at historical cost and are included within financial assets on this basis in the Group Balance Sheet. They are assessed for impairment annually.

Leases

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have transferred to the Group and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives with any impairment being recognised in accumulated depreciation. The asset is recorded at an amount equal to the lower of its fair value and the present value of the minimum lease payments at the inception of the finance lease. The capital elements of future obligations under leases and hire purchase contracts are included in liabilities in the balance sheet and analysed between current and non-current amounts. The interest elements of the rental obligations are charged to the income statement over the periods of the leases and hire purchase contracts so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Operating lease rentals are charged to the income statement on a straight-line basis over the lease term. Lease incentives are recognised over the lease term on a straight line basis.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the first-in, first-out principle and includes all expenditure incurred in acquiring the inventories and bringing them to their present location and condition. Raw materials are valued on the basis of purchase cost on a first-in, first-out basis. In the case of finished goods and work-in-progress, cost includes direct materials, direct labour and attributable overheads based on normal operating capacity and excludes borrowing costs. Net realisable value is the estimated proceeds of sale less all further costs to completion and less all costs to be incurred in marketing, selling and distribution.

Trade and Other Receivables and Payables

Trade and other receivables and payables are stated at cost, which approximates to fair value given the short-term nature of these assets and liabilities.

Trade receivables are carried at original invoice amount less an allowance for potentially uncollectable debts. Provision is made when there is objective evidence that the Group will not be in a position to collect all of its receivables when they fall due. Bad debts are written-off against the provision or in the income statement.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances held for the purposes of meeting short-term cash commitments and money market instruments which are readily convertible to a known amount of cash. Where money market instruments are categorised as cash equivalents, the related balances have a maturity of three months or less. In addition, for the purposes of the Group Cash Flow Statement, bank overdrafts are netted against cash and cash equivalents where the overdrafts are repayable on demand and form an integral part of cash management. Overdrafts are included within current interest-bearing loans and borrowings in the Group Balance Sheet.

Derivative Financial Instruments

The Group uses derivative financial instruments (principally interest rate and currency swaps) to hedge its exposure to foreign exchange and interest rate risks arising from its financing activities.

Derivative financial instruments are recognised initially at cost and thereafter are stated at fair value. Fair value is the amount which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arms length transaction. Where derivatives do not fulfil the criteria for hedge accounting, changes in fair values are reported in the income statement. Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged as outlined in the accounting policy below on hedging.

The fair value of interest rate and currency swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest and currency exchange rates and the current creditworthiness of the swap counterparties.

Hedging

For the purposes of hedge accounting, hedges are classified either as fair value hedges (which entail hedging the exposure to movements in the fair value of a recognised asset or liability) or cash flow hedges (which hedge exposure to fluctuations in future cash flows derived from a particular risk associated with a recognised asset or liability, a firm commitment or a highly probable forecast transaction) or hedges of net investment.

(i) Fair Value Hedge

In the case of fair value hedges which satisfy the conditions for special hedge accounting, any gain or loss stemming from the re-measurement of the hedging instrument to fair value is reported in the income statement. In addition, any gain or loss on the hedged item which is attributable to the fair value movement in the hedged risk is adjusted against the carrying amount of the hedged item and reflected in the income statement.

Where a derivative financial instrument is used to economically hedge the foreign exchange exposure of a recognised monetary asset or liability, hedge accounting is not applied and any gain or loss accruing on the hedging instrument is recognised as finance income or expense in the income statement.

(ii) Cash Flow Hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, a firm commitment or a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised as a separate component of equity with the ineffective portion being reported as finance expense or income in the income statement. If a hedge of a forecasted transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised directly in equity are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss. For cash flow hedges, other than those covered by the preceding statements, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss. The ineffective part of any gain or loss is recognised immediately in the income statement.

Hedge accounting is discontinued when a hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. The cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement in the period.

(iii) Hedge of Net Investment in Foreign Operation

Where foreign currency borrowings provide a hedge against a net investment in a foreign operation, foreign exchange differences are taken directly to a foreign currency translation reserve (being a separate component of equity). Cumulative gains and losses remain in equity until disposal of the net investment in the foreign operation or repayment of the borrowing at which point the related differences are transferred to the income statement as part of the overall gain or loss on sale or repayment.

Interest Bearing Loans and Borrowings

All loans and borrowings are initially recorded at cost being the fair value of the consideration received net of related transaction costs. After initial recognition, current and non-current interest-bearing loans and borrowings are measured at amortised cost using the effective interest rate method. Amortised cost includes any issue costs and any discount or premium on settlement. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

Provisions

A provision is recognised on a discounted basis when the Group has a present (either legal or constructive) obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligations and a reliable estimate can be made of the amount required to settle the obligation. Provisions are not recognised in respect of future operating losses.

Retirement Benefit Obligations

Obligations to the defined contribution pension plans are recognised as an expense in the income statement as service is received from the relevant employees. The Group has no obligations to make further contributions to these schemes.

The Group operates a number of defined benefit pension schemes which require contributions to be made to separately administered funds. The Group's net obligation in respect of defined benefit pension schemes is calculated separately for each plan by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan asset is deducted. The discount rate employed in determining the present value of the schemes' liabilities is determined by reference to market yields at the balance sheet date on high quality corporate bonds for a term consistent with the currency and term of the associated post-employment benefit obligations.

The net surplus or deficit arising in the Group's defined benefit pension schemes are shown within either non-current assets or liabilities on the face of the Group Balance Sheet. The deferred tax impact of pension scheme surpluses and deficits is disclosed separately within deferred tax assets or liabilities as appropriate. The Group recognises post transition date actuarial gains and losses immediately in the statement of recognised income and expense.

Any increase in the present value of the plans' liabilities expected to arise from employee service during the period is charged to operating profit. The expected return on the plans' assets and the expected increase during the period in the present value of the plans' liabilities arising are included in finance income and expense respectively.

When the benefits of a defined benefit plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement over the remaining average period until the benefits vest. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

Share Based Payment Transactions

Group share schemes allow employees to acquire shares in the Company. They are all equity settled. The fair value of share entitlements granted is recognised as an employee expense in the income statement with a corresponding increase in equity. The fair value is determined by an external valuer using a binomial model. Share entitlements granted by the Company are subject to certain non-market based vesting conditions. Non-market vesting conditions are not taken into account when estimating the fair value of entitlements as at the grant date. The expense for share entitlements shown in the income statement is based on the fair value of the total number of entitlements expected to vest and is allocated to accounting periods on a straight line basis over the vesting period. The cumulative charge to the income statement is reversed where entitlements do not vest because all non-market performance conditions have not been met or where an employee in receipt of share entitlements leaves the Group before the end of the vesting period.

The proceeds received by the Company on the vesting of share entitlements are credited to share capital and share premium when the share entitlements are converted. In line with the transitional arrangements set out in IFRS 2, "Share Based Payment", the recognition and measurement principles of this standard have been applied in respect of share entitlements granted after 7 November 2002.

Income Tax

The income tax expense in the income statement represents the sum of current tax and deferred tax.

Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity or items for which there is no corresponding income statement charge, in which case it is recognised in equity.

Current tax is based on taxable profit. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or deductible. The Group's liability for current tax is calculated using rates that have been enacted or substantially enacted at the balance sheet date.

Deferred tax is provided, using the liability method, on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled based on rates that have been enacted or substantially enacted at the balance sheet date.

Deferred tax assets and liabilities are not recognised for the following temporary differences;

- Goodwill not deductible for tax purposes;
- Temporary difference arising from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or taxable profit or loss; and
- Temporary differences associated with investments in subsidiaries in which case deferred tax is only recognised to the extent that it is probable the temporary differences will reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit would be available to allow all or part of the deferred tax asset to be utilised.

Share Capital

Repurchase of share capital

When share capital recognised as equity is purchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity.

Dividends

Dividends on ordinary shares are recognised as a liability in the Group's financial statements in the period in which they are declared by the Company. In the case of interim dividends, these are considered to be declared when they are paid and in the case of final dividends these are declared when authorised by the shareholders in General Meeting.

Notes to the Financial Statements

1. Segmental Analysis

The Group's primary reporting format is geographic segments being Ireland and the UK with its secondary reporting format by business segment being merchanting, DIY and manufacturing.

Inter-segment revenue is not material and thus not subject to separate disclosure below.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total amount incurred during the period to acquire segment assets that are expected to be used for more than one accounting period.

The analysis between geographical segments below is the same whether it is based on location of assets or customers.

Geographic Segment

	Ireland		UK		Group	
	2008 €'000	2007 €'000	**2008 €'000**	2007 €'000	**2008 €'000**	2007 €'000
Segment Revenue						
Sales to external customers	**985,651**	1,227,375	**1,687,333**	1,977,651	**2,672,984**	3,205,026
Operating profit before other income and intangible amortisation	**33,457**	123,651	**67,986**	142,106	**101,443**	265,757
Intangible amortisation	**(2,218)**	(2,212)	**-**	-	**(2,218)**	(2,212)
Operating profit before other income	**31,239**	121,439	**67,986**	142,106	**99,225**	263,545
Other income (property profit)	**-**	1,050	**-**	6,204	**-**	7,254
Operating profit	**31,239**	122,489	**67,986**	148,310	**99,225**	270,799
Finance expense					**(59,944)**	(61,569)
Finance income					**24,835**	26,603
Profit before tax					**64,116**	235,833
Income tax expense					**(6,418)**	(30,658)
Profit for the financial year					**57,698**	205,175

	Ireland		UK		Group	
	2008 €'000	2007 €'000	**2008 €'000**	2007 €'000	**2008 €'000**	2007 €'000
Segment assets	**852,347**	942,212	**1,007,385**	1,295,287	**1,859,732**	2,237,499
Unallocated assets	**-**	-	**-**	-	**288,718**	233,232
Total assets					**2,148,450**	2,470,731

1. Segmental Analysis (continued)

	Ireland		UK		Group	
	2008 €'000	2007 €'000	**2008 €'000**	2007 €'000	**2008 €'000**	2007 €'000
Segment liabilities	**(332,459)**	(310,655)	**(207,187)**	(286,490)	**(539,646)**	(597,145)
Unallocated liabilities	**-**	-	**-**	-	**(739,939)**	(805,901)
Total liabilities					**(1,279,585)**	(1,403,046)

	Ireland		UK		Group	
	2008 €'000	2007 €'000	**2008 €'000**	2007 €'000	**2008 €'000**	2007 €'000
Capital expenditure	**14,879**	27,744	**63,713**	76,906	**78,592**	104,650
Non-cash expenditure:						
Depreciation	**18,793**	19,335	**35,494**	37,457	**54,287**	56,792
Intangible amortisation	**2,218**	2,212	**-**	-	**2,218**	2,212
Share-based payments	**(1,303)**	2,024	**(663)**	2,441	**(1,966)**	4,465
	19,708	23,571	**34,831**	39,898	**54,539**	63,469

Unallocated assets include financial assets, deferred tax assets, derivatives and cash and cash equivalents.

Unallocated liabilities include interest bearing loans and borrowings, deferred tax liabilities and derivative financial instruments.

Capital expenditure excludes non-current assets acquired in business combinations.

Business Segment

	Segment Revenue		Segment Assets		Capital Expenditure	
	2008 €'000	2007 €'000	**2008 €'000**	2007 €'000	**2008 €'000**	2007 €'000
UK merchanting	**1,642,005**	1,905,378	**968,287**	1,230,516	**62,003**	74,023
Irish merchanting	**642,479**	819,164	**691,919**	772,259	**7,350**	17,272
Total merchanting	**2,284,484**	2,724,542	**1,660,206**	2,002,775	**69,353**	91,295
DIY	**303,071**	339,849	**130,422**	127,748	**6,735**	8,974
Manufacturing	**85,429**	140,635	**69,104**	106,976	**2,504**	4,381
	2,672,984	3,205,026	**1,859,732**	2,237,499	**78,592**	104,650
Deferred tax assets			**24,904**	27,309		
Financial assets			**227**	850		
Derivative and other financial instruments			**38,753**	584		
Cash and cash equivalents			**224,834**	204,489		
			2,148,450	2,470,731		

2. Comparative Figures

Other income in the prior year relates to profit on disposal of property. The Group realised a profit of €7,254,000 on the sale of one property in Ireland and two in the United Kingdom. The estimated taxation payable on these profits amounted to €943,000. This property profit has been reclassified into operating profit in the Group Income Statement in line with the current year presentation.

3. Operating Costs and Income

The following have been charged/(credited) in arriving at operating profit:

	2008 €'000	2007 €'000
Decrease in inventories	**58,064**	17,010
Purchases and consumables	**1,747,953**	2,141,227
Staff costs (note 5)	**394,320**	427,948
Restructuring costs	**17,148**	-
Auditor's remuneration	**775**	1,352
Depreciation	**54,287**	56,792
Lease rentals and other hire charges	**61,209**	55,315
Intangible amortisation	**2,218**	2,212
(Profit) on sale of scaffolding	**(1,021)**	(1,534)
(Profit) on disposal of other property, plant and equipment	**(3,634)**	(8,946)
Other operating charges	**242,440**	242,851
	2,573,759	2,934,227

During the year the Group (including its overseas subsidiaries) obtained the following services from KPMG, the Group's Auditor:

	Group		**Company**	
	2008 €'000	2007 €'000	**2008 €'000**	2007 €'000
Audit Services:				
Statutory audit	**775**	1,352	**70**	76
Further assurance services	**199**	128	**10**	11
Procurement consultancy	**1,203**	-	**-**	-
Tax compliance and advisory services	**1,162**	2,072	**1,162**	2,072
	3,339	3,552	**1,242**	2,159

4. Directors' Remuneration, Pension Entitlements and Interests

Directors' remuneration, pension entitlements and interests in shares and share entitlements are presented in the Report on Directors' Remuneration on pages 30 to 34.

5. Employment

The average number of persons employed during the year by activity was as follows:

	Group		Company	
	2008	2007	**2008**	2007
Merchanting and DIY retailing	**10,819**	10,887	**-**	-
Manufacturing	**323**	474	**-**	-
Holding company	**20**	22	**20**	22
	11,162	11,383	**20**	22

The aggregate remuneration costs of employees were:	**€'000**	€'000	**€'000**	€'000
Wages and salaries	**347,240**	373,164	**4,697**	5,176
Social welfare	**34,316**	36,921	**538**	474
Share-based payments (credit)/charge	**(1,966)**	4,465	**(393)**	766
Defined benefit pension	**3,987**	7,326	**83**	894
Directors' pension settlement cost	**4,738**	-	**4,738**	-
Defined contribution and pension related costs	**6,005**	6,072	**1,297**	377
Charged to operating profit	**394,320**	427,948	**10,960**	7,687
Actuarial loss/(gain) on pension schemes	**37,414**	(12,573)	**3,405**	514
Finance cost on pension scheme liabilities	**12,868**	12,307	**574**	959
Expected return on pension scheme assets	**(15,820)**	(16,426)	**(918)**	(1,455)
Total employee benefit cost	**428,782**	411,256	**14,021**	7,705

Key Management
The cost of key management including Directors is set out in the table below:

	Group		Company	
	2008	2007	**2008**	2007
Number of Individuals	**13**	13	**10**	10

	2008 €'000	2007 €'000	**2008 €'000**	2007 €'000
Short-term employee benefits	**4,158**	4,708	**3,141**	3,706
Share-based payment (credit)/charge	**(522)**	925	**(295)**	559
Retirement benefits expense	**1,072**	966	**969**	834
Charged to operating profit	**4,708**	6,599	**3,815**	5,099

6. Finance Expense and Finance Income

	2008 €'000	2007 €'000
Finance expense:		
Bank overdrafts and loans	**32,636**	32,629
Net change in fair value of cash flow hedges transferred from equity	**(529)**	(1,784)
Interest on finance leases	**644**	696
Finance cost on pension scheme liabilities	**12,868**	12,307
Interest on loan notes	**14,953**	17,799
Fair value movement on hedged financial liabilities	**57,559**	3,147
Fair value movement on fair value hedges	**(58,187)**	(3,147)
Interest capitalised on joint venture	**-**	(78)
	59,944	61,569
Finance income:		
Interest income on bank deposits	**(9,015)**	(10,177)
Expected return on pension plan assets	**(15,820)**	(16,426)
	(24,835)	(26,603)
Net finance expense recognised in income statement	**35,109**	34,966
Recognised directly in equity		
Currency translation effects on foreign currency net investments	**(180,087)**	(44,583)
Currency translation effects on foreign currency borrowings	**7,787**	829
Effective portion of changes in fair value of cash flow hedges	**(55)**	521
Net change in fair value of cash flow hedges transferred to income statement	**(529)**	(1,784)
Deferred tax on cash flow hedges recognised directly in equity	**73**	158
	(172,811)	(44,859)

7. Foreign Currencies

The results and cash flows of the Group's United Kingdom subsidiaries have been translated into euro using the average exchange rate for the year. The related balance sheets of the Group's United Kingdom subsidiaries at 31 December 2008 and 31 December 2007 have been translated at the rate of exchange ruling at the balance sheet date.

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

8. Income Tax Expense

(a) Income tax expense recognised in the income statement

	2008 €'000	2007 €'000
Current tax expense		
Irish corporation tax	**5,640**	11,071
UK corporation tax	**777**	2,498
	6,417	13,569
Deferred tax expense		
Irish deferred tax expense relating to the origination and reversal of temporary differences	**(2,565)**	587
Irish deferred tax expense resulting from increase in capital gains tax rate	**782**	-
UK deferred tax expense relating to the origination and reversal of temporary differences	**1,784**	16,502
Total deferred tax	**1**	17,089
Total income tax expense in income statement	**6,418**	30,658

The deferred tax charge for the Group for the year ended 31 December 2007 includes a minor benefit reflecting the impact of the legislated reduction in the UK tax rates from 30 per cent to 28 per cent.

(b) Reconciliation of effective tax rate

	2008 €'000	2007 €'000
Profit before tax	**64,116**	235,833
Profit before tax multiplied by the standard rate of tax of 12.5% (2007: 12.5%)	**8,014**	29,479
Effects of:		
Expenses not deductible for tax purposes	**3,396**	5,815
Differences in effective tax rates on overseas earnings	**(4,291)**	(3,474)
Income at reduced Irish rates	**-**	(117)
Effect of increase in Irish capital gains tax rate	**782**	-
Other differences	**(1,483)**	(1,045)
Total income tax expense in income statement	**6,418**	30,658

(c) Deferred tax liability/(asset) recognised directly in equity

	2008 €'000	2007 €'000
Share-based payments	**-**	2,078
Actuarial movement on pension schemes	**(4,730)**	2,599
Financing – cash flow hedge	**(73)**	(158)
	(4,803)	4,519

(d) Factors that may affect future tax rates

No provision for tax has been recognised on the undistributed profits of overseas subsidiaries as no remittance of profit is expected in such a way that an incremental tax charge will arise.

9. Purchase of 'A' ordinary shares

	2008 €'000	2007 €'000
Group and Company		
Purchase of one 'A' ordinary share for 12.0 cent - paid 11 April 2008	**27,566**	-
Purchase of one 'A' ordinary share for 10.0 cent - paid 3 October 2008	**23,019**	-
Purchase of one 'A' ordinary share for 10.5 cent - paid 28 March 2007	-	25,129
Purchase of one 'A' ordinary share for 10.0 cent - paid 3 October 2007	-	23,919
	50,585	49,048

The Board resolved to purchase one 'A' ordinary share per Grafton Unit for a cash consideration of 5.00 cent payable on 8 April 2009. Accordingly, no final dividend will be declared in respect of the year ended 31 December 2008. This follows the purchase of one 'A' ordinary share per Grafton Unit for a cash consideration of 10.00 cent which was paid on 3 October 2008 to give total payments for the year of 15.00 cent. The share purchase payable on 8 April 2009 is chargeable to reserves in 2009. The share purchase of 12.00 cent paid on 11 April 2008 was charged to reserves in 2008.

10. Earnings per Share - Group

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

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

Weighted average share entitlements of 9,420,500 Grafton Units (2007: 2,748,194) which are currently anti-dilutive are excluded in the above calculations, for diluted earnings per share and adjusted diluted earnings per share.

11. Goodwill - Group

	2008 €'000	2007 €'000
Cost		
At 1 January	**600,793**	582,861
Acquired during the year (note 33)	**10,804**	48,073
Goodwill written off	**-**	(88)
Translation adjustment	**(78,790)**	(30,053)
At 31 December	**532,807**	600,793

Goodwill acquired through business combinations is analysed between the UK and Ireland as follows:

	2008 €'000	2007 €'000
UK	**261,425**	329,411
Ireland	**271,382**	271,382
	532,807	600,793

Goodwill is subject to impairment testing on an annual basis and during the year if an indicator of impairment is considered to exist. An impairment loss is recognised for the amount, if any, by which an assets carrying amount exceeds its recoverable amount. The recoverable amount is based on the discounted present value of the future cash flows expected to arise from the cash generating unit to which goodwill relates or from the individual asset or asset group. A cash generating unit is based on individual acquisitions or group of acquisitions.

The cash flow forecasts employed are extracted from the budget for 2009 and cash flows for the subsequent four years are projected for individual cash generating units based on a current assessment of anticipated market conditions over that period. This involves making assumptions concerning turnover trends, gross margins and operating margins. Cash flows beyond this five year period are estimated, in accordance with IFRS, into perpetuity using a terminal growth rate of 3 per cent. The recoverable amount resulting from this exercise represents the present value of the future cash flows, including the terminal value, discounted at a weighted average cost of capital of 8 per cent. An increase in the discount rate to 10 per cent would not indicate any material impairment. A reduction in the growth rate to 2.5 per cent would not indicate an impairment.

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

11. (a) Intangible Assets - Group

	Brands €'000	Customer Relationships €'000	Total €'000
Cost			
At 1 January 2008	5,658	12,037	17,695
At 31 December 2008	**5,658**	**12,037**	**17,695**
Amortisation			
At 1 January 2007	1,403	2,985	4,388
Amortised during the year	707	1,505	2,212
At 1 January 2008	2,110	4,490	6,600
Amortised during the year	709	1,509	2,218
At 31 December 2008	**2,819**	**5,999**	**8,818**
Net book amount at 31 December 2008	**2,839**	**6,038**	**8,877**
Net book amount at 31 December 2007	3,548	7,547	11,095

The amortisation charge for the year has been charged to operating expenses in the income statement. Brands and customer relationships are amortised over their estimated useful lives of eight years. Brands relate to the acquisition of Heiton Group plc in 2005.

The value attributable to customer relationships was determined based on management's estimate of the profitability of recurring customers and by discounting the related forecasted cashflow arising over the asset life.

12. Property, Plant and Equipment

	Freehold Land and Buildings €'000	Leasehold Buildings €'000	Plant Machinery and Motor Vehicles €'000	Total €'000
Group				
Cost				
At 1 January 2007	**442,014**	**77,432**	**342,792**	**862,238**
Additions	36,083	9,997	58,570	104,650
Acquisitions	12,206	610	2,820	15,636
Disposals	(2,439)	(91)	(29,368)	(31,898)
Exchange adjustment	(24,157)	(4,755)	(23,800)	(52,712)
At 1 January 2008	**463,707**	**83,193**	**351,014**	**897,914**
Additions	18,569	18,785	41,238	78,592
Acquisitions	5,914	444	1,671	8,029
Disposals	(910)	(1,306)	(23,412)	(25,628)
Exchange adjustment	(68,931)	(13,643)	(64,684)	(147,258)
At 31 December 2008	**418,349**	**87,473**	**305,827**	**811,649**
Depreciation				
At 1 January 2007	**19,883**	**13,429**	**142,761**	**176,073**
Charge for year	5,874	4,200	46,718	56,792
Disposals	(409)	(89)	(19,752)	(20,250)
Exchange adjustment	(1,692)	(1,160)	(15,586)	(18,438)
At 1 January 2008	**23,656**	**16,380**	**154,141**	**194,177**
Charge for year	5,716	4,309	44,262	54,287
Disposals	(138)	(329)	(18,863)	(19,330)
Exchange adjustment	(6,256)	(2,566)	(41,999)	(50,821)
At 31 December 2008	**22,978**	**17,794**	**137,541**	**178,313**
Net book amount				
At 31 December 2008	**395,371**	**69,679**	**168,286**	**633,336**
At 31 December 2007	440,051	66,813	196,873	703,737
At 31 December 2006	422,131	64,003	200,031	686,165

12. Property, Plant and Equipment (continued)

The Group's freehold and long leasehold properties located in the Republic of Ireland were professionally valued as at December 1998 by professional valuers in accordance with the Appraisal and Valuation Manual of the Society of Chartered Surveyors. Property acquired/purchased after December 1998 is stated at fair value/cost. The valuations which were made on an open market for existing use basis were deemed to be cost for the purpose of the transition to IFRS as adopted by the EU. The remaining properties, which are located in the United Kingdom, are included at cost less depreciation.

The property, plant and equipment of the Group includes leased assets as follows:

	Plant, Machinery & Motor Vehicles		**Leasehold Properties**	
	2008 €'000	2007 €'000	**2008 €'000**	2007 €'000
Cost	**4,295**	8,018	**10,281**	10,643
Accumulated depreciation	**(2,777)**	(5,513)	**(1,944)**	(1,589)
Net book amount	**1,518**	2,505	**8,337**	9,054
Depreciation charge for year	**568**	848	**437**	449

During the year the Group repaid finance leases amounting to €1.2 million (2007: €1.9 million).

Plant and equipment in the Company is stated as follows:

	Plant and Equipment	
	2008 €'000	2007 €'000
Company		
Cost		
At 1 January	**1,396**	1,375
Additions	**355**	21
At 31 December	**1,751**	1,396
Depreciation		
At 1 January	**1,144**	1,022
Charge for year	**123**	122
At 31 December	**1,267**	1,144
Net book amount		
At 31 December	**484**	252
At 1 January	**252**	353

13. Financial Assets

	Group	Company		
	Other Investments €'000	Other Investments €'000	Shares in Subsidiary Undertakings €'000	Total €'000
At 1 January 2007	**414**	**13**	**349,705**	**349,718**
Additions	510	-	-	-
Acquisitions	17	-	6,770	6,770
Disposals	(58)	-	-	-
Capital contribution – share-based payments	-	-	3,699	3,699
Translation adjustment	(33)	-	-	-
At 31 December 2007	**850**	**13**	**360,174**	**360,187**
Additions	-	-	-	-
Acquisitions	3	-	596	596
Disposal	(433)	-	-	-
Capital contribution – share-based payments	-	-	(1,573)	(1,573)
Translation adjustment	(193)	-	-	-
At 31 December 2008	**227**	**13**	**359,197**	**359,210**

Other investments represent sundry equity investments at cost.

Interest in Joint Venture The Group has a fifty per cent interest in Navan Retail Developments Limited, a joint venture company, whose principal activity is the development of a retail park in Navan, Co. Meath. The joint venture has been accounted for using proportionate accounting. Assets and liabilities included for Navan Retail Developments Limited in the consolidated financial statements are work-in-progress of €0.9 million (31 December 2007: €3.0 million); other net current assets/(liabilities) of €2.4 million (31 December 2007: (€0.4) million) and reserves of €3.3 million (31 December 2007: €2.6 million) which reflects the net profit the Group has recognised in the income statement in respect of this development.

The registered office of Navan Retail Developments Limited is 1 Stokes Place, St Stephen's Green, Dublin 2.

14. Inventories

	Group	
	2008 €'000	2007 €'000
Raw materials	**1,601**	1,969
Work in progress	**850**	2,963
Finished goods	**8,504**	10,265
Goods purchased for resale	**320,169**	370,982
	331,124	386,179

15. Trade and Other Receivables

	Group		Company	
	2008	2007	**2008**	2007
	€'000	€'000	**€'000**	€'000
Amounts falling due within one year:				
Trade debtors	**273,885**	423,080	**-**	-
Amounts owed by subsidiary undertakings	**-**	-	**697,793**	670,515
Other receivables	**79,696**	112,615	**7,016**	8,821
	353,581	535,695	**704,809**	679,336

16. Reconciliation of Total Equity

Group	Notes	**2008 €'000**	2007 €'000
At beginning of period		**1,067,685**	1,014,339
Shares bought back and cancelled		**-**	(67,090)
Treasury shares acquired		**-**	(5,746)
Issue of ordinary and 'A' ordinary share capital		**1,528**	2,553
Adjustment for share-based payments (credit)/charge		**(1,966)**	4,465
Deferred tax on share-based payments expense		**-**	(2,078)
Purchase of 'A' ordinary shares	9	**(50,585)**	(49,048)
Total recognised income and expense for the year		**(147,797)**	170,290
Closing shareholders' funds - equity		**868,865**	1,067,685

Company	Notes	**2008 €'000**	2007 €'000
At beginning of period		**639,006**	647,796
Shares bought back and cancelled		**-**	(67,090)
Treasury shares acquired		**-**	(5,746)
Issue of ordinary and 'A' ordinary share capital		**1,528**	2,553
Adjustment for share-based payments (credit)/charge		**(1,966)**	4,465
Purchase of 'A' ordinary shares	9	**(50,585)**	(49,048)
Total recognised income and expense for the year		**45,579**	106,076
At end of period		**633,562**	639,006

17. Share Capital

	2008 €'000	2007 €'000
Group and Company		
Authorised:		
Equity shares		
300 million ordinary shares of 5c each	**15,000**	15,000
30 billion 'A' ordinary shares of 0.001c each	**300**	300
	15,300	15,300

	Issue Price €	Number of Shares	2008 Nominal Value €'000	2007 Nominal Value €'000
Issued and fully paid:				
Ordinary shares				
At 1 January		**230,006,517**	**11,500**	11,962
Shares bought back and cancelled		-	-	(502)
Issued under UK SAYE scheme		-	-	1
Grafton Group Share Schemes				
Date options and entitlements to acquire shares granted				
April 1997	1.07	-	-	2
June 1998	2.21	**379,407**	**19**	3
July 1999	1.81	**111,435**	**6**	2
May 2000	2.07	**118,934**	**6**	4
May 2001	2.83	**52,369**	**3**	6
April 2002	4.00	-	-	19
June 2002	4.08	**25,473**	**1**	3
		687,618	**35**	39
At 31 December		**230,694,135**	**11,535**	11,500
'A' ordinary shares				
At 1 January		**690,019,551**	**69**	120
'A' ordinary shares issued in year		**5,501,468**	-	-
Ten for one 'A' share split		**4,148,578,332**	-	-
Shares bought back and cancelled		-	-	(3)
Purchase of 1 'A' ordinary share per Grafton Unit		**(230,216,651)**	**(23)**	(24)
Purchase of 1 'A' ordinary share per Grafton Unit		**(230,694,135)**	**(2)**	(24)
At 31 December		**4,383,188,565**	**44**	69
Total nominal share capital issued			**11,579**	11,569

17. Share Capital (continued)

Grafton Units Issued During 2008

The number of Grafton Units issued during the year under the Group's Executive Share Schemes was 687,618 and the total consideration received amounted to €1,540,000.

Grafton Units

At 31 December 2008 a Grafton Unit comprised one ordinary share of 5 cent and nineteen 'A' ordinary shares of 0.001 cent each in Grafton Group plc and one 'C' ordinary share of Stg0.0001p in Grafton Group (UK) plc. At 31 December 2007 a Grafton Unit comprised one ordinary share of 5 cent and three 'A' ordinary shares of 0.01 cent each in Grafton Group plc and one 'C' ordinary share of Stg0.0001p in Grafton Group (UK) plc.

Ordinary shares

The holders of ordinary shares are entitled to attend, speak and vote at all General Meetings of the Company.

'A' ordinary shares

The authorised share capital of the Company was increased by the creation of 3 billion 'A' ordinary shares on 11 May 2004. On 14 June 2004, the Company issued 10 'A' ordinary shares per Grafton Unit. A special dividend of 0.125c paid on 14 June 2004 was used as subscription proceeds for the issue of the 10 'A' ordinary shares. The Company purchased one of the 10 'A' ordinary shares on 1 October 2004 for a cash consideration of 1 cent, to leave nine 'A' ordinary shares attaching to a Grafton Unit at 31 December 2004. On 18 March 2005 the Company purchased one 'A' ordinary share for a cash consideration of 7 cent each and on 14 October 2005 purchased one 'A' ordinary share for a cash consideration of 7.25 cent each, leaving seven 'A' ordinary shares per Grafton Unit at 31 December 2005. On 24 March 2006 the Company purchased one 'A' ordinary share for a cash consideration of 8.50 cent each and on 6 October 2006 purchased one 'A' ordinary share for a cash consideration of 8.25 cent each leaving five 'A' ordinary shares per Grafton Unit at 31 December 2006. In 2007 a further two 'A' ordinary shares were purchased on 9 March 2007 and 24 August 2007 for a cash consideration of 10.50 cent and 10.00 cent respectively leaving three 'A' ordinary shares per Grafton Unit at 31 December 2007. On 25 March 2008 a further one 'A' ordinary share was purchased for 12.00 cent leaving two 'A' ordinary share per Grafton Unit. At the Group's AGM in May 2008 a ten for one 'A' ordinary share split was approved dividing the remaining two 'A' ordinary shares of 0.01 cent each into twenty 'A' ordinary shares of 0.001 cent each. On 12 September 2008 one of these 'A' ordinary share was purchased for 10.0 cent leaving nineteen 'A' ordinary shares per Grafton Unit at 31 December 2008.

All 'A' ordinary shares purchased were cancelled.

The 'A' ordinary shares rank pari passu with ordinary shares regarding any dividends declared. On a return of capital on a winding up or otherwise (other than on conversion, redemption or purchase of shares), the holders of 'A' ordinary shares are entitled, pari passu with the holders of the ordinary shares, to the repayment of their nominal value of 0.001 cent per share, with no right to participate any further. The holders of the 'A' ordinary shares are not entitled to receive notice of any general meeting of Grafton or to attend, speak or vote at any such general meeting, unless the business of the meeting includes a resolution varying or abrogating any of the special rights attaching to such shares.

'C' ordinary shares

The 'C' ordinary shares do not entitle their holders to receive notice of, attend or vote at any general meeting of Grafton Group (UK) plc unless the business of the meeting includes a resolution varying or abrogating any of the special rights attaching to such shares. If dividends are declared, the holder of a Grafton Unit who has given an appropriate dividend election shall be entitled to be paid dividends in respect of the 'C' ordinary shares comprised in such Grafton Unit. On a return of capital on a winding up or otherwise (other than on conversion, redemption or purchase of shares) the holders of 'C' ordinary shares are entitled, pari passu with the holders of the 'A' ordinary shares and 'B' ordinary shares in Grafton Group (UK) plc, to the repayment of their nominal value of Stg0.0001p per share, with no right to participate any further. Any holder of a 'C' ordinary share, with the prior approval of an extraordinary resolution of the holders of the 'C' ordinary shares or with the prior consent in writing of the holders of at least three quarters in nominal value of the issued 'C' ordinary shares, is entitled to call for all the holders of the 'A' ordinary shares and/or 'B' ordinary shares to acquire all the 'C' ordinary shares at their nominal value.

Treasury Shares

The Group holds 500,000 Grafton Units as treasury shares which were bought in June 2007 at a total cost of €5,746,000. In the second half of 2007 the Group bought back and cancelled 10,031,000 Grafton Units at a total cost of €67,090,000.

18. Share Premium Account

	2008 €'000	2007 €'000
Group and Company		
At 1 January	**287,458**	284,945
Premium on shares issued under share schemes	**1,505**	2,577
Costs of share issues	**(12)**	(64)
At 31 December	**288,951**	287,458

19. Capital Redemption Reserve

	2008 €'000	2007 €'000
Group and Company		
At 1 January	**875**	322
Shares bought back and cancelled	**-**	505
Purchase of 'A' ordinary shares	**25**	48
At 31 December	**900**	875

This is a legal reserve which arises from the purchase of the 'A' ordinary shares, the redemption of redeemable shares in prior years and from shares bought back and cancelled in 2007.

20. Revaluation Reserve

	2008 €'000	2007 €'000
Group		
At 1 January	**32,768**	32,973
Transfer to retained earnings	**(611)**	(205)
At 31 December	**32,157**	32,768

21. Other Reserves

	2008 €'000	2007 €'000
Group and Company		
Shares to be Issued		
At 1 January	**10,920**	6,455
Transfer to retained earnings	**(2,913)**	-
(Release)/provision for cost of share-based payments	**(1,966)**	4,465
At 31 December	**6,041**	10,920

22. Foreign Currency Translation Reserve

	2008 €'000	2007 €'000
Group		
At 1 January	**(30,534)**	13,220
On foreign currency net investments	**(180,087)**	(44,583)
On foreign currency borrowings	**7,787**	829
At 31 December	**(202,834)**	(30,534)

23. Cash Flow Hedge Reserve

	2008 €'000	2007 €'000
Group		
At 1 January	**511**	1,616
Adjustment for deferred tax	**73**	158
Movement in year	**(584)**	(1,263)
At 31 December	**-**	511

24. Interest Bearing Loans and Borrowings

	Group		Company	
	2008 €'000	2007 €'000	2008 €'000	2007 €'000
Non-Current Liabilities				
Sterling bank loans	**35,506**	129,569	**-**	-
Euro bank loans	**381,373**	178,024	**-**	-
2005 unsecured senior US dollar loan notes	**154,038**	206,343	**-**	-
Finance leases	**8,416**	9,375	**-**	-
	579,333	523,311	**-**	-
Current Liabilities				
Bank overdrafts	**7**	1,000	**4**	4
Sterling bank loans	**35,464**	133,981	**-**	-
Euro bank loans	**28,142**	48,142	**-**	-
2005 unsecured senior US dollar loan notes	**55,107**	20,485	**-**	-
1998 unsecured senior US dollar loan notes	**-**	7,482	**-**	7,482
Vendor loan notes	**574**	1,460	**-**	272
Obligations under finance leases	**580**	1,074	**-**	-
	119,874	213,624	**4**	7,758

24. Interest Bearing Loans and Borrowings (continued)

In 1998 the Group completed a US$55 million debt financing in the US Private Placement Market and issued unsecured senior loan notes maturing up to 2008. The US dollar proceeds were swapped into sterling and a cross currency interest rate derivative effectively changes the interest rate payable on the loan notes to sterling variable by reference to six month London Inter-Bank Offer Rate (LIBOR) rates. These loans were repaid during 2008.

On 23 June 2005 the Group completed a US$325 million debt financing at fixed interest rates ranging from 4.68 per cent to 4.88 per cent in the US Private Placement Market and issued unsecured senior loan notes maturing between 2008 and 2015. US$250 million of the US dollar proceeds were swapped into sterling and a cross currency interest rate derivative changes the interest rate payable on the loan notes to sterling variable by reference to six month LIBOR rates. The balance of US$75 million was received in sterling and the interest rate payable on the loan notes is currently variable by reference to three month LIBOR rates.

Loan notes were issued to vendors of businesses acquired and are redeemable at the option of the note holders on specified dates between January 2009 and December 2011. The interest rates payable on these loan notes are set at fixed rates or on terms directly related to LIBOR.

Maturity of Financial Liabilities

The maturity profile of the Group's interest bearing financial liabilities (bank debt, loan notes and finance leases) can be summarised as follows:

	Bank Loans and Overdrafts 2008 €'000	**Loan Notes 2008 €'000**	**Finance Leases 2008 €'000**	**Total 2008 €'000**	Bank Loans and Overdrafts 2007 €'000	Loan Notes 2007 €'000	Finance Leases 2007 €'000	Total 2007 €'000
Due within one year	**63,613**	**55,681**	**580**	**119,874**	183,123	29,427	1,074	213,624
Between one and two years	**12,870**	**36,925**	**66**	**49,861**	16,363	52,838	141	69,342
Between two and three years	**288,286**	**36,924**	**-**	**325,210**	16,363	35,826	-	52,189
Between three and four years	**115,723**	**36,924**	**-**	**152,647**	211,273	35,826	-	247,099
Between four and five years	**-**	**14,422**	**-**	**14,422**	63,594	35,826	-	99,420
After five years	**-**	**28,843**	**8,350**	**37,193**	-	46,027	9,234	55,261
	480,492	**209,719**	**8,996**	**699,207**	490,716	235,770	10,449	736,935
Derivatives				**(38,753)**				17,943
Gross Debt				**660,454**				754,878
Cash and short-term deposits				**(224,834)**				(204,489)
Net debt				**435,620**				550,389
Shareholders' funds				**868,865**				1,067,685
Gearing				**50%**				52%

24. Interest Bearing Loans and Borrowings (continued)

The following table indicates the effective interest rates at 31 December 2008 in respect of interest bearing financial assets and financial liabilities and the periods in which they reprice. The effective interest rate and timing of repricing were both adjusted for the effect of derivatives.

	Effective Interest Rate	Total €'000	6 months or less €'000	6 to 12 months €'000	1-2 years €'000	More than 5 years €'000
Sterling deposits	2.65%	22,290	22,290	-	-	-
Euro deposits	3.93%	114,357	114,357	-	-	-
Cash at bank	1.50%	88,187	88,187	-	-	-
Cash and cash equivalents		224,834	224,834	-	-	-
Sterling bank overdrafts	2.50%	(7)	(7)	-	-	-
Deposits and cash less overdrafts		224,827	224,827	-	-	-
Floating rate debt:						
Euro loans	4.60%	(409,515)	(383,629)	(25,886)	-	-
Sterling loans	4.26%	(70,970)	(70,970)	-	-	-
Total floating rate debt		(480,485)	(454,599)	(25,886)	-	-
Fixed rate debt:						
Finance leases	6.00%	(8,996)	-	(580)	(66)	(8,350)
Total fixed rate debt		(8,996)	-	(580)	(66)	(8,350)
Floating rate loan notes:						
US dollar loan notes	3.59%	(209,145)	(209,145)	-	-	-
Vendor loan notes	2.50%	(574)	(574)	-	-	-
Total loan notes		(209,719)	(209,719)	-	-	-
Derivatives		38,753	38,753	-	-	-
Total Net Debt		(435,620)	(400,738)	(26,466)	(66)	(8,350)

Borrowing Facilities

The Group had undrawn committed borrowing facilities at 31 December 2008 of €67.4 million (2007: €49.0 million) in respect of which all conditions precedent have been met and which expire in 2011.

24. Interest Bearing Loans and Borrowings (continued)

The following table indicates the effective interest rates at 31 December 2007 in respect of interest bearing financial assets and financial liabilities and the periods in which they reprice. The effective interest rate and timing of repricing were both adjusted for the effect of derivatives.

	Effective Interest Rate	Total €'000	6 months or less €'000	6 to 12 months €'000	1-2 years €'000	More than 5 years €'000
Sterling deposits	6.15%	12,006	12,006	-	-	-
Euro deposits	4.88%	117,012	117,012	-	-	-
Cash at bank	5.25%	75,471	75,471	-	-	-
Cash and cash equivalents		204,489	204,489	-	-	-
Sterling bank overdrafts	6.50%	(1,000)	(1,000)	-	-	-
Deposits and cash less overdrafts		203,489	203,489	-	-	-
Floating rate debt:						
Euro loans	5.11%	(226,166)	(226,166)	-	-	-
Sterling loans	6.32%	(195,370)	(195,370)	-	-	-
Total floating rate debt		(421,536)	(421,536)	-	-	-
Fixed rate debt:						
Sterling loans	3.90%	(68,180)	(68,180)	-	-	-
Finance leases	6.00%	(10,449)	-	(1,074)	(141)	(9,234)
Total fixed rate debt		(78,629)	(68,180)	(1,074)	(141)	(9,234)
Floating rate loan notes:						
US dollar loan notes	6.55%	(226,828)	(226,828)	-	-	-
1998 US dollar loan notes*	7.22%	(7,482)	(7,482)	-	-	-
Vendor loan notes	4.50%	(1,188)	(1,188)	-	-	-
Company vendor loan notes*	4.50%	(272)	(272)	-	-	-
Total loan notes		(235,770)	(235,770)	-	-	-
Derivatives		(17,943)	(17,943)	-	-	-
Total net debt		(550,389)	(539,940)	(1,074)	(141)	(9,234)

* Relates to Company only.

25. Financial Assets and Liabilities

The fair values of financial assets and liabilities together with the carrying amounts shown in the balance sheet are as follows:

	31 December 2008		31 December 2007	
Group	**Carrying Amount €'000**	**Fair Value €'000**	Carrying Amount €'000	Fair Value €'000
Financial assets	**227**	**227**	850	850
Trade debtors and other receivables	**353,581**	**353,581**	535,695	535,695
Cash and cash equivalents	**224,834**	**224,834**	204,489	204,489
Interest rate swaps used for hedging	**-**	**-**	584	584
Cross currency swaps used for hedging	**38,753**	**38,753**	(18,527)	(18,527)
Euro bank loans	**(409,515)**	**(425,847)**	(226,166)	(226,166)
Sterling bank loans	**(70,970)**	**(72,436)**	(263,550)	(263,550)
Bank overdrafts	**(7)**	**(7)**	(1,000)	(1,000)
Finance leases	**(8,996)**	**(8,996)**	(10,449)	(10,449)
2005 unsecured senior US dollar loan notes	**(209,145)**	**(216,952)**	(226,828)	(232,537)
1998 unsecured senior US dollar loan notes	**-**	**-**	(7,482)	(7,482)
Vendor loan notes	**(574)**	**(574)**	(1,460)	(1,460)
	(81,812)	**(107,417)**	(13,844)	(19,553)

There is no difference between the fair value and carrying value of the financial assets and financial liabilities for the Company.

Fair Value
The Group estimates fair value by using interest rate yield curves to create and discount future cash flows. The total amount of fair value changes that were recognised in the income statement for the year is shown in note 6.

Treasury Policy
The Group's treasury policies, which are regularly reviewed, are designed to reduce financial risk in a cost efficient way. A limited number of foreign exchange swaps, spot foreign currency contracts and interest rate swaps are undertaken periodically to hedge underlying interest rate, fair value and currency exposures.

Credit Risk
Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on an ongoing basis.

New customers are subject to initial credit checks including trade and bank references. New customers may also be subject to restricted credit limits prior to a credit history being established. Due to the established nature of the businesses and customer relationships, the majority of the customers have long-standing trading histories with the Group companies. The Group also has credit insurance in place to manage part of its credit exposure to trade debtors.

25. Financial Assets and Liabilities (continued)

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet. The maximum exposure to credit risk at 31 December 2008 was:

	Carrying Amount	
	2008 €'000	2007 €'000
Financial assets	**227**	850
Trade debtors and other receivables	**353,581**	535,695
Cash and cash equivalents	**224,834**	204,489
Cross currency swap used for hedging	**38,753**	-
Interest rate swaps used for hedging	**-**	584
	617,395	741,618

No adjustment has been made for trade debtors covered by credit insurance. The maximum exposure to credit risk for trade debtors and other receivables at the reporting date by geographic region was:

	Carrying Amount	
	2008 €'000	2007 €'000
Domestic	**153,442**	249,042
United Kingdom	**200,139**	286,653
	353,581	535,695

There is no material concentration of credit risk with individual customers included in Group and Company trade debtors and other receivables.

The maximum exposure to credit risk for cash and cash equivalents at the reporting date was:

	Carrying Amount	
	2008 €'000	2007 €'000
Domestic financial institutions	**163,598**	160,091
United Kingdom financial institutions	**61,236**	44,398
	224,834	204,489

The domestic cash on deposit is primarily held with Bank of Ireland.

25. Financial Assets and Liabilities (continued)

Group
The ageing of trade debtors and other receivables at 31 December was:

	2008 €'000 Gross Value	**2008 €'000 Impairment**	2007 €'000 Gross Value	2007 €'000 Impairment
Not Past Due	**320,779**	**-**	490,711	-
Past Due				
0-30 days	**23,470**	**(5,075)**	30,686	(2,164)
30-60 days	**25,880**	**(11,663)**	22,692	(9,657)
+60 days	**10,761**	**(10,571)**	10,747	(7,320)
	60,111	**(27,309)**	64,125	(19,141)
	380,890	**(27,309)**	554,836	(19,141)

Movement in Impairment Provision

	2008 €'000
At 1 January	**19,141**
Written off	**(9,088)**
Additional provision	**20,260**
Translation adjustment	**(3,004)**
At 31 December	**27,309**

Company
None of the amounts owed from subsidiary undertakings of €697.8 million (2007: €670.5 million) is overdue for payment or is not fully recoverable. The maximum credit risk is represented by the carrying amount of the asset. The cash on deposit at the year end is primarily held with Bank of Ireland.

Foreign Currency Risk Management
The majority of trade conducted by the Group's Irish businesses is in euro. Sterling is the principal currency for the Group's UK businesses. Therefore the level of transactional foreign exchange exposure is not significant. As part of the Group's net worth is denominated in sterling, reflecting ongoing profit after tax reserves retained in sterling in the UK business, the Group is subject to a structural foreign exchange exposure. This is addressed in the sensitivity analysis below.

The majority of foreign exchange exposure in the Company relate to inter-group balances and transactions.

Borrowings made in a non-functional currency are immediately swapped into a functional currency.

Sensitivity Analysis
A ten per cent strengthening of the euro exchange rate against the sterling exchange rate during the year would have decreased equity and profit after tax by the amount shown below. This assumes that all variables, in particular the results and financial position of each sterling functional currency entity and interest rates, remained constant. A ten per cent weakening of the euro exchange rate against the sterling exchange rate would have an equal and opposite effect on the amounts shown below on the basis that all variables remain constant.

25. Financial Assets and Liabilities (continued)

	Equity €'000	Profit after tax €'000
31 December 2008		
10% strengthening of euro currency against sterling	**(56,000)**	**(1,500)**
31 December 2007		
10% strengthening of euro currency against sterling	(39,200)	(8,700)

Hedging

The Group has exposure to changes in interest rates on certain debt instruments and took the decision to eliminate an element of this risk by entering into interest rate swaps. The swaps matured in 2008 following the maturity of the related loans and were fixed at 3.90 per cent. At 31 December 2007, the Group had interest rate swaps with a notional contract amount of Stg£50.0 million. There were no interest rate swaps at 31 December 2008.

The Group classified its interest rate swaps as cash flow hedges and stated them at their fair value. The fair value of these swaps at 31 December 2007 was €584,000 and a corresponding entry was recorded in the cash flow hedge reserve in equity as a result of these hedges being fully effective.

The Group has exposure to US Dollar fluctuations through certain fixed rate US Dollar Private Placements. The Group's policy is to hedge this exposure to currency and fair value movements. This is achieved by matching the funding with the currency in which the finance raised will be used. In order to achieve this objective the Group entered into a number of cross currency interest rate swaps to swap the debt into floating rate sterling.

The Group classifies these cross currency interest rate swaps as fair value hedges and states them at their fair value. The fair value of these swaps at 31 December 2008 was an asset of €38,753,000 and was included in current assets (€10,943,000) and non-current assets (€27,810,000). The fair value of these swaps at 31 December 2007 was a liability of €18,527,000.

Where foreign currency borrowings provide a hedge against a net investment in a foreign operation, foreign exchange differences are taken directly to a foreign exchange reserve.

Interest Rate Risk

The majority of the Group's ongoing operations are financed from a mixture of cash generated from operations and borrowings. Other than the US dollar borrowings which were secured at fixed interest rates, borrowings are initially secured at floating interest rates and interest rate risk is monitored on an ongoing basis. Interest rate swaps are used to manage interest rate risk when considered appropriate having regard to the interest rate environment.

Cash Flow Sensitivity Analysis for Variable Rate Instruments

A reduction of 100 basis points in interest rates at the reporting date would have increased profit before tax by the amounts shown below assuming all other variables including foreign currency rates remain constant. An increase of 100 basis points on the same basis would have an equal and opposite effect.

	Profit after tax €'000
31 December 2008	
Effect of reduction of 100 basis points	**4,300**
31 December 2007	
Effect of reduction of 100 basis points	4,700

There is no significant cashflow sensitivity for variable rate instruments in the Company.

25. Financial Assets and Liabilities (continued)

Capital Management
The Group considers that its capital comprises of share capital, share premium and other reserves.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and in order to finance the future development of the business. The Board also seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a capital position with lower financial risk.

There were no changes in the Group's approach to capital management during the year and neither the Company or any of its subsidiaries are subject to externally imposed capital requirements.

The Directors monitor the Company's share price on an ongoing basis and may from time to time exercise their powers to make market purchases of the Company's own shares, at price levels which they consider to be in the best interests of the shareholders generally, after taking account of the Company's overall financial position.

Details of bank covenants are outlined in the Group Finance Review on page 13.

Funding and Liquidity
The Group has cash resources at its disposal which together with undrawn bank facilities and cashflow from operations should provide flexibility in financing its operations.

The following are the undiscounted contractual maturities of financial liabilities, including interest payments and excluding the impact of netting arrangements:

Group 31 December 2008	Carrying Amount €'000	Contractual Cash Flow €'000	Within 1 Year €'000	Between 1 and 2 Years €'000	Between 2 and 5 Years €'000	Greater Than 5 years €'000
Non-Derivative Financial Instruments						
Bank Loans	480,485	534,631	83,807	30,238	420,586	-
US dollar loan notes	209,145	224,325	61,234	41,232	92,948	28,911
Vendor loan notes	574	574	574	-	-	-
Finance lease liabilities	8,996	23,156	1,306	1,176	3,331	17,343
Trade and other payables	434,041	434,041	434,041			
Provisions	8,756	8,756	7,076	1,680	-	-
Bank overdraft	7	7	7	-	-	-
Derivative Financial Instruments						
Cross currency swaps used for hedging						
- Outflow	-	138,738	41,746	25,716	58,354	12,922
- Inflow	(38,753)	(175,948)	(53,687)	(33,897)	(72,214)	(16,150)
	1,103,251	1,188,280	576,104	66,145	503,005	43,026

25. Financial Assets and Liabilities (continued)

Group 31 December 2007	Carrying Amount €'000	Contractual Cash Flow €'000	Within 1 Year €'000	Between 1 and 2 Years €'000	Between 2 and 5 Years €'000	Greater Than 5 years €'000
Non-Derivative Financial Instruments						
Bank loans*	489,716	559,530	205,174	33,923	320,433	-
US dollar loan notes	234,310	274,827	39,473	62,200	123,313	49,841
Vendor loan notes	1,460	1,494	1,494	-	-	-
Finance lease liabilities	10,449	26,658	1,811	1,251	3,331	20,265
Trade and other payables	504,203	504,203	504,203	-	-	-
Provisions	22,192	22,192	11,964	3,409	6,819	-
Bank overdraft	1,000	1,000	1,000	-	-	-
Derivative Financial Instruments						
Interest rate swaps used for hedging						
- Outflow	-	998	998	-	-	-
- Inflow	(584)	(1,587)	(1,587)	-	-	-
Cross currency swaps used for hedging						
- Outflow	18,527	229,234	42,806	56,878	103,422	26,128
- Inflow		(202,112)	(35,774)	(50,755)	(92,150)	(23,433)
	1,281,273	1,416,437	771,562	106,906	465,168	72,801

* The timing of these contracted cash flows were renegotiated and extended with the lenders during 2008.

Company 31 December 2008	Carrying Amount €'000	Contractual Cash Flow €'000	Within 1 Year €'000
Non-Derivative Financial Instruments			
Bank overdraft	4	4	4

25. Financial Assets and Liabilities (continued)

Company **31 December 2007**	Carrying Amount €'000	Contractual Cash Flow €'000	Within 1 Year €'000
Non-Derivative Financial Instruments			
Bank overdraft	4	4	4
1998 US dollar loan notes	7,482	7,730	7,730
Vendor loan notes	272	272	272
Derivative Financial Instruments			
Cross currency swap used for hedging			
- Outflow	1,518	9,323	9,323
- Inflow	-	(7,730)	(7,730)
	9,276	9,599	9,599

The following table indicates the periods in which cash flows associated with derivatives that are cash flow hedges are expected to occur. The cash flow hedges below expired in April 2008.

Group **31 December 2007**	Carrying Amount €'000	Expected Cast Flow €'000	6 Months or Less €'000	6 to 12 Months €000	1 to 2 Years €'000
Interest rate Swaps					
Assets	584	1,587	1,587	-	-
Liabilities	-	(998)	(998)	-	-
	584	589	589	-	-

26. Derivatives

	Group		Company	
	2008 €'000	2007 €'000	**2008 €'000**	2007 €'000
Included in current assets:				
Fair value of interest rate swaps	**-**	584	**-**	-
	-	584	**-**	-
Included in non-current assets/(liabilities):				
Fair value of cross currency swaps	**27,810**	(14,967)	**-**	-
Included in current assets/(liabilities):				
Fair value of cross currency swaps	**10,943**	(3,560)	**-**	(1,518)
	38,753	(17,943)	**-**	(1,518)

26. Derivatives (continued)

Nature of Derivative Instruments as at 31 December 2008

	Hedge Period	Underlying Hedge	Notional receivable amount of contracts outstanding	Notional payable amount of contracts outstanding	Fair value asset €'000	Fair value liability €'000
Cross Currency Swap	June 2005 to June 2015	Fixed rate USD $ to floating Stg £	USD $220,000,000	Stg £121,145,421	38,753	-

Nature of Derivative Instruments as at 31 December 2007

	Hedge Period	Underlying Hedge	Notional receivable amount of contracts outstanding	Notional payable amount of contracts outstanding	Fair value asset €'000	Fair value liability €'000
Interest Rate Swap	April 2003 to April 2008	Variable interest rate	Stg £50,000,000	Stg £50,000,000	584	-
Cross Currency Swap	June 2005 to June 2015	Fixed rate USD $ to floating Stg £	USD $250,000,000	Stg £137,665,251	-	17,009
Cross Currency Swap	May 1998 to May 2008	Fixed rate USD $ to floating Stg £	USD $11,000,000*	Stg £6,600,000	-	1,518

* Relates to Company only

27. Provisions

	Group		Company	
	2008 €'000	2007 €'000	**2008 €'000**	2007 €'000
Non-Current Liabilities				
Deferred acquisition consideration	**1,680**	10,228	**-**	-
Current liabilities:				
Deferred acquisition consideration	**6,831**	11,764	**-**	-
WEEE provision	**245**	200	**-**	-
	7,076	11,964	**-**	-

The deferred acquisition consideration is payable over the period from January 2009 to December 2010 subject to certain conditions.

28. Trade and Other Payables

	Group		Company	
	2008	2007	**2008**	2007
	€'000	€'000	**€'000**	€'000
Trade and other payables				
Trade payables	**290,980**	340,795	**-**	-
Accruals	**117,315**	129,974	**14,365**	26,654
Amounts owed to subsidiary undertakings	**-**	-	**423,961**	386,743
Social welfare	**4,618**	2,860	**-**	-
Income tax deducted under PAYE	**3,631**	5,712	**-**	-
Value added tax	**17,497**	24,862	**-**	-
	434,041	504,203	**438,326**	413,397

29. Obligations under Finance Leases

	2008			2007		
Group	**Minimum Lease Payments €'000**	**Interest €'000**	**Principal €'000**	Minimum Lease Payments €'000	Interest €'000	Principal €'000
Committed finance lease obligations:						
Within one year	**1,306**	**726**	**580**	1,811	737	1,074
Between one and five years	**4,507**	**2,216**	**2,291**	4,582	2,130	2,452
Later than five years	**17,343**	**11,218**	**6,125**	20,265	13,342	6,923
	23,156	**14,160**	**8,996**	26,658	16,209	10,449

Under the terms of the leases, no contingent rents are payable.

30. Deferred Taxation

Recognised deferred tax assets and liabilities	Group Assets 2008 €'000	Group Liabilities 2008 €'000	Group Net Assets/ Liabilities 2008 €'000	Group Assets 2007 €'000	Group Liabilities 2007 €'000	Group Net Assets/ Liabilities 2007 €'000
Property, plant and equipment	(4,984)	38,262	33,278	(10,498)	44,216	33,718
Intangible assets	-	1,109	1,109	-	1,386	1,386
Financing	(10,920)	1,150	(9,770)	(11,452)	3,267	(8,185)
Other items	(3,890)	211	(3,679)	(2,682)	1,570	(1,112)
Pension	(5,110)	-	(5,110)	(2,677)	-	(2,677)
(Assets)/liabilities	(24,904)	40,732	15,828	(27,309)	50,439	23,130

Recognised deferred tax assets and liabilities	Company Assets 2008 €'000	Company Liabilities 2008 €'000	Company Net Assets/ Liabilities 2008 €'000	Company Assets 2007 €'000	Company Liabilities 2007 €'000	Company Net Assets/ Liabilities 2007 €'000
Other items	(14)	-	(14)	(2)	-	(2)
Pension	(116)	-	(116)	(232)	-	(232)
(Assets)/liabilities	(130)	-	(130)	(234)	-	(234)

Analysis of net deferred tax (asset)/liability

Group 2008	Balance 1 Jan 08 €'000	Recognised in Income €'000	Recognised in Equity €'000	Foreign Exchange Retranslation €'000	Arising on Acquisitions €'000	Balance 31 Dec 08 €'000
Property, plant and equipment	33,718	2,922	-	(4,163)	801	33,278
Intangible assets	1,386	(277)	-	-	-	1,109
Financing	(8,185)	(5,542)	(73)	4,030		(9,770)
Other items	(1,112)	709	-	(3,276)	-	(3,679)
Pension	(2,677)	2,189	(4,730)	108		(5,110)
	23,130	1	(4,803)	(3,301)	801	15,828

30. Deferred Taxation (continued)

Group 2007	Balance 1 Jan 07 €'000	Recognised in income €'000	Recognised in Equity €'000	Foreign Exchange Retranslation €'000	Arising on Acquisitions €'000	Balance 31 Dec 07 €'000
Property, plant and equipment	45,081	2,576	-	(2,200)	(11,739)	33,718
Intangible assets	1,663	(277)	-	-	-	1,386
Financing	(8,679)	745	(158)	(93)	-	(8,185)
Employee share schemes	(3,255)	1,177	2,078	-	-	-
Other items	(2,111)	382	-	617	-	(1,112)
Tax value of losses carried forward	(11,319)	11,106	-	213	-	-
Pension	(6,837)	1,380	2,599	181	-	(2,677)
	14,543	17,089	4,519	(1,282)	(11,739)	23,130

Company 2008	**Balance 1 Jan 08 €'000**	**Recognised in Income €'000**	**Recognised in Equity €'000**	**Foreign Exchange Retranslation €'000**	**Arising on Acquisitions €'000**	**Balance 31 Dec 08 €'000**
Other items	**(2)**	**(12)**	**-**	**-**	**-**	**(14)**
Pension	**(232)**	**542**	**(426)**	**-**	**-**	**(116)**
	(234)	**530**	**(426)**	**-**	**-**	**(130)**

Company 2007	Balance 1 Jan 07 €'000	Recognised in income €'000	Recognised in Equity €'000	Foreign Exchange Retranslation €'000	Arising on Acquisitions €'000	Balance 31 Dec 07 €'000
Other items	13	(15)	-	-	-	(2)
Pension	(193)	25	(64)	-	-	(232)
	(180)	10	(64)	-	-	(234)

31. Income Statement

In accordance with Section 148(8) of the Companies Act, 1963, the income statement of the parent undertaking has not been presented separately in these financial statements. There was a profit after tax of €48.6 million (2007: €106.5 million) attributable to the parent undertaking for the financial year.

32. Movement in Working Capital

Group	Inventory €'000	Trade and Other Receivables €'000	Trade and Other Payables €'000	Total €'000
At 1 January 2007	390,400	542,110	(521,265)	411,245
Translation adjustment	(19,701)	(52,018)	49,705	(22,014)
Interest accrual and other movements	-	(944)	1,206	262
Acquisitions	12,789	16,607	(15,635)	13,761
Movement in 2007	2,691	29,940	(18,214)	14,417
At 1 January 2008	**386,179**	**535,695**	**(504,203)**	**417,671**
Translation adjustment	**(51,093)**	**(146,203)**	**141,218**	**(56,078)**
Interest accruals and other movements	**-**	**204**	**(1,413)**	**(1,209)**
Acquisitions	**3,009**	**8,514**	**(9,562)**	**1,961**
Movement in 2008	**(6,971)**	**(44,629)**	**(60,081)**	**(111,681)**
At 31 December 2008	**331,124**	**353,581**	**(434,041)**	**250,664**

Company	Trade and Other Receivables €'000	Trade and Other Payables €'000	Total €'000
At 1 January 2007	7,665	(13,369)	(5,704)
Interest accrual and other movements	25	6	31
Movement in 2007	1,131	(13,291)	(12,160)
At 1 January 2008	**8,821**	**(26,654)**	**(17,833)**
Interest accrual and other movements	**(10)**	**-**	**(10)**
Movement in 2008	**(1,795)**	**12,289**	**10,494**
At 31 December 2008	**7,016**	**(14,365)**	**(7,349)**

33. Acquisition of Subsidiary Undertakings and Businesses

In the twelve months to 31 December 2008 the Group made six UK acquisitions in the merchanting sector adding ten builders and two plumbers merchanting branches. These included, Lloyd Worrall, a seven branch merchanting business based in Milton Keynes (Acquired: 1 April 2008) and five single branch merchants located at Selsey, West Sussex (Acquired: 17 March 2008); Neath, West Glamorgan (Acquired: 28 March 2008); Belfast, Co. Antrim (Acquired: 4 April 2008); Wellingborough, Northants (Acquired: 31 January 2008) and in Brighouse, West Yorkshire (Acquired: 31 December 2008).

During the prior year the Group made one Irish and thirteen UK acquisitions in the merchanting sector. The Irish acquisition gave a presence in the Mid West merchanting market through the acquisition of Market Hardware in Ennis.

33. Acquisition of Subsidiary Undertakings and Businesses (continued)

UK acquisitions completed in 2007 added eleven builders and twenty one plumbers merchanting branches. These included seven single branch builders merchanting businesses located at Leeds, Yorkshire; Dover, Kent; Hughenden Valley, Buckinghamshire; Leicester, Leicestershire; Detling, Kent; Arbroath, Angus and Diss in Norfolk. A further two builders merchanting businesses traded from two branches each located at Port Ellen, Isle of Islay; Campbeltown, Argyll; Ormskirk, Lancashire and Birkdale in Merseyside.

Four plumbers merchanting businesses acquired added twenty one branches of which two were single branch locations based at Featherstone, West Yorkshire and Colne, Lancashire and one two branch business located at Harrogate, North Yorkshire. The multi branch plumbers merchanting business acquired was Progress Group trading from seventeen branches located at Birmingham, Staffordshire; Bodmin, Cornwall; Bristol, Bristol; Croydon, Surrey; Cwmbran, Gwent; Exeter, Devon; Fairford, Gloucestershire; Gloucester; Gloucestershire; Leicester, Leicestershire; Norwich, Norfolk; Oxford, Oxfordshire; Plymouth, Devon; Preston, Lancashire; Reading, Berkshire; Slough, Berkshire, Southampton, Hampshire and Swindon in Wiltshire.

Acquisitions would have contributed €39 million and €103.7 million to turnover in the years ended 31 December 2008 and 2007 respectively assuming that they had been acquired on 1 January of each year.

Acquisitions in each year would have contributed €2.4 million and €10.1 million to operating profit in the years ended 31 December 2008 and 2007 respectively assuming that they had been acquired on 1 January of each year.

2008 Acquisitions contributed €29 million (2007: €47.7 million) to turnover and €1.9 million (2007: €5.7 million) to operating profit since acquisition.

	2008 **€'000**	2007 €'000
The fair values of assets and liabilities acquired are set out below;		
Property, plant and equipment	**8,029**	15,636
Financial assets	**3**	17
Inventories	**3,009**	12,789
Trade and other receivables	**8,514**	16,607
Trade and other payables	**(9,562)**	(15,635)
Corporation tax	**(272)**	(2,875)
Deferred tax liability	**(801)**	(1,216)
Deferred tax asset	**-**	12,955
Finance leases acquired	**-**	(404)
Bank debt acquired	**(179)**	(2,581)
Net assets acquired excluding cash and overdrafts	**8,741**	35,293
Goodwill	**10,804**	48,073
Consideration	**19,545**	83,366
Satisfied by:		
Cash paid	**24,460**	84,350
Cash acquired	**(4,983)**	(10,417)
Bank overdrafts assumed on acquisition	**68**	2,728
Net cash outflow	**19,545**	76,661
Further payments accrued	**-**	-
Deferred acquisition consideration	**-**	6,624
Loan notes issued to vendors of businesses acquired	**-**	81
	19,545	83,366

33. Acquisition of Subsidiary Undertakings and Businesses (continued)

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

	Fair Values €'000	Consideration €'000	Goodwill €'000
Total acquisitions	8,741	19,545	10,804

The fair values were calculated as follows:

	Book Values €'000	Fair Value Adjustment €'000	Fair Values €'000
Financial assets	3	-	3
Property, plant and equipment	8,029	-	8,029
Working capital	1,937	24	1,961
Corporation tax	(272)	-	(272)
Deferred tax liability	(3)	(798)	(801)
Bank debt	(179)	-	(179)
	9,515	(774)	8,741

The provisional fair value adjustments noted above have arisen as follows:

- Under IFRS 3, stocks have been valued at selling price adjusted for cost of disposal and a reasonable profit allowance for selling effort.
- Deferred tax has been provided on the difference between the fair value of the properties acquired and their tax base.

Goodwill on these acquisitions reflects the anticipated purchasing and operational synergies for the businesses acquired as part of the enlarged Group. No intangibles formed part of the acquisition consideration.

The fair value of net assets acquired in 2007 was €35,293,000

	Fair Values €'000	Consideration €'000	Goodwill €'000
Total acquisitions	35,293	83,366	48,073

34. Reconciliation of Net Cash Flow Movement in Net Debt

	Group		Company	
	2008 €'000	2007 €'000	**2008 €'000**	2007 €'000
Net increase/(decrease) in cash and cash equivalents	**56,939**	14,443	**(14,659)**	11,610
Net movement in derivative financial instruments	**(584)**	(1,263)	**-**	-
Cash flow from increase/(decrease) in debt and lease financing	**13,138**	(45,643)	**8,593**	9,086
Change in net debt resulting from cash flows	**69,493**	(32,463)	**(6,066)**	20,696
Loan notes issued on acquisition of subsidiary undertakings	**-**	(81)	**-**	-
Finance leases acquired with subsidiary undertakings	**-**	(404)	**-**	-
Bank loans and loan notes acquired with subsidiary undertakings	**(179)**	(2,581)	**-**	-
Translation adjustment	**45,455**	36,000	**-**	-
Movement in net debt in the year	**114,769**	471	**(6,066)**	20,696
Net debt at 1 January	**(550,389)**	(550,860)	**14,260**	(6,436)
Net debt at 31 December	**(435,620)**	(550,389)	**8,194**	14,260

35. Capital Expenditure Commitments

At the year end the following commitments authorised by the Board had not been provided for in the financial statements:

	Group	
	2008 €'000	2007 €'000
Contracted for	**5,047**	13,337
Not contracted for	**30,252**	79,631
	35,299	92,968

Capital commitments in the UK and Ireland amounted to €32.0 million (2007: €78.2 million) and €3.3 million (2007: €14.8 million) respectively.

36. Operating Leases

Total commitments payable under non cancelable operating leases are as follows:

	Group				Company	
	Land and Buildings 2008 €'000	**Other 2008 €'000**	Land and Buildings 2007 €'000	Other 2007 €'000	**Land and Buildings 2008 €'000**	Land and Buildings 2007 €'000
Operating lease payments due:						
Within one year	**54,078**	**1,202**	57,059	1,963	**429**	429
Between two and five years	**208,040**	**1,109**	217,444	2,643	**1,715**	1,715
Over five years	**676,693**	**-**	734,711	17	**4,285**	4,714
	938,811	**2,311**	1,009,214	4,623	**6,429**	6,858

The Group leases a number of properties under operating leases. The leases typically run for a period of 15 to 25 years. Rents are generally reviewed every five years.

During the year ended 31 December 2008 €61.2 million (2007: €55.3 million) was recognised as an expense in the income statement in respect of operating leases.

37. Pension Commitments

A number of defined benefit and defined contribution pension schemes are operated by the Group and the assets of the schemes are held in separate trustee administered funds.

The actuarial reports are not available for public inspection.

IAS 19 – Employee Benefits
The Group operates five defined benefit schemes in Ireland and two in the UK. There was a merger of three plans in the UK during 2007. All actuarial valuations were updated to 31 December 2008 by a qualified independent actuary. All schemes except one are closed to new entrants and as a result the current service cost will increase as members of the schemes approach retirement.

Financial Assumptions
The financial assumptions used to calculate the retirement benefit liabilities under IAS 19 were as follows:

	At 31 Dec 2008	**At 31 Dec 2008**	At 31 Dec 2007	At 31 Dec 2007
	Irish Schemes	**UK Schemes**	Irish Schemes	UK Schemes
Valuation Method	**Projected Unit**	**Projected Unit**	Projected Unit	Projected Unit
Rate of increase in salaries	**3.0%**	**2.5%**	3.5%	4.25%
Rate of increase of pensions in payment	**-**	**2.8%**	0-3%	3.3%
Discount rate	**5.6%**	**6.5%**	5.5%	5.7%
Inflation rate increase	**1.8%**	**2.8%**	2.3%	3.3%

The assumptions above apply to the Group schemes including the Company scheme.

37. Pension Commitments (continued)

The future life expectancy at age 65 for males and females (currently age 55 and 65), inherent in the mortality tables used for the 2008 and 2007 year end IAS19 disclosures are as follows:

2008 Mortality		**Years**	2007 Mortality		Years
Future pensioner aged 65:	**Male**	**21.1**	Future pensioner aged 65:	Male	20.6
	Female	**23.6**		Female	23.6
Current pensioner aged 65:	**Male**	**20.6**	Current pensioner aged 65:	Male	20.2
	Female	**23.2**		Female	23.1

Scheme Assets

The assets in these schemes and the long-term rates of return expected at 31 December 2008, 31 December 2007, 31 December 2006, 31 December 2005 and 31 December 2004 are set out below:

	2008 Irish Schemes	**2008 UK Schemes**	2007 Irish Schemes	2007 UK Schemes	2006 Irish Schemes	2006 UK Schemes	2005 Irish Schemes	2005 UK Schemes	2004 Irish Schemes	2004 UK Schemes
Equities	**8.0%**	**8.0%**	8.0%	8.0%	8.0%	8.0%	7.5%	7.5%	7.25%	7.25%
Bonds	**4.0%**	**5.0%**	4.5%	5.0%	3.9%	5.0%	3.1%	4.5%	3.8%	5.1%
Property	**6.5%**	**7.0%**	6.5%	7.0%	6.5%	7.0%	6.0%	7.0%	7.0%	7.0%
Cash	**3.5%**	**2.0%**	3.5%	5.5%	3.5%	5.0%	2.5%	4.5%	4.0%	4.5%

	%	**2008 €'000**	%	2007 €'000	%	2006 €'000	%	2005 €'000	%	2004 €'000
Equities	**69**	**91,825**	78	173,696	74	165,609	78	135,128	68	64,783
Bonds	**16**	**22,086**	12	27,897	12	26,632	13	22,775	15	14,030
Property	**6**	**8,299**	6	12,390	5	11,997	5	9,573	3	2,766
Cash	**9**	**11,645**	4	9,717	9	18,887	4	6,436	14	13,203
		133,855		223,700		223,125		173,912		94,782
Actuarial value of liabilities		**(174,747)**		(239,023)		(257,288)		(232,944)		(130,379)
Deficit in the schemes		**(40,892)**		(15,323)		(34,163)		(59,032)		(35,597)
Historical information										
Experience adjustment on scheme liabilities		**3,905**		(4,430)		(5,815)		(3,450)		(3,554)
As % of scheme liabilities		**2.2%**		1.9%		2.3%		1.5%		2.7%
Experience adjustment on scheme assets		**(72,585)**		(13,792)		10,717		19,531		1,510
As % of scheme assets		**54.2%**		6.2%		4.8%		11.2%		1.6%

37. Pension Commitments (continued)

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

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

37. Pension Commitments (continued)

	Year ended 31 December 2008					
	Assets		Liabilities		Net asset/(deficit)	
Company	**2008 €'000**	2007 €'000	**2008 €'000**	2007 €'000	**2008 €'000**	2007 €'000
At 1 January	**21,673**	19,270	**(23,529)**	(20,810)	**(1,856)**	(1,540)
Expected return on plan assets	**918**	1,455	**-**	-	**918**	1,455
Contributions by employer	**7,913**	596	**-**	-	**7,913**	596
Contributions by members	**29**	137	**(29)**	(137)	**-**	-
Benefit payments	**(26,300)**	(42)	**26,300**	42	**-**	-
Current service cost	**-**	-	**(83)**	(894)	**(83)**	(894)
Past service cost	**-**	-	**(734)**	-	**(734)**	-
Settlement loss	**-**	-	**(3,104)**	-	**(3,104)**	-
Curtailment gain	**-**	-	**-**	-	**-**	-
Interest cost on scheme liabilities	**-**	-	**(574)**	(959)	**(574)**	(959)
Actuarial gains/(losses)	**(2,923)**	257	**(482)**	(771)	**(3,405)**	(514)
At 31 December	**1,310**	21,673	**(2,235)**	(23,529)	**(925)**	(1,856)
Related deferred tax asset (net)					**116**	232
Net pension liability					**(809)**	(1,624)

Expense recognised in operating costs	Group		Company	
	2008 €'000	2007 €'000	**2008 €'000**	2007 €'000
Past service cost	**734**	-	**734**	-
Settlement loss	**3,104**	-	**3,104**	-
Curtailment gain	**(338)**	-	**-**	-
Current service cost	**4,325**	7,326	**83**	894
Total operating charge	**7,825**	7,326	**3,921**	894

Recognised directly in equity	Group		Company	
	2008 €'000	2007 €'000	**2008 €'000**	2007 €'000
Actuarial (loss)/gains on pensions	**(37,414)**	12,573	**(3,405)**	(514)
Deferred tax on pensions	**4,730**	(2,599)	**426**	64
	(32,684)	9,974	**(2,979)**	(450)

37. Pension Commitments (continued)

The expense is recognised in the following lines in the income statement:

	Group		Company	
	2008	2007	**2008**	2007
	€'000	€'000	**€'000**	€'000
Operating costs	**7,825**	7,326	**3,921**	894
Finance income (expected return on scheme assets)	**(15,820)**	(16,426)	**(918)**	(1,455)
Finance expense (interest on scheme liabilities)	**12,868**	12,307	**574**	959
Total operating charge	**4,873**	3,207	**3,577**	398

Cumulative net actuarial losses reported in the Statement of Recognised Income and Expenses since 1 January 2004, the transition date, to 31 December 2008 is €40.6 million (2007: €3.2 million).

38. Share Based Payments

It is the practice of the Group to enable key executives throughout the Group to acquire shares in the Group so as to provide an incentive to perform strongly over an extended period and to align their interests with those of shareholders. Under the terms of the 1999 Grafton Group Share Scheme, two types of share are available subject to the conditions set out below:

(i) Basic shares which cannot be converted before the expiration of five years, unless the Remuneration Committee agrees to a shorter period which shall not be less than three years, and may be converted any time after that to the end of their contractual life provided the Company's earnings per share has grown at not less than the rate of growth in the Consumer Price Index plus 5 per cent compounded during that period.

(ii) Second tier shares which cannot be converted before the expiration of five years and at any time thereafter up to the end of their contractual life, only if over a period of at least five years the growth in the Group's earnings per share would place it in the top 25 per cent of the companies listed on the Irish Stock Exchange Index over the same period and provided that such shares shall be acquired only if the Company's earnings per share growth over the relevant period is greater, by not less than 10 per cent on an annualised basis, than the increase in the Consumer Price Index over that period.

The share scheme has a ten year life and the percentage of share capital which may be issued under the scheme and individual grant limits comply with Institutional Guidelines. Basic shares granted after 8 May 2008 cannot be converted before the expiration of three years.

Share Schemes
The number of Grafton Units issued during the year under the Company's Executive Share Schemes was 687,618 (2007: 782,517) and the total consideration received amounted to €1,540,000 (2007: €2,545,000). Costs relating to the issues were €12,000. No entitlements to acquire Grafton Units, under the 1999 Grafton Group Share Scheme, were granted during the year (2007: 2,255,900). Entitlements outstanding at 31 December 2008 amounted to 11,875,801 (2007: 12,952,626). Grafton Units may be acquired, in accordance with the terms of the schemes, at prices ranging between €1.81 and €11.50 during the period to 2017.

UK SAYE Scheme
Options over 2,957,240 (2007: 1,033,139) Grafton Units were outstanding at 31 December 2008, pursuant to a 2008 three year saving contract under Grafton Group (UK) plc Savings Related Share Option Scheme at a price of €2.96. These options are normally exercisable within a period of six months after the third anniversary of the savings contract, being May 2011. No Grafton units were issued during the year under the Company's 2005 SAYE scheme.

38. Share Based Payments (continued)

A summary of the share entitlements granted in 2008 and 2007 are set out below:

	UK SAYE Scheme 2008	1999 Grafton Group Share Scheme 2007
Grant Date	**4 November 2008**	24 September 2007
Share price at grant date	**€2.96**	€8.48
Exercise price	**€2.96**	€8.48
Number of employees	**1,628**	136
Shares under option	**2,957,240**	2,255,900
Vesting period	**3 years**	5 years
Expected volatility	**40%**	27%
Option life	**3.5 years**	10 years
Expected life	**3.5 years**	6 years
Risk free rate	**3.31%**	4.2%
Expected dividends expressed as dividend yield	**4.63%**	1.72%
Possibility of ceasing employment before vesting	**10%**	0%
Valuation model	**Binominal model**	Binominal model
Fair value per option	**€0.48**	€2.42

The expected volatility is based on historic volatility over the last 5 years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero coupon government bonds of a term consistent with the assumed option life. Reconciliation of share entitlements under the Grafton Group Share Option Scheme and the 1999 Grafton Group Share Scheme is as follows:

	2008		2007	
	Number	**Weighted Average exercise price €**	Number	Weighted Average exercise price €
Outstanding at 1 January	**12,952,626**	**6.82**	11,970,557	6.32
Granted	**-**	**-**	2,255,900	8.48
Forfeited	**(389,207)**	**7.50**	(491,314)	7.90
Exercised	**(687,618)**	**2.24**	(782,517)	3.25
Outstanding at 31 December	**11,875,801**	**7.06**	12,952,626	6.82
Exercisable at 31 December	**3,252,150**	**3.47**	3,181,126	2.72

All share entitlements under all schemes are exercisable within six months upon a change of control of the Company.

39. Accounting Estimates and Judgements

The Group's main accounting policies affecting its results and financial condition are set out on pages 45 to 53. Judgements and assumptions have been made by management by applying the Group's accounting policies in certain areas. Actual results may differ from estimates calculated using these judgements and assumptions. Key sources of estimation uncertainty and critical accounting judgements are as follows:

Goodwill
The Group has capitalised goodwill of €532.8 million at 31 December 2008 (2007: €600.8 million). Goodwill is required to be tested for impairment at least annually or more frequently if changes in circumstances or the occurrence of events indicate potential impairment exists. The Group uses the present value of future cash flows to determine implied fair value. In calculating the implied fair value, management judgement is required in forecasting cash flows of the reporting units and in selecting an appropriate discount rate. No impairment resulted from the annual impairment test in 2008.

Post-retirement benefits
The Group operates a number of defined benefit retirement plans. The Group's total obligation in respect of defined benefit plans is calculated by independent, qualified actuaries and updated at least annually and totals €174.8 million at 31 December 2008 (2007: €239.0 million). Plan assets at 31 December 2008 amounted to €133.9 million (2007: €223.7 million) giving a net scheme deficit of €40.9 million (2007: €15.3 million). The size of the obligation is sensitive to actuarial assumptions. These include assumptions concerning mortality and longevity, and economic assumptions concerning medical costs inflation, pension benefits and salary increases together with the discount rate used. Plan assets are sensitive to asset returns and the level of contributions made by the Group.

40. Related Party Transactions

Grafton Group plc had an amount of €1.25 million due to Navan Retail Developments Limited, a joint venture company, at 31 December 2008 (2007: Nil).

Details of key management compensation are provided in note 5.

Grafton Group plc has had the following transactions with its subsidiaries:

Management charge of €18.9 million in the year ended 31 December 2008 (2007: €13.6 million).

Dividend income of €63.0 million in the year ended 31 December 2008 (2007: €110.45 million).

Provision of finance for certain subsidiaries.

41. Guarantees and Principal Operating Subsidiaries

The Company has given guarantees in respect of the bank borrowings of subsidiary undertakings which amounted to €690 million at the balance sheet date. The Company has also guaranteed certain property lease obligations of subsidiary undertakings. Pursuant to the provisions of Section 17, Companies (Amendment) Act, 1986, the Company has guaranteed the liabilities of its Irish subsidiaries the result of which is to exempt them from the provisions of Section 7, Companies (Amendment) Act, 1986.

The principal operating subsidiaries operating in Ireland as set out below are covered by this guarantee.

Name of Company	Nature of Business
Heiton Buckley Limited	Builders merchants
Chadwicks Limited	Builders merchants
Woodie's DIY Limited	DIY superstores
Atlantic Home Care Limited	DIY superstores
Panelling Centre Limited	Kitchen/Bedroom Panel Products

41. Guarantees and Principal Operating Subsidiaries (continued)

This guarantee also applies to all other wholly owned subsidiaries, whose Registered Office is 1 Stokes Place, St. Stephen's Green, Dublin 2: CPI Limited, MFP Plastics Limited, MFP Sales Limited, Pulsar Direct Limited, Telford Group Limited, Telfords (Portlaoise) Limited, Telfords (Athy) Limited, J.E. Telford Limited, Knottingley Limited, Weeksbury Limited, Titanium Limited, W&S Timber Components Limited, Grafton Financial Services Limited, Chadwicks Holdings Limited, Tribiani Limited, Athina Limited, Pechura Limited, Heatovent Ireland Limited, Payless D.I.Y. Limited, Cheshunt Limited, Kenn Truss Limited, Tiska Limited, Topez Limited, Denningco Limited, Universal Providers Limited, Grafton Group Management Services Limited, Grafton Group Holdings Limited, Grafton Group Investments Limited, Grafton Group Secretarial Services Limited, Grafton NPI 2005 plc, Heiton Group plc, Morgan McMahon & Co. Limited, Heiton McCowen Limited, Timber Frame Limited, Heiton Mc Ferran Limited, Dunmore Holdings Limited, F&T Buckley (Holdings) Limited, F & T Buckley Limited, Bluebell Sawmills Limited, Atlantic Home Care and Garden Centre Limited, Atlantic DIY Limited, Sam Hire Holdings Limited, Sam Hire Limited, Cork Builders Providers Limited, Pouladuff Manufacturing Limited, Pouladuff Developments Limited, Mooney & O' Dea Limited, Gillespie Building Supplies (Carlow) Limited, Leeway Properties Limited, Tullamore Hardware Limited, Paddy Power (Kilbarry) Limited, House of Woods Limited, Eddies Hardware Limited, Stassen Retail Limited, Frank Barrett & Sons Limited, Barretts of Ballinasloe Limited, Absolute Bathrooms Limited, Cardston Properties Limited, Davies Limited, Doorplan Ireland Limited, Drainage Systems Dublin Limited, Garvey Builders Providers Limited, Jarkin Properties Limited, Lacombe Properties Limited, Leo Wright Holdings Limited, MB Doorplan Limited, Multy Products (Ireland) Limited, Plumbing Distributors Limited, Plumbland Limited, Market Hardware Limited, Powlett Properties Limited, Resadale Properties Limited, Sandtex Ireland Limited, Stettler Properties Limited, Beralt Developments Limited, Raftor Limited.

The Company owns 100 per cent of the ordinary shares, the only class of shares in issue, of its principal operating subsidiary undertakings. The registered office of principal subsidiary undertakings operating in Ireland is 1 Stokes Place, St. Stephen's Green, Dublin 2.

As explained above, where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements and accounts for them as such. The Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make such a payment under the guarantee contracts with third parties.

The principal operating subsidiaries operating in the United Kingdom are:

Name of Company	**Nature of Business**
Grafton Merchanting GB Limited	Builders merchants
Jackson Building Centres Limited	Builders merchants
Plumbase Limited	Plumbers merchants
Macnaughton Blair Limited	Builders merchants
Plumbing & Drainage Merchants Limited	Builders merchants
Selco Trade Centres Limited	Builders merchants
CPI Mortars Limited	Mortar manufacturers

The registered office of Grafton Merchanting GB Limited, Plumbase Limited, CPI Mortars Limited and Selco Trade Centres Limited is Aquis Court, 31 Fishpool Street, St.Albans, Hertfordshire. The registered office of Jackson Building Centres Limited is Pelham House, Canwick Road, Lincoln, Lincolnshire. The registered office of Macnaughton Blair Limited is Stokes House, College Square East, Belfast BT1 6DH, Northern Ireland, and the registered office of Plumbing & Drainage Merchants Limited is 302 Drumoyne Road, Drumoyne, Glasgow G52 4DJ, Scotland.

42. Approval of Financial Statements

The Board of Directors approved the financial statements on 26 February 2009.

Corporate Information

Auditor	KPMG
Bankers	Bank of Ireland Ulster Bank Lloyds Banking Group KBC Bank AIB Bank Société Generale Danske Bank (t/a National Irish Bank)
Solicitors	Arthur Cox, Dublin A&L Goodbody, Dublin Lyons Davidson, Bristol
Stockbrokers	Goodbody Stockbrokers, Dublin
Corporate & Registered Office	Heron House Corrig Road Sandyford Industrial Estate Dublin 18 Phone: 00-353-1-216 0600 Fax: 00-353-1-295 4470 Email: email@graftonplc.com
Registrars	Capita Registrars (Ireland) Ltd. Unit 5, Manor Street Business Park, Manor Street, Dublin 7. Phone: 00-353-1-8102400 Email: enquiries@capitacorporateregistrars.ie www.capitacorporateregistrars.ie

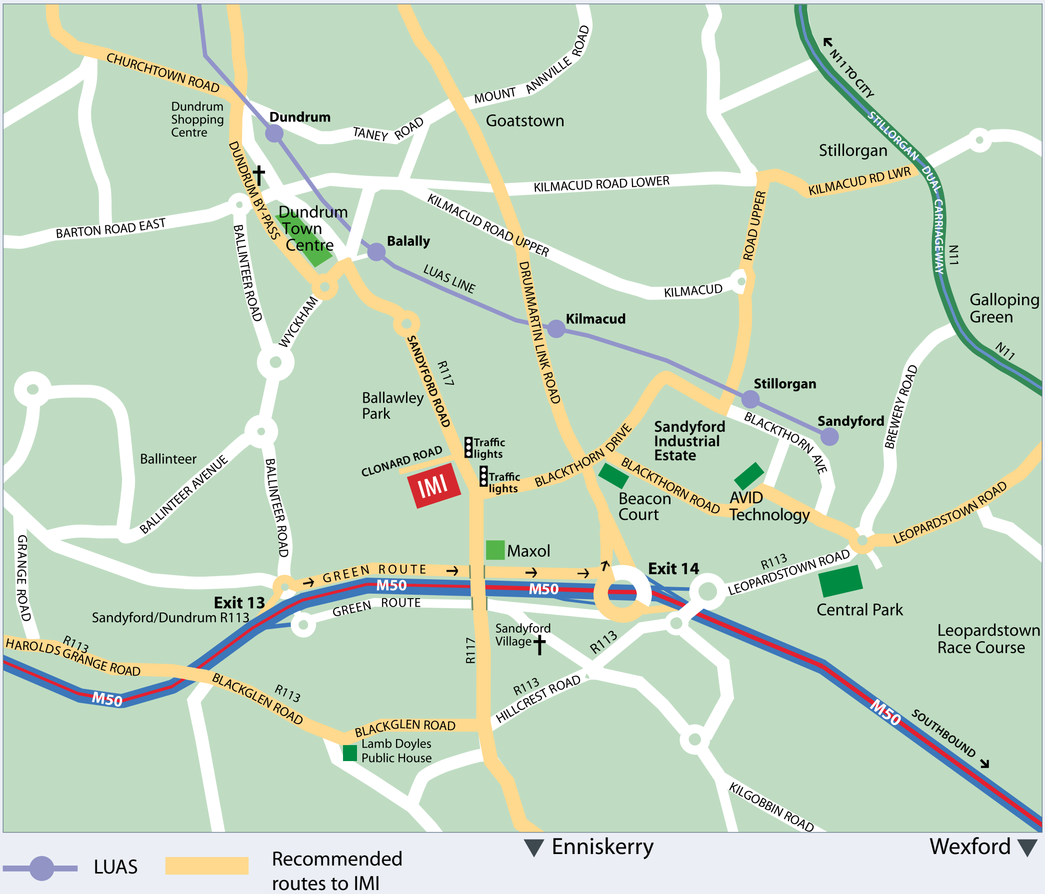
Financial Calendar

Results	
Half-yearly results	29 August 2008
Full year results	27 February 2009
Annual general meeting	29 April 2009
Purchase of 'A' ordinary share	
First	12 September 2008
Second	13 March 2009

Location of Annual General Meeting

The Annual General Meeting of the Company will be held on 29 April 2009 at 10.30am in the

IMI Conference Centre, Sandyford Road, Dublin 16. Tel: (01) 207 8400



BY CAR

From the North, West and South

Using the M50 going south, take Exit 13 (Sandyford/Dundrum/R113), then take the Green Route to Sandyford Industrial Estate. Turn left onto Blackthorn Drive at Beacon Court.

At the next T-junction, turn right onto Sandyford Road. IMI is the next turn left, 100 yards away.

From the East and South East

Travelling north on the N11, take the M50 at Loughlinstown. Take Exit 13 to Sandyford Industrial Estate.

Turn left onto Blackthorn Drive at Beacon Court.

At the next T-junction, turn right onto Sandyford Road. IMI is the next turn left, 100 yards away.

BY LUAS

For shareholders' convenience, courtesy buses will depart from the Sandyford LUAS plaza (last stop) at 9.50am, 10.00am and 10.10am. Buses will return to the Sandyford LUAS plaza following the meeting.

Should you have any queries on the day of the AGM, please call 087 971 0851.

Notes

Notes

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