Restatement of 2004 Results under International Financial Reporting Standards

Grafton Group plc

6 July 2005

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RESTATEMENT OF 2004 RESULTS UNDER IFRS

Grafton Group plc today announces the impact of the transition to International Financial Reporting Standards (IFRS) on its 2004 results previously prepared in accordance with accounting practice generally accepted in the Republic of Ireland (Irish GAAP). The Group's interim results for the six months ended 30 June 2005 and the financial statements for the year ended 31 December 2005 will be prepared under IFRS.

The impact on the audited 2004 key financial data is summarised as follows:

	Irish GAAP €'000	**IFRS €'000**	**Change %**	***Comments on principal IFRS changes***
Turnover	1,872,346	1,872,346	-	*No impact*
Operating profit *	151,310	166,273	+10%	*Non-amortisation of goodwill, employee benefits and share based payments adjustment.*
Profit before tax	131,851	145,826	+11%	*As above*
Profit after tax	112,063	125,890	+12%	*As above*
Total equity	535,821	495,538	-8%	*Pension and deferred tax assets and liabilities included under IFRS*
Net debt **	338,171	349,229	+3%	*Inclusion of lease liability under IAS 17 - Leases*
	€ cent	€ cent		
Earnings per share (EPS)				
Basic EPS***	52.64	59.14	+12%	
Adjusted EPS#	55.64	56.11	+1%	

* Operating profit includes goodwill amortisation (Irish GAAP) but excludes profit on sale of property.

** Net debt comprises current and non-current interest-bearing loans and borrowings less cash and cash equivalents and liquid investments.

*** Basic earnings per share has been calculated on profit after tax divided by the weighted average number of Grafton Units in issue.

Adjusted EPS under Irish GAAP is arrived at after excluding goodwill amortisation, property development profit after taxation and profit after tax on disposal of land and buildings.

Adjusted EPS under IFRS is arrived at after excluding amortisation on other intangible assets, property development profit after taxation and profit after tax on disposal of land and buildings.

Grafton Group plc

Introduction

Grafton Group plc prepared its financial statements up to and including 31 December 2004 in accordance with Irish GAAP. From 2005 onwards it is mandatory for the financial statements of all entities whose securities are listed on a regulated exchange in the EU to prepare their Financial Statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). This change applies to all financial reporting for accounting periods beginning on or after 1 January 2005 and, consequently, the Group's first IFRS financial statements will be for the year ended 31 December 2005. The interim results for 2005 will be prepared on the basis of the IFRS accounting policies expected to apply at 31 December 2005. It is a requirement that the first IFRS financial statements include full comparative information for 2004. The date of transition to IFRS for all standards is 1 January 2004, this being the start of the earliest period for which the Group presents full comparative information under IFRS in its first IFRS Financial Statements other than the impact of IAS 32 and IAS 39 where the date of transition is 1 January 2005.

This announcement deals with the transition to IFRS under the following sections:

1. Summary overview of impact of transition to IFRS
2. Basis of preparation of financial statements under IFRS
3. Principal exemptions availed of on transition to IFRS
4. Review of main changes arising on transition to IFRS

The impact of the transition to IFRS on reported performance, financial position and other key financial information previously reported under Irish GAAP is set out in the attached appendices as follows:

Appendix 1 - Independent Auditors' Report to the Directors of Grafton Group plc on the Preliminary IFRS Consolidated Financial Statements for the year ended 31 December 2004.

Appendix 2 - Preliminary Group Income Statement and Group Statement of Recognised Income and Expense for the year ended 31 December 2004 and Group Balance Sheet as at that date together with reconciliations of profit and equity from Irish GAAP to IFRS.

Appendix 3 - Unaudited preliminary Group Income Statement and Group Statement of Recognised Income and Expense for the six months ended 30 June 2004 and Group Balance Sheet as of that date together with reconciliations of profit and equity from Irish GAAP to IFRS.

Appendix 4 - Adjustments required to Irish GAAP Group Balance Sheet as at 1 January 2004, the transition date, for compliance with IFRS.

Appendix 5 - Restatement under IFRS of segmental income statement information published with the 2004 interim and full year results.

Appendix 6 - Principal Accounting Policies under IFRS.

The restatement of the Group's Preliminary Income Statement, Statement of Recognised Income and Expense, Balance Sheet and segmental information for the full year ended 31 December 2004 and the Preliminary Transition Balance Sheet as at 1 January 2004 have been audited by the Group's auditors KPMG, Chartered Accountants. The financial information in respect of the preliminary Interim Results for the six months ended 30 June 2004 is unaudited.

1. Summary Overview of Impact of Transition to IFRS

The impact of the transition to IFRS on the Group's financial statements is summarised as follows:

Euro thousands	Full Year 2004		Interim 2004 (Unaudited)	
	Irish GAAP* €'000	IFRS*** €'000	Irish GAAP** €'000	IFRS*** €'000
Group Income Statement				
Revenue	1,872,346	1,872,346	911,352	911,352
Operating profit	151,310	166,273	70,417	77,460
Profit on disposal of property	792	792	792	792
Profit before net finance costs and income from financial assets	152,102	167,065	71,209	78,252
Income from financial assets	1,541	1,541	1,541	1,541
Net finance costs	21,792	22,780	10,887	11,381
Profit before tax (PBT)	131,851	145,826	61,863	68,412
Taxation	19,788	19,936	9,280	9,319
Profit after tax	112,063	125,890	52,583	59,093
Tax rate (as a % of PBT)	15%	13.7%	15%	13.6%
Basic EPS (euro cent)	52.64c	59.14c	24.73c	27.79c
Group Balance Sheet				
Total assets	1,374,600	1,406,407	1,358,300	1,381,398
Total liabilities	838,779	910,869	869,464	935,413
Total equity	535,821	495,538	488,836	445,985
Net debt	338,171	349,229	362,214	373,487
Net debt to equity	63%	70%	74%	84%

Reconciliation of net debt	Year-end 2004 €'000	30 June 2004 €'000
As reported under Irish GAAP	338,171	362,214
Reassessment of leases	11,058	11,273
Restated under IFRS	349,229	373,487

* *Extracted from audited consolidated financial statements for the year ended 31 December 2004*
** *Extracted from the unaudited consolidated interim results for the half-year to 30 June 2004*
*** *Excludes impact of IAS 32 and IAS 39*

2. Basis of Preparation of Financial Statements under IFRS

EU law (IAS Regulation EC 1606/2002) requires that the next annual consolidated financial statements of the Group, for the year ending 31 December 2005, be prepared in accordance with accounting standards adopted for use in the European Union (EU) further to the IAS Regulation (EC 1606/2002) ("accounting standards adopted by the EU").

This preliminary financial information comprising the consolidated preliminary IFRS balance sheets of the Company and its subsidiaries at 1 January 2004, 30 June 2004 and 31 December 2004, the consolidated preliminary IFRS income statements for the year ended 31 December 2004 and the six month period ended 30 June 2004 and the related notes, has been prepared on the basis of the recognition and measurement requirements of IFRS's in issue that either are adopted by the EU and effective (or available for early adoption) at 31 December 2005 or are expected to be adopted and effective (or available for early adoption) at 31 December 2005, the Group's first annual reporting date at which it is required to use accounting standards adopted by the EU. Based on these recognition and measurement requirements management has made assumptions about the accounting policies expected to be applied, which are as set out below, when the first annual financial statements are prepared in accordance with accounting standards adopted by the EU for the year ending 31 December 2005.

In particular, management has assumed that the following IFRS's issued by the International Accounting Standards Board and IFRIC Interpretations issued by the International Financial Reporting Interpretations Committee will be adopted by the EU such that they will be available for use in the annual IFRS financial statements for the year ending 31 December 2005:

- Amendment to IAS 19: Actuarial Gains and Losses, Group Plans and Disclosures
- Amendment to IAS 39: Financial Instruments: Recognition and Measurement – Fair Value Option

In addition, the accounting standards adopted by the EU that will be effective (or available for early adoption) in the annual financial statements for the year ending 31 December 2005 are still subject to change and to additional interpretations and therefore cannot be determined with certainty. Accordingly, the accounting policies for 2005 will only be finally determined when the annual financial statements are prepared for the year ending 31 December 2005.

Details of the exemptions availed of on transition to IFRS are set out in Section 3 including the exemption from restatement of the 2004 numbers relating to IAS 32 and IAS 39. No adjustments have been made for any changes in estimates made at the time of approval of the 2004 consolidated financial statements under Irish GAAP on which the preliminary IFRS financial information is based.

3. Principal Exemptions Availed of on Transition to IFRS

IFRS 1, "First-time adoption of International Financial Reporting Standards", sets out the procedure that the Group must follow when it adopts IFRS for the first time as the basis for preparing its Consolidated Financial Statements. The Group is required to establish its IFRS Accounting Policies for 2005 and, in general, apply these retrospectively to determine the IFRS opening balance sheet at the transition date of 1 January 2004. The standard permits a number of specified exemptions from the general principal of retrospective restatement and the Group has elected, in common with other listed companies, to avail of a number of these exemptions as follows:

(i) Business Combinations

The Group has chosen not to restate business combinations that occurred prior to the transition date of 1 January 2004. As a result, goodwill as at the transition date is carried forward at its net book value and together with goodwill arising on business combinations after the transition date is subject to annual impairment testing in accordance with IAS 36 "Impairment of Assets". As required by IFRS 1 goodwill was assessed for impairment as at the transition date and no impairment resulted from the exercise.

(ii) Share-Based Payments

The Group has availed of the transitional arrangements set out in IFRS 2, "Share-based Payment", which permits the recognition and measurement principles of the standard to be applied only to options granted after 7 November 2002.

(iii) Fixed Assets

The revaluation in 1998 of the Group's freehold and long leasehold properties located in the Republic of Ireland has been regarded as deemed cost and therefore remains unadjusted on transition to IFRS.

(iv) Employee Benefits

The Group has elected to recognise all cumulative actuarial gains and losses applicable to defined benefit pension schemes in the transition balance sheet and to adjust them against retained income. Going forward, the Group expects to apply the amendment to IAS 19, "Actuarial Gains and Losses, Group Plans and Disclosures", (not yet approved by the European Commission) which allows actuarial gains and losses to be recognised immediately in the Statement of Recognised Income and Expense. This approach is consistent with the treatment required by IFRS 17 the effect of which we have previously disclosed in our Irish GAAP Financial Statements.

(v) Financial Instruments

The Group has availed of the exemption under IFRS1 not to restate the comparative information under IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement". Comparative information on financial instruments for 2004 in the 2005 financial statements will be presented on the existing Irish GAAP basis.

(vi) Currency Translation Adjustments

IFRS require that on disposal of a foreign operation, the cumulative amount of currency translation differences previously recognised directly in reserves for that operation be transferred to the income statement as part of the profit or loss on disposal. The Group has deemed the cumulative currency translation differences applicable to foreign operations to be zero as at the transition date. The cumulative currency translation differences arising after the transition date (i.e. during 2004) have been re-classified from retained income to a separate component of equity (termed the "foreign currency translation reserve" in the attached documentation) with no net impact on capital and reserves attributable to the Group's equity holders.

4. Review of Main Changes Arising on Transition to IFRS

The most significant changes arising from the transition to IFRS from Irish GAAP are described in the following paragraphs. The impact of these changes on the Group's 2004 Full Year and Interim Income Statements and Balance Sheets is set out in Appendices 2 and 3 respectively and is based on the accounting policies in Appendix 6.

(i) IFRS 2 Share-based Payment

IFRS 2, "Share-based Payment", requires that an expense for share-based payments, which in the case of Grafton are share options, be recognised in the income statement based on their fair value at the date of grant. This expense, which is primarily in relation to the Grafton Group Share Scheme, is recognised over the vesting period of the schemes. Fair value calculations have been applied in respect of share entitlements granted after 7 November 2002 as permitted under the framework for transition to IFRS. The fair value of the share entitlements to be expensed is determined by using option pricing models and the Group has used the binomial model in its evaluation. The charge recognised in the Income Statement over the vesting period of five years has been adjusted to reflect the expected and actual levels of vesting. The following inputs were used in determining the fair value of share entitlements:

- The exercise price which is the market price at the date the share entitlements were granted.
- Future price volatility was based on historical volatility as a guide and is assessed over six years being the average period from date of grant to exercise of the share entitlements.
- The risk free interest rate used in the model is the rate applicable to Irish Government Bonds with a remaining term equal to the expected term of the share entitlements being valued.
- Expected share purchase / dividend payments.

An expense of €892,000 has been recognised in the Group Income Statement in respect of the year ended 31 December 2004 (€340,000 for the six months ended 30 June 2004) and this is based on share entitlements granted in November 2003 and May 2004.

IFRS 2 will also be applied to the Save As You Earn (SAYE) Scheme for UK employees with effect from March 2005 following a new grant of options.

(ii) IFRS 3 Business Combinations / IAS 38 Intangible Assets

Under Irish GAAP, goodwill recognised on acquisitions made after 1997 was amortised over its useful life of 20 years. Under IFRS 3 goodwill is no longer amortised on a straight line basis but instead is subject to annual impairment testing. At 1 January 2004, the transition date, the Group held a net goodwill asset of €210.8 million which is carried forward at its net book value and, together with goodwill arising on business combinations subsequent to the transition date, is subject to annual impairment testing in accordance with IAS 36, "Impairment of Assets". As a result the 2004 charge of €12.8 million under Irish GAAP for goodwill amortisation is not charged under IFRS and results in an increase in pre-tax profit. Under Irish GAAP, the Group previously reversed the goodwill amortisation charge to determine adjusted earnings per share. This change, therefore, more appropriately aligns the accounting treatment of goodwill with the Group's presentation of the underlying earnings performance of the business.

At 31 December 2004 impairment reviews were performed on goodwill and no impairments resulted from this review.

Under IAS 38, "Intangible Assets" there is a requirement to separately identify other intangibles acquired rather than include these as part of goodwill. Intangible assets, other than goodwill, are amortised over their useful lives. These lives will typically not be indefinite and as a result, upon acquisition of a company, intangible assets such as brands and customer lists are now separately valued and then amortised over their economic lives. The acquisition balance sheets for businesses acquired during 2004 have not given rise to the recognition of intangible assets other than goodwill on the grounds that the intangible assets arising were not considered material.

The acquisition in January 2005 of Heiton Group plc and further acquisitions going forward may result in the recognition of intangible assets other than goodwill and an associated amortisation charge. This charge will be essentially a re-classification of costs associated with goodwill and will be added back in arriving at the Group's adjusted earnings per share, consistent with the previous treatment of goodwill amortisation under Irish GAAP.

The acquisition balance sheets for 2004 have been restated to take account of the different accounting policy under IFRS concerning the measurement of inventories. IFRS 3 requires that finished goods should be valued on the basis of selling price in the acquisition balance sheets adjusted for costs of disposal, a reasonable profit allowance for selling effort and, in the case of work in progress, costs of conversion. An expense of €100,000 for the year ended 31 December 2004 (€45,000 for the six month ended 30 June 2004) has been recognised in respect of the restatement of inventory to fair value for acquisitions made in 2004.

(iii) Deferred and Current Taxes

Under Irish GAAP, deferred tax is recognised in respect of all timing differences that have originated but not reversed by the balance sheet date and which could give rise to an obligation to pay more or less taxation in the future.

Deferred tax under IAS 12, "Income Taxes," is recognised in respect of all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying value for financial reporting purposes. IAS 12 also requires that deferred tax assets and liabilities must be disclosed separately on the balance sheet. IAS 12 results in an overall increase in the net deferred tax liability of the Group. The adjustments made to deferred tax assets and liabilities as at the transition date of 1 January 2004, and reflected in the transition balance sheet, principally relate to the following issues:

- The Group revalued its Irish freehold and long leasehold properties in 1998. IAS 12 requires a provision to be made for deferred tax on property revaluation surpluses and this gave rise to a deferred tax liability of €5,033,000 which is reflected in the transition balance sheet.

- Under Irish GAAP, deferred tax was not provided on fair value asset uplifts in business combinations if these uplifts did not give rise to timing differences between the tax base and the book value of the revalued assets. The requirement under IAS 12 to provide deferred tax on the differences arising from such revaluations gave rise to a deferred tax liability of €12,228,000 as at the transition date. This liability increased to €12,999,000 as at 30 June 2004 and €12,765,000 as at 31 December 2004.

- IAS 12 requires that a deferred tax provision be made for all rolled-over capital gains rather than those expected to crystallise. The IFRS transition balance sheet includes a deferred tax liability of €1,003,000 in respect of rolled-over capital gains, which did not arise under Irish GAAP.

- The deferred tax impact of defined benefit pension scheme surpluses and deficits accounted for in accordance with IAS 19, "Employee Benefits", has resulted in the creation of a deferred tax asset of €5,759,000 in the transition balance sheet. The deferred tax liability reduces by €789,000 as a result of a reversal of the SSAP 24 pension prepayment in the Irish GAAP balance sheet.

A net deferred tax liability of €11,716,000 as set out above has been provided in the transition balance sheet.

IAS 12 requires deferred tax to be provided in respect of undistributed profits of overseas subsidiaries unless the parent is able to control the timing of remittances and it is probable that such remittances will not be made in the foreseeable future. As the Group is able to control the timing of remittances from overseas subsidiaries and no such remittances are anticipated in the foreseeable future, no provision has been made for any tax on undistributed profits of overseas subsidiaries. Similarly, no deferred tax assets or liabilities have been recognised in respect of temporary differences associated with investments in subsidiaries.

In addition to the provisions of IAS 12 described above, IAS 1*, "Presentation of Financial Statements"* requires separate disclosure of deferred tax assets and liabilities on the face of the balance sheet. The Group's restated Balance Sheets therefore contain re-classifications of deferred tax assets previously netted within the overall Group deferred tax liability; these amounts were €5,959,000, €5,954,000 and €7,368,000 as at the transition date, 30 June 2004 and 31 December 2004 respectively.

(iv) IAS 19 Employee Benefits

The Group currently applies the provisions of SSAP 24 under Irish GAAP and provides detailed disclosure under FRS 17 in accounting for pensions and other post employment benefits. IAS 19, "Employee Benefits", requires the assets and liabilities of defined benefit pension schemes to be capitalised on the face of the balance sheet. The Group's transition IFRS Balance Sheet reflects the assets and liabilities of the Group's defined benefit pension schemes. This information is consistent with the information previously disclosed under FRS 17 except that scheme assets are valued at the bid value under IAS 19 whereas the mid market value is used under FRS 17. In accordance with the exemption under IFRS 1, the Group has recognised all cumulative actuarial gains and losses attributable to its defined benefit pension schemes as at the transition date. This has resulted in a pre-tax reduction in net assets of €30.7 million which represents the sum of the deficit plus the reversal of a SSAP 24 debtor in the Irish GAAP balance sheet as at 31 December 2003. An associated deferred tax asset of €6.5 million has been recognised in respect of the pension deficit. Therefore the total adjustment to net assets is €24.2 million.

The reduction in the 2004 pre-tax charge to the income statement as a result of the adoption of IAS 19, compared to SSAP 24, is €2.1 million. The related tax effect is an increase of €0.3 million in the deferred tax charge.

Going forward the Group has elected to apply the amendment to IAS 19 which allows actuarial gains and losses to be taken directly to reserves through the Statement of Recognised Income and Expense.

(v) IAS 17 Leases

Under Irish GAAP, determination of property finance leases is made by reference to the lease as a whole. Under IAS 17, "Leases", the determination must be made by reference to the land and buildings elements of the leases separately. A small number of leases previously recognised as operating leases have been reclassified as finance leases as required by IAS 17. This has resulted in an increase of €9,750,000 in the carrying value of property within property, plant and equipment together with the related finance lease creditor of €11,488,000. This creditor, because of its inclusion within borrowings, has the effect of increasing net debt. Cashflows are however unaffected.

The key impact on the Income Statement is that for these specific leases, the rentals under operating leases charged to operating profit under Irish GAAP are replaced with a depreciation charge on the property and a finance charge which is included within interest. The total amounts charged to the income statement over the life of the finance leases remain the same under both Irish GAAP and IFRS. However a higher charge is incurred in the early years of a lease owing to the impact of higher interest charges which results in the retained earnings being reduced by €1,738,000 at the transition date. The net impact of this change on the 2004 income statement is not material.

(vi) IAS 39 Financial Instruments: Recognition and Measurement

The Group has availed of the exemption not to restate comparative information for both IAS 32 and IAS 39 Financial Instruments. The impact of these standards on 2005 is expected to be as follows:

The Group enters into derivative instruments to limit its exposure to interest rate and foreign exchange risk. Under Irish GAAP, these instruments are accounted for as hedges, whereby gains and losses are deferred until the underlying transaction occurs. Under IFRS, derivative instruments are recognised on the balance sheet at fair value. In order to achieve hedge accounting under IFRS, certain criteria must be met regarding documentation, designation and effectiveness of the hedge. When a derivative is used to hedge the change in fair value of a recognised asset, liability or firm commitment, the change in fair value of both the hedging instrument and the hedged risk in the hedged item are recognised in the income statement when they occur. For a hedge of changes in the future cash flows relating to a recognised asset, liability or probable forecast transaction, the change in fair value of the hedging instrument is recognised in equity to the extent that it is an effective hedge until those future cash flows occur.

On 1 January 2005 the investment in Heiton Group plc will be reflected at fair value. Following the acquisition of Heiton Group plc on 7 January 2005 the fair value of Heiton Group plc will be replaced by the fair value of the net assets acquired.

The Group will apply IAS 32 and IAS 39 for the first time for the year ending 31 December 2005.

Independent auditors' report to the Directors of Grafton Group plc on its consolidated preliminary International Financial Reporting Standards ('IFRS') financial information

In accordance with the terms of our engagement letter we have audited the accompanying consolidated preliminary IFRS balance sheets of the Company and its subsidiaries ('the Group') as at 1 January 2004 and 31 December 2004, the related consolidated preliminary IFRS income statement for the year ended 31 December 2004 and related basis of preparation, accounting policies and other notes as set out on pages 13 to 34 ('the preliminary IFRS financial information').

Included with the preliminary IFRS financial information set out on pages 13 to 34 are the consolidated preliminary balance sheet as at 30 June 2004 and the related consolidated preliminary income statement for the six-month period then ended ('the preliminary IFRS interim financial information'). We have not audited this preliminary IFRS interim financial information and therefore it is not covered by this opinion.

Respective responsibilities of Directors and KPMG

The directors of the Company have accepted responsibility for the preparation of the preliminary IFRS financial information which has been prepared as part of the Group's conversion to IFRS. As explained in the basis of preparation note on page 5, this preliminary IFRS financial information has been prepared on the basis of the recognition and measurement criteria of IFRS in issue that either are adopted by the EU and effective (or available for early adoption) at 31 December 2005 or are expected to be adopted and effective (or available for early adoption) at 31 December 2005. Our responsibilities, as independent auditors, are established in Ireland by the Auditing Practices Board, our profession's ethical guidance and the terms of our engagement.

Under the terms of engagement we are required to report to you our opinion as to whether the preliminary IFRS financial information has been properly prepared, in all material respects, in accordance with the respective accounting policy notes to the preliminary IFRS financial information. We also report to you if, in our opinion, we have not received all the information and explanations we require for our audit.

We read the other information accompanying the preliminary IFRS financial information and consider whether it is consistent with the preliminary IFRS financial information. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the preliminary IFRS financial information.

Our report has been prepared for the Company solely in connection with the Company's conversion to IFRS. Our report was designed to meet the agreed requirements of the Company determined by the Company's needs at the time. Our report should not therefore be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Company for any purpose or in any context. Any party other than the Company who chooses to rely on our report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, KPMG will accept no responsibility or liability in respect of our report to any other party.

Basis of audit opinion

We conducted our audit having regard to Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the preliminary IFRS financial information. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the preliminary IFRS financial information,

and of whether the accounting policies are appropriate to the Group'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 preliminary IFRS financial information is 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 preliminary IFRS financial information.

Emphases of matter

Without qualifying our opinion, we draw your attention to the following matters:

- The basis of preparation set out on page 5 explains why there is a possibility that the preliminary IFRS financial information may require adjustment before being used as the basis of preparing the final consolidated IFRS financial statements as at 31 December 2005;
- As part of its conversion to IFRSs, the Group has prepared the preliminary IFRS financial information for the year ended 31 December 2004 to establish the financial position and results of operations of the Group necessary to provide the comparative financial information expected to be included in the Group's first complete set of IFRS consolidated financial statements as at 31 December 2005. The preliminary IFRS financial information does not include comparative financial information for the prior period.
- As explained in the basis of preparation on page 5, no adjustments have been made for any changes in estimates made at the time of approval of the 2004 consolidated financial statements under Irish generally accepted accounting principles on which the preliminary IFRS financial information is based.
- IAS 32 *Financial Instruments: Disclosure and Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement* have not been applied to the preliminary IFRS financial information relating to 2004 as permitted by IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

Opinion

In our opinion, the accompanying preliminary IFRS financial information on pages 13 to 34 has been prepared, in all material respects, in accordance with the basis of preparation and accounting policy notes which describe how IFRSs have been applied under IFRS 1, including the assumptions made by the directors of the Company about the standards and interpretations expected to be effective, and the policies expected to be adopted, when they prepare the first complete set of consolidated IFRS financial statements of the Company for the year to 31 December 2005.

KPMG
Chartered Accountants
Dublin

5 July 2005.

Grafton Group plc

GROUP INCOME STATEMENT
for the year ended 31 December 2004

	Audited Restated under IFRS Continuing Operations 2004 €'000
Revenue	**1,872,346**
Cost of sales	(1,255,207)
Gross profit	617,139
Operating costs	(457,595)
Other operating income – property development profit	6,729
Operating profit	**166,273**
Profit on disposal of property	792
Profit before net finance costs and income from financial assets	167,065
Income from financial assets	1,541
Finance costs (net)	(22,780)
Profit before tax	**145,826**
Income tax expense	(19,936)
Profit after tax for the financial year	**125,890**
Profit attributable to:	
Equity holders of the Company	125,890
Profit after tax for the financial year	**125,890**
Earning per Ordinary Share - basic	59.14c

GROUP STATEMENT OF RECOGNISED INCOME AND EXPENSE
for the year ended 31 December 2004

	Audited 2004 €'000
Items of income and expense recognised directly within equity:	
Currency translation effects - on foreign currency net investments	(2,176)
- on foreign currency borrowings	20
Actuarial loss	(11,760)
Deferred tax asset on Group defined benefit pension schemes	1,186
Deferred tax recognised through equity	123
Net expense recognised directly in equity	(12,607)
Profit after tax for the financial year	125,890
Total recognised income and expense for the financial year	**113,283**
Attributable to:	
Equity holders of the Company	113,283
Total recognised income and expense for the financial year	**113,283**

Grafton Group plc

GROUP INCOME STATEMENT FULL-YEAR 2004 – RECONCILIATION FROM IRISH GAAP TO IFRS

	Previous Irish GAAP €'000	IFRS 2 Share-Based Payments €'000	IAS 19 Employee Benefits €'000	IFRS 3 Business Combinations €'000	IAS 17 Leases €'000	**Restated under IFRS €'000**
Turnover	**1,872,346**	**-**	**-**	**-**	**-**	**1,872,346**
Cost of sales	**(1,255,107)**	-	-	(100)	-	**(1,255,207)**
Gross profit	**617,239**	-	-	(100)	-	**617,139**
Operating costs	**(459,838)**	(892)	2,433	-	702	**(457,595)**
Other operating income – property development profit	**6,729**	-	-	-	-	**6,729**
Goodwill amortisation	**(12,820)**	-	-	12,820	-	**-**
Operating profit	**151,310**	(892)	2,433	12,720	702	**166,273**
Profit on disposal of property	**792**	-	-	-	-	**792**
Profit before net finance costs and income from financial assets	**152,102**	(892)	2,433	12,720	702	**167,065**
Income from financial assets	**1,541**	-	-	-	-	**1,541**
Net finance costs	**(21,792)**	-	(287)	-	(701)	**(22,780)**
Profit on ordinary activities before taxation	**131,851**	(892)	2,146	12,720	1	**145,826**
Taxation	**(19,788)**	123	(301)	30	-	**(19,936)**
Profit for the financial year	**112,063**	(769)	1,845	12,750	1	**125,890**
Attributable to:						
Equity holders of the Company	**112,063**	(769)	1,845	12,750	1	**125,890**
	112,063	(769)	1,845	12,750	1	**125,890**
Basic earnings per share (cent)	**52.64**	(0.36)	0.87	5.99	-	**59.14**
Adjusted earnings per share (cent)	**55.64**	(0.36)	0.87	(0.04)	-	**56.11**

Grafton Group plc
GROUP BALANCE SHEET AS AT 31 DECEMBER 2004

	Restated under IFRS Audited 2004 €'000
ASSETS	
Non-current assets	
Property, plant and equipment	406,207
Intangible assets	247,155
Financial assets	47,019
Deferred income tax assets	14,313
Total non-current assets	**714,694**
Current assets	
Inventories	237,680
Trade and other receivables	318,165
Cash and cash equivalents	135,868
Total current assets	**691,713**
Total assets	**1,406,407**
EQUITY	
Capital and reserves attributable to the Company's equity holders	
Equity share capital	10,864
Share premium account	103,600
Capital redemption reserve	227
Revaluation reserve	34,988
Other reserve – shares to be issued	971
Foreign currency translation reserve	(2,156)
Retained earnings	347,044
Total equity	**495,538**
LIABILITIES	
Non-current liabilities	
Interest-bearing loans and borrowings	378,401
Deferred income tax liabilities	59,330
Retirement benefit obligations	35,597
Deferred acquisition consideration	1,552
Total non-current liabilities	**474,880**
Current liabilities	
Interest-bearing loans and borrowings	106,696
Trade and other payables	310,786
Current income tax liabilities	14,074
Deferred acquisition consideration	4,433
Total current liabilities	**435,989**
Total liabilities	**910,869**
Total equity and liabilities	**1,406,407**

Grafton Group plc

Group Balance Sheet as at 31 December 2004 – Reconciliation from Irish GAAP to IFRS

	Previous Irish GAAP €'000	IFRS 2 Share based Payments €'000	IAS 19 Employee benefits €'000	IFRS 3 Business Combinations €'000	IAS 12 Income Tax €'000	IAS 17 Leases €'000	Reclassifications €'000	Restated Under IFRS €'000
ASSETS								
Non-current assets								
Property, plant and equipment	**396,886**	-	-	-	-	9,321	-	**406,207**
Intangible assets - goodwill	**234,309**	-	-	12,304	542	-	-	**247,155**
Intangible assets - other	**-**	-	-	-	-	-	-	**-**
Financial assets	**47,019**	-	-	-	-	-	-	**47,019**
Deferred tax assets	**-**	212	6,733	-	7,368	-	-	**14,313**
	678,214	212	6,733	12,304	7,910	9,321	-	**714,694**
Current assets								
Inventories	**237,680**	-	-	-	-	-	-	**237,680**
Trade and other receivables	**322,838**	-	(4,673)	-	-	-	-	**318,165**
Cash and cash equivalents	**135,868**	-	-	-	-	-	-	**135,868**
	696,386	-	(4,673)	-	-	-	-	**691,713**
Total assets	**1,374,600**	212	2,060	12,304	7,910	9,321	-	**1,406,407**
EQUITY								
Capital and reserves attributable to equity holders								
Share capital	**10,864**	-	-	-	-	-	-	**10,864**
Share premium account	**103,600**	-	-	-	-	-	-	**103,600**
Capital redemption reserve	**227**	-	-	-	-	-	-	**227**
Revaluation reserve	**39,987**	-	-	-	(4,999)	-	-	**34,988**
Other reserve – shares to be issued	**-**	971	-	-	-	-		**971**
Foreign currency translation reserve	**-**	-	80	(446)	5	-	(1,795)	**(2,156)**
Retained earnings	**381,143**	(759)	(32,917)	12,750	(13,231)	(1,737)	1,795	**347,044**
Total equity	**535,821**	212	(32,837)	12,304	(18,225)	(1,737)	-	**495,538**
LIABILITIES								
Non-current liabilities								
Interest bearing loans and borrowings	**367,773**	-	-	-	-	10,628	-	**378,401**
Retirement benefit obligations	**-**	-	35,597	-	-	-	-	**35,597**
Deferred income tax liabilities	**33,895**	-	(700)	-	26,135	-	-	**59,330**
Deferred acquisition consideration	**1,552**	-	-	-	-	-	-	**1,552**
	403,220	-	34,897	-	26,135	10,628	-	**474,880**
Current liabilities								
Interest bearing loans and borrowings	**106,266**	-	-	-	-	430	-	**106,696**
Trade and other payables	**310,786**	-	-	-	-	-	-	**310,786**
Current income tax liabilities	**14,074**	-	-	-	-	-	-	**14,074**
Deferred acquisition consideration	**4,433**	-	-	-	-	-	-	**4,433**
	435,559	-	-	-	-	430	-	**435,989**
Total liabilities	**838,779**	-	34,897	-	26,135	11,058	-	**910,869**
Total equity and liabilities	**1,374,600**	212	2,060	12,304	7,910	9,321	-	**1,406,407**
Net debt	**338,171**	-	-	-	-	11,058	-	**349,229**

Appendix 3

Grafton Group plc

GROUP INCOME STATEMENT
for the six months ended 30 June 2004

	Unaudited Restated under IFRS Continuing Operations 2004 €'000
Revenue	**911,352**
Cost of sales	(614,841)
Gross profit	296,511
Operating costs	(225,780)
Other operating income – property development profit	6,729
Operating profit	**77,460**
Profit on disposal of property	792
Profit before net finance costs and income from financial assets	78,252
Income from financial assets	1,541
Finance costs (net)	(11,381)
Profit before tax	**68,412**
Income tax expense	(9,319)
Profit after tax for the financial period	**59,093**
Profit attributable to:	
Equity holders of the Company	59,093
Profit after tax for the financial period	**59,093**
Earning per Ordinary Share - basic	27.79

GROUP STATEMENT OF RECOGNISED INCOME AND EXPENSE
for the six months ended 30 June 2004

	Unaudited 2004 €'000
Items of income and expense recognised directly within equity:	
Currency translation effects - on foreign currency net investments	10,956
- on foreign currency borrowings	(2,377)
Actuarial loss	(4,695)
Deferred tax asset on Group defined benefit pension schemes	378
Deferred tax recognised through equity	17
Net expense recognised directly in equity	4,279
Profit after tax for the financial period	59,093
Total recognised income and expense for the financial period	**63,372**
Attributable to:	
Equity holders of the Company	63,372
Total recognised income and expense for the financial period	**63,372**

Appendix 3
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Grafton Group plc

GROUP INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2004 – RECONCILIATION FROM IRISH GAAP TO IFRS

	Previous Irish GAAP	IFRS 2 Share-Based Payments	IAS 19 Employee Benefits	IFRS 3 Business Combinations	IAS 17 Leases	**Restated under IFRS**
	€'000	€'000	€'000	€'000	€'000	**€'000**
Turnover	**911,352**	-	-	-	-	**911,352**
Cost of sales	**(614,796)**	-	-	(45)	-	**(614,841)**
Gross profit	**296,556**	-	-	(45)	-	**296,511**
Operating costs	**(226,673)**	(340)	882	-	351	**(225,780)**
Other operating income – property development profit	**6,729**	-	-		-	**6,729**
Goodwill amortisation	**(6,195)**	-	-	6,195	-	**-**
Operating profit	**70,417**	(340)	882	6,150	351	**77,460**
Profit on disposal of property	**792**	-	-	-	-	**792**
Profit before net finance costs and income from financial assets	**71,209**	(340)	882	6,150	351	**78,252**
Income from financial assets	**1,541**	-	-	-	-	**1,541**
Net finance costs	**(10,887)**	-	(144)	-	(350)	**(11,381)**
Profit on ordinary activities before taxation	**61,863**	(340)	738	6,150	1	**68,412**
Taxation	**(9,280)**	40	(93)	14	-	**(9,319)**
Profit for the financial period	**52,583**	(300)	645	6,164	1	**59,093**
Attributable to:						
Equity holders of the Company	**52,583**	(300)	645	6,164	1	**59,093**
	52,583	(300)	645	6,164	1	**59,093**
Basic earnings per share (cent)	**24.73**	(0.14)	0.30	2.90	0.00	**27.79**
Adjusted earnings per share (cent)	**24.63**	(0.14)	0.30	(0.01)	0.00	**24.78**

Grafton Group plc
GROUP BALANCE SHEET AS AT 30 JUNE 2004

	Restated under IFRS Unaudited 2004 €'000
ASSETS	
Non-current assets	
Property, plant and equipment	399,934
Intangible assets	234,347
Financial assets	47,047
Deferred income tax assets	12,299
Total non-current assets	**693,627**
Current assets	
Inventories	230,270
Trade and other receivables	331,757
Cash and cash equivalents	125,744
Total current assets	**687,771**
Total assets	**1,381,398**
EQUITY	
Capital and reserves attributable to the Company's equity holders	
Equity share capital	10,846
Share premium account	102,418
Capital redemption reserve	206
Revaluation reserve	35,107
Other reserve – shares to be issued	419
Foreign currency translation reserve	8,579
Retained earnings	288,410
Total equity	**445,985**
LIABILITIES	
Non-current liabilities	
Interest-bearing loans and borrowings	381,771
Deferred income tax liabilities	47,335
Retirement benefit obligations	30,459
Deferred acquisition consideration	1,748
Total non-current liabilities	**461,313**
Current liabilities	
Interest-bearing loans and borrowings	117,460
Trade and other payables	333,309
Current income tax liabilities	20,335
Deferred acquisition consideration	2,996
Total current liabilities	**474,100**
Total liabilities	**935,413**
Total equity and liabilities	**1,381,398**

Grafton Group plc

Group Balance Sheet as at 30 June 2004 – Reconciliation from Irish GAAP to IFRS

	Previous Irish GAAP €'000	IFRS 2 Share based Payments €'000	IAS 19 Employee benefits €'000	IFRS 3 Business Combinations €'000	IAS 12 Income Tax €'000	IAS 17 Leases €'000	Reclassifications €'000	Restated Under IFRS €'000
ASSETS								
Non-current assets								
Property, plant and equipment	**390,398**	-	-	-	-	9,536	-	**399,934**
Intangible assets - goodwill	**228,055**	-	-	6,141	151	-	-	**234,347**
Intangible assets - other	**-**	-	-	-	-	-	-	**-**
Financial assets	**47,047**	-	-	-	-	-	-	**47,047**
Deferred tax assets	**-**	40	6,305	-	5,954	-	-	**12,299**
	665,500	40	6,305	6,141	6,105	9,536	-	**693,627**
Current assets								
Inventories	**230,270**	-		-	-	-	-	**230,270**
Trade and other receivables	**336,786**	-	(5,029)	-	-	-	-	**331,757**
Cash and cash equivalents	**125,744**	-		-	-	-	-	**125,744**
	692,800	-	(5,029)	-	-	-	-	**687,771**
Total assets	**1,358,300**	40	1,276	6,141	6,105	9,536	-	**1,381,398**
EQUITY								
Capital and reserves attributable to equity holders								
Share capital	**10,846**	-	-	-	-	-	-	**10,846**
Share premium account	**102,418**	-	-	-	-	-	-	**102,418**
Capital redemption reserve	**206**	-	-	-	-	-	-	**206**
Revaluation reserve	**40,123**	-	-	-	(5,016)	-	-	**35,107**
Other reserve – shares to be issued	**-**	419	-	-	-	-	-	**419**
Foreign currency translation reserve	**-**	-	(568)	(23)	(620)	-	9,790	**8,579**
Retained earnings	**335,243**	(379)	(27,860)	6,164	(13,231)	(1,737)	(9,790)	**288,410**
Total equity	**488,836**	40	(28,428)	6,141	(18,867)	(1,737)	0	**445,985**
LIABILITIES								
Non-current liabilities								
Interest bearing loans and borrowings	**370,928**	-	-	-	-	10,843	-	**381,771**
Retirement benefit obligations	**-**	-	30,459	-	-	-	-	**30,459**
Deferred income tax liabilities	**23,118**	-	(755)	-	24,972	-	-	**47,335**
Deferred acquisition consideration	**1,748**	-	-	-	-	-	-	**1,748**
	395,794	-	29,704		24,972	10,843	-	**461,313**
Current liabilities								
Interest bearing loans and borrowings	**117,030**	-	-	-	-	430	-	**117,460**
Trade and other payables	**333,309**	-	-	-	-	-	-	**333,309**
Current income tax liabilities	**20,335**	-	-	-	-	-	-	**20,335**
Deferred acquisition consideration	**2,996**	-	-	-	-	-	-	**2,996**
	473,670	-	-	-	-	430	-	**474,100**
Total liabilities	**869,464**	-	29,704	-	24,972	11,273	-	**935,413**
Total equity and liabilities	**1,358,300**	40	1,276	6,141	6,105	9,536	-	**1,381,398**
Net debt	**(362,214)**	-	-	-	-	(11,273)	-	**(373,487)**

Grafton Group plc
GROUP BALANCE SHEET AS AT 1 JANUARY 2004 ("TRANSITION DATE")

	Restated under IFRS Audited €'000
ASSETS	
Non-current assets	
Property, plant and equipment	356,562
Intangible assets	210,840
Financial assets	33,665
Deferred income tax assets	11,718
Total non-current assets	**612,785**
Current assets	
Inventories	194,436
Trade and other receivables	267,482
Cash and cash equivalents	138,956
Total current assets	**600,874**
Total assets	**1,213,659**
EQUITY	
Capital and reserves attributable to the Company's equity holders	
Equity share capital	10,781
Share premium account	102,352
Capital redemption reserve	57
Revaluation reserve	35,227
Other reserve – shares to be issued	79
Foreign currency translation reserve	-
Retained earnings	257,155
Total equity	**405,651**
LIABILITIES	
Non-current liabilities	
Interest-bearing loans and borrowings	375,611
Deferred income tax liabilities	46,375
Retirement benefit obligations	25,421
Deferred acquisition consideration	5,373
Total non-current liabilities	**452,780**
Current liabilities	
Interest-bearing loans and borrowings	86,548
Trade and other payables	252,422
Current income tax liabilities	13,313
Deferred acquisition consideration	2,945
Total current liabilities	**355,228**
Total liabilities	**808,008**
Total equity and liabilities	**1,213,659**

Grafton Group plc

Group Balance Sheet as at 1 January 2004 – Reconciliation from Irish GAAP to IFRS

	Previous Irish GAAP €'000	IFRS 2 Share based Payments €'000	IAS 19 Employee benefits €'000	IFRS 3 Business Combinations €'000	IAS 12 Income Tax €'000	IAS 17 Leases €'000	Reclassifications €'000	Restated Under IFRS €'000
ASSETS								
Non-current assets								
Property, plant and equipment	**346,812**	-	-	-	-	9,750	-	**356,562**
Intangible assets - goodwill	**210,840**	-	-	-	-	-	-	**210,840**
Intangible assets - other	**-**	-	-	-	-	-	-	**-**
Financial assets	**33,665**	-	-	-	-	-	-	**33,665**
Deferred tax assets	**-**	-	5,759	-	5,959	-	-	**11,718**
	591,317	-	5,759	-	5,959	9,750	-	**612,785**
Current assets								
Inventories	**194,436**	-	-	-	-	-	-	**194,436**
Trade and other receivables	**272,797**	-	(5,315)	-	-	-	-	**267,482**
Cash and cash equivalents	**138,956**	-	-	-	-	-	-	**138,956**
	606,189	-	(5,315)	-	-	-	-	**600,874**
Total assets	**1,197,506**	-	444	-	5,959	9,750	-	**1,213,659**
EQUITY								
Capital and reserves attributable to equity holders								
Share capital	**10,781**	-	-	-	-	-	-	**10,781**
Share premium account	**102,352**	-	-	-	-	-	-	**102,352**
Capital redemption reserve	**57**	-	-	-	-	-	-	**57**
Revaluation reserve	**40,260**	-	-	-	(5,033)	-	-	**35,227**
Other reserve – shares to be issued	**-**	79	-	-	-	-	-	**79**
Foreign currency translation reserve	**-**	-	-	-	-	-	-	**-**
Retained earnings	**296,391**	(79)	(24,188)	-	(13,231)	(1,738)	-	**257,155**
Total equity	**449,841**	-	(24,188)	-	(18,264)	(1,738)	-	**405,651**
LIABILITIES								
Non-current liabilities								
Interest bearing loans and borrowings	**364,553**	-	-	-	-	11,058	-	**375,611**
Retirement benefit obligations	**-**	-	25,421	-	-	-	-	**25,421**
Deferred income tax liabilities	**22,941**	-	(789)	-	24,223	-	-	**46,375**
Deferred acquisition consideration	**5,373**	-	-	-	-	-	-	**5,373**
	392,867	-	24,632	-	24,223	11,058	-	**452,780**
Current liabilities								
Interest bearing loans and borrowings	**86,118**	-	-	-	-	430	-	**86,548**
Trade and other payables	**252,422**	-	-	-	-	-	-	**252,422**
Current income tax liabilities	**13,313**	-	-	-	-	-	-	**13,313**
Deferred acquisition consideration	**2,945**	-	-	-	-	-	-	**2,945**
	354,798	-	-	-	-	430	-	**355,228**
Total liabilities	**747,665**	-	24,632	-	24,223	11,488	-	**808,008**
Total equity and liabilities	**1,197,506**	-	444	-	5,959	9,750	-	**1,213,659**
Net debt	**(311,715)**	-	-	-	-	(11,488)	-	**(323,203)**

Grafton Group plc

Restatement under IFRS of segmental income statement information – Full year 2004 (Audited)

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

Geographic segments

	Continuing operations – full year 2004		
	Ireland €'000	**UK €'000**	**Total €'000**
Revenue			
Sales to external customers	451,742	1,420,604	1,872,346

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

	Ireland €'000	UK €'000	Total €'000
Operating profit before property development profit	51,360	108,184	159,544
Property development profit	6,729	-	6,729
Operating profit	58,089	108,184	166,273
Profit on disposal of property	-	792	792
Profit before net finance costs and income from financial assets	58,089	108,976	167,065
Income from financial assets			1,541
Financing costs (net)			(22,780)
Profit before tax			145,826
Income tax expense			(19,936)
Profit for the financial year			125,890

Business segments

	Irish Merchanting €'000	**UK Merchanting €'000**	**DIY €'000**	**Manufacturing €'000**	**Total €'000**
Revenue					
Sales to external customers	286,126	1,359,923	129,783	96,514	1,872,346

Grafton Group plc

Restatement under IFRS of segmental income statement information – Six months ended 30 June 2004 (Unaudited)

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

Geographic segments

	Continuing operations – for the six months ended 30 June 2004		
	Ireland €'000	**UK €'000**	**Total €'000**
Revenue			
Sales to external customers	221,328	690,024	911,352

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

	Ireland €'000	UK €'000	Total €'000
Operating profit before property development profit	20,554	50,177	70,731
Property development profit	6,729	-	6,729
Operating profit	27,283	50,177	77,460
Profit on disposal of property	-	792	792
Profit before net finance costs and income from financial assets	27,283	50,969	78,252
Income from financial assets			1,541
Financing costs (net)			(11,381)
Profit before tax			68,412
Income tax expense			(9,319)
Profit for the financial period			59,093

Business segments

	Irish Merchanting €'000	**UK Merchanting €'000**	**DIY €'000**	**Manufacturing €'000**	**Total €'000**
Revenue					
Sales to external customers	138,831	659,771	64,775	47,975	911,352

Grafton Group plc

Principal Accounting Policies under IFRS in the Restated 2004 Financial Statements

Statement of Compliance

The restated financial information has been prepared in accordance with the recognition and measurement principles of all International Financial Reporting Standards, including Interpretations issued by the International Accounting Standards Board ("IASB") and its committees and endorsed by the European Commission with the exception that IAS 32 and IAS 39 have not been applied as permitted under the transition rules of IFRS 1.

Sections 2 and 3 of this document include details of the qualifications to be taken into account and the principal exemptions availed of on transition to IFRS.

Basis of Preparation

Restated financial information is prepared on a historical cost basis except for the revaluation of certain properties and measurement at fair value of share options. The consolidated financial statements are prepared in euro and all values are rounded to the nearest thousand (euro '000) except when otherwise indicated.

Basis of Consolidation

The restated consolidated financial statements comprise the financial statements of Grafton Group plc and its subsidiaries. Subsidiaries are consolidated from the date on which control is transferred to the Group 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. Financial statements of subsidiaries are prepared for the same reporting year as the parent company and where necessary, adjustments are made to the results of subsidiaries to bring their accounting policies into line with those used by the Group.

All inter-company balances and transactions, including unrealised profits arising from inter-group transactions, have been eliminated in full. Unrealised losses are eliminated in the same manner as unrealised gains.

Turnover and Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group, that it can be reliably measured and that the significant risks and rewards of ownership of the goods have passed to the buyer. Revenue comprises the invoiced value of goods and services supplied by the Group and excludes inter-company sales, trade discounts and value added tax.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Dividend income from investments is recognised when shareholders' rights to receive payment have been established.

Foreign Currency Translation

The presentation currency of the Group and the functional currency of its Irish subsidiaries is the euro (€). 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 into the functional currency at the rate of exchange at the balance sheet date. All translation differences are taken to the consolidated income statement with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity together with the exchange difference on the net investment in the foreign entity until the disposal of the net investment, at which time they are recognised in the consolidated income statement.

Results and cash flows of non-euro subsidiary undertakings are translated into euro at average exchange rates for the year, and the related balance sheets have been translated at the rates of exchange ruling at the balance sheet date. Adjustments arising on translation of the results of non-euro subsidiary undertakings 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. All other translation differences are taken to the income statement.

On disposal of a foreign operation, accumulated currency translation differences are recognised in the income statement as part of the overall gain or loss on disposal; the cumulative currency translation differences arising prior to the transition date have been set to zero for the purposes of ascertaining the gain or loss on disposal of a foreign operation subsequent to 1 January 2004. Goodwill and fair value adjustments arising on acquisition of a foreign operation are regarded as assets and liabilities of the foreign operation, are expressed in the functional currency of the foreign operation and are recorded at the exchange rate at the date of the transaction and subsequently retranslated at the applicable closing rates.

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
Leasehold land and 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 financial statements 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 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.

Business Combinations

The purchase method of accounting is employed in accounting for the acquisition of subsidiaries by the Group. The Group has 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. Deferred expenditure arising on business combinations is determined through discounting the amounts payable to their present value at the date of exchange. The discount element is reflected as an interest charge in the income statement over the life of the deferred payment. In the case of a business combination the assets and liabilities are measured at their provisional fair values at the date of acquisition. Adjustments to provisional values allocated to assets and liabilities are made within 12 months of the acquisition date and reflected as a restatement of the acquisition balance sheet.

Goodwill

Goodwill arising on acquisitions prior to the date of transition to International Financial Reporting Standards has been retained at the previous Irish GAAP amount being its deemed cost subject to being tested for impairment. Goodwill written off to reserves under Irish GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Goodwill on acquisitions is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable asset, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill relating to acquisitions from 1 January 2004 and goodwill carried in the balance sheet at 1 January 2004 is not amortised. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit are disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of

in this circumstance is measured on the basis of the relative values of the operation disposed of and the proportion of the cash-generating unit retained.

Intangible Assets other than Goodwill

Intangible assets acquired separately are capitalised at cost and intangible assets acquired in the course of a business combination are capitalised at fair value being their deemed cost as at the date of acquisition. Subsequent to initial recognition, intangible assets which have a finite life are carried at cost less any applicable accumulated amortisation and any accumulated impairment losses. Where amortisation is charged on assets with finite lives this expense is taken to the income statement.

Intangible assets which do not have a finite life are carried at cost less any accumulated impairment loss. These intangible assets are assessed for impairment annually either individually or at the cash-generating unit level.

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

Leases

Where the Group has entered into lease arrangements on land and buildings the lease payments are allocated between land and buildings and each is assessed separately to determine whether it is a finance or operating lease.

Finance leases, which transfer to the Group substantially all the risks and benefits to ownership of the leased asset, are capitalised at the inception of the lease at the fair value of the leased asset or if lower the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between the finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the income statement as part of finance costs.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the first-in first-out principal and includes all expenditure incurred in acquiring the inventories and bringing them to their present location and condition.

In the case of finished goods and work in progress, cost includes direct materials, direct labour and a proportion of manufacturing overhead based on normal operating capacity but excluding borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less estimated cost of completion and the estimated costs necessary to make the sale.

Trade and other Receivables

Trade receivables, which generally have 30 to 90 day terms, are recognised and carried at original invoice amount less an allowance for any incurred losses. An estimate of incurred losses is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Cash and Cash Equivalents

Cash and short term deposits in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cashflows.

Interest – Bearing Loans and Borrowings

All loans and borrowings are initially recognised at cost being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognised in the income statement when the liabilities are derecognised or impaired, as well as through the amortisation process.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits would be required to settle the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan and announced its main provisions.

Pensions and Other Post-employment Benefits

Obligations to the defined contribution pension plans are recognised as an expense in the income statement as incurred.

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 has elected to avail of the Amendment to IAS 19 "Employee Benefits", to recognise post transition date actuarial gains and losses immediately in the statement of recognised income and expense even though this has not yet been endorsed by the EU.

Any increase in the present value of 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 costs (net).

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 working lives of the employees concerned. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

In accordance with the exemption granted under IFRS 1, IAS 19 has not been applied retrospectively in preparing the Group's transition balance sheet to IFRS. All cumulative actuarial gains and losses as at the transition date (1 January 2004) have therefore been recognised in retained income at that date.

Share Based Payment Transactions.

Group share schemes allow employees to acquire shares in the company. 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 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 the 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 only reversed where entitlements do not vest because all 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 exercised. 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 only in respect of share entitlements granted after 7 November 2002.

The Group does not operate any cash-settled share-based payment schemes or share-based payment transactions with cash alternatives as defined in IFRS 2.

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 rewards that are different from those other segments.

Net Financing Costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in the income statement.

Interest income is recognised in the income statement as it accrues, using the effective interest method. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

Tax

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

Tax currently payable is based on taxable profit for the year. 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.

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.

Deferred income 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 income tax assets and liabilities are not subject to discounting and are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled.

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 will be available to allow all or part of the deferred income tax asset to be utilised.

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

- Goodwill not deductible for tax purposes or 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 nor the taxable profit or loss; and

- Differences relating to investments in subsidiaries to the extent that the timing of the reversal is controlled by the company and they will probably not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred income tax asset relating to the deductible temporary difference arises 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

- In respect of deductible temporary differences associated with investments in subsidiaries in which case deferred tax assets are only recognised to the extent that it is probable the the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income 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 income tax asset to be utilised.

Share Capital

Repurchase of share capital

When share capital recognised as equity is repurchased, 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.

Financial Instruments, Derivatives and Hedging

Financial assets are carried at cost less provision for any permanent diminution in value.

Hedging instruments, principally forward exchange contracts and interest rate swaps, are matched with the underlying hedged transaction. Gains and losses on forward foreign exchange contracts, which relate primarily to purchases of stock for re-sale or for use in manufacturing processes, are included in the carrying amount of stock when purchased and are recognised in the income statement when the sales transactions occur.

Interest rate swap agreements are used where appropriate to manage interest rate exposures. Amounts payable or receivable in respect of these derivatives are recognised as adjustments to interest payable over the period of the contracts.

Additional Accounting Policies to be Applied in 2005

Derivative Financial Instruments

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

Derivative financial instruments are recognised initially at cost and thereafter are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see hedging accounting policy).

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 the account current interest and currency exchange rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles and equates to the quoted market price at the balance sheet date, being the present value of the quoted forward price.

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).

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 hedged risk is adjusted against the carrying amount of the hedged item and reflected in the income statement. Where the adjustment is to the carrying amount of a hedged interest-bearing financial instrument, the adjustment is amortised to the income statement with the objective of achieving full amortisation by maturity.

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised 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 in the income statement. When a firm commitment or forecast transaction results in the recognition of an asset or a liability, the cumulative gain or loss is removed from equity and included in the initial measurement of the asset or liability. Otherwise, the associated gains or losses that had previously been recognised in equity are transferred to the income statement contemporaneously with the materialisation of the hedged transaction. Any gain or loss arising in respect of changes in the time value of the derivative financial instrument is excluded from the measurement of hedge effectiveness and is recognised immediately in the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for special hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised as a separate component of equity is kept in equity until the forecast transaction occurs. If a hedged transaction is no longer anticipated to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement in the period.

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 in the income statement.

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 at which point the related difference are transferred to the income statement as part of the overall gain or loss on sale.