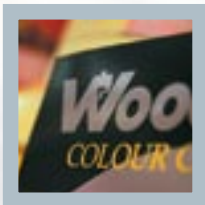




GRAFTON GROUP PLC
ANNUAL REPORT 2005

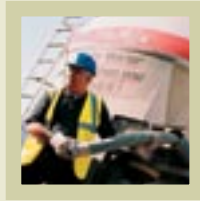


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Group Profile



Grafton Group plc is an independent, profit growth oriented company, operating in the UK and Ireland whose main activities are builders and plumbers merchanting, DIY retailing and mortar manufacturing.

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 the UK, Grafton is the fourth largest merchanting business trading from 349 locations comprising 167 Plumbers Merchanting branches trading under the Plumbase brand, and 182 Builders Merchanting branches trading principally under the Buildbase and Jackson brands.

EuroMix is the market leader in the UK in dry mortar where it trades from a network of eight manufacturing facilities in England and Scotland.

In Northern Ireland, Macnaughton Blair is one of the leading builders merchants in the province trading from 13 locations.

In the Republic of Ireland, the Group is the largest builders and plumbers merchanting business trading nationally from 31 branches under the Chadwicks brand and from 25 branches under the Heiton Buckley brand. The Group also operates the largest steel stock holding business in Ireland trading as Heiton Steel and, under the Chadwicks Hire and Heitons Sam Hire brands, the Group is market leader in the hire of scaffolding, small tool and plant equipment.

The Group is the market leader in DIY retailing in the Republic of Ireland, trading nationally from 22 Woodie's DIY stores and 16 Atlantic Homecare stores. The Group is also engaged in the manufacture of mortar, plastics and windows in the Republic of Ireland.

Since becoming an independent public limited company in 1987, Grafton increased its adjusted earnings per share at an average annual rate of 27 per cent. Grafton Group plc shares are listed on the Irish and London Stock Exchanges.

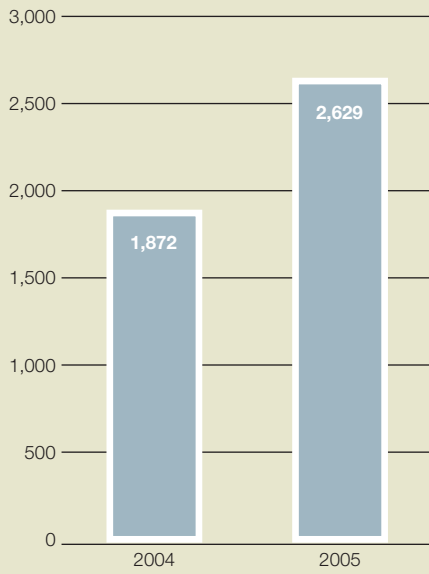
Financial Highlights

	2005	2004	Change
Revenue (€ million)	2,629	1,872	+40%
EBITDA (€ million)	274	203	+35%
Operating profit (€ million)*	216	159	+35%
Profit before taxation (€ million)	192	146	+32%
EPS – basic	70.3c	59.1c	+19%
Adjusted EPS *	67.8c	56.1c	+21%
Share purchase/share redemption per Grafton unit	15.75c	13.0c	+21%
Share purchase/share redemption cover (times)	4.3	4.3	
Interest cover (times)	7.2	7.4	
Cash flow per share #	92c	76c	+21%
Net assets per share	343c	232c	+48%
Net debt to shareholders' funds	72%	70%	
Depreciation charge (€ million)	48.2	34.6	
Amortisation of intangibles (€ million)	2.2	-	
Acquisition and investment expenditure (€ million)	471	85	
Capital expenditure (€ million)	101	89	

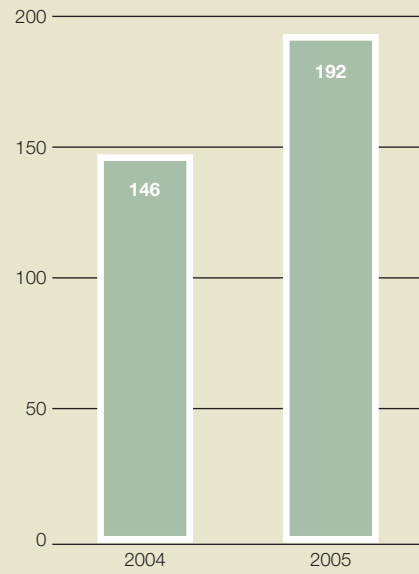
* Before amortisation of intangibles and property profit

Based on profit after tax plus depreciation and intangible amortisation

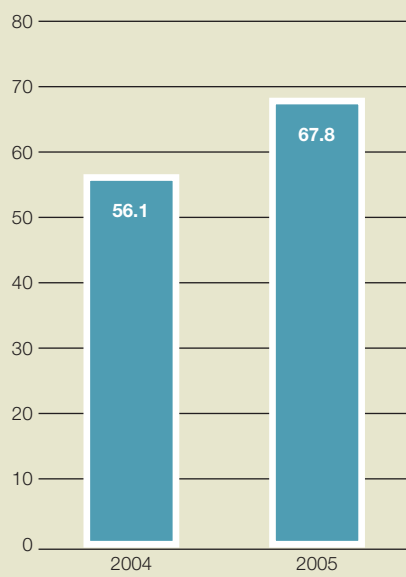
REVENUE
(€ million)



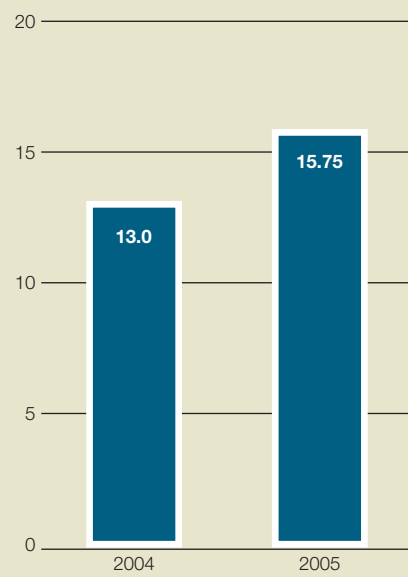
PROFIT BEFORE TAX
(€ million)



ADJUSTED EARNINGS PER SHARE
(€ cent)



SHARE PURCHASE / SHARE REDEMPTION
PER GRAFTON UNIT
(€ cent)



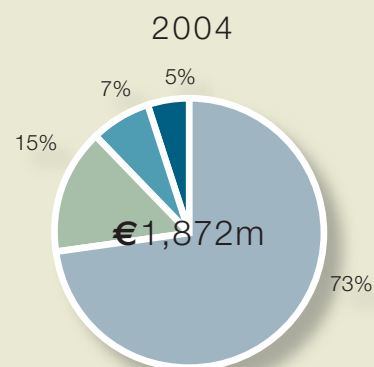
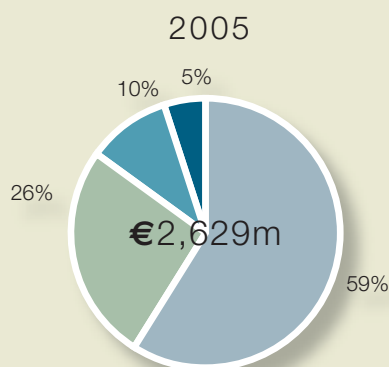
Regions and Divisions

The Group's consistent strategy of broadening its earnings base and developing strong market positions and brands in the UK and Ireland enabled the achievement of new record levels of sales, profits and earnings in 2005.

	Trading Locations		
	UK	Ireland	Total
Builders Merchants	182	67	249
Plumbers Merchants	167	8	175
Manufacturing Plants	8	4	12
DIY	-	42	42
Total	357	121	478

Divisional Turnover

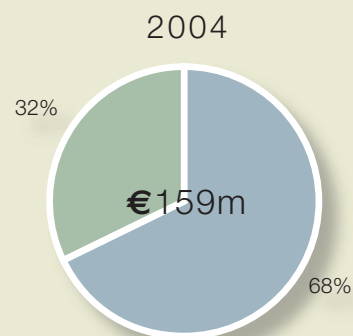
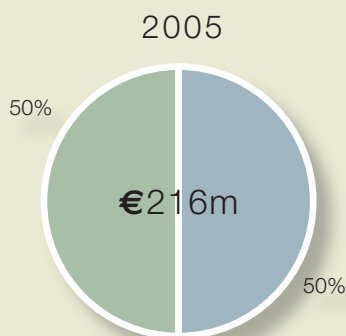
- UK Merchandising
- Irish Merchandising
- Irish DIY Retailing
- Irish and UK Manufacturing



Operating Profit

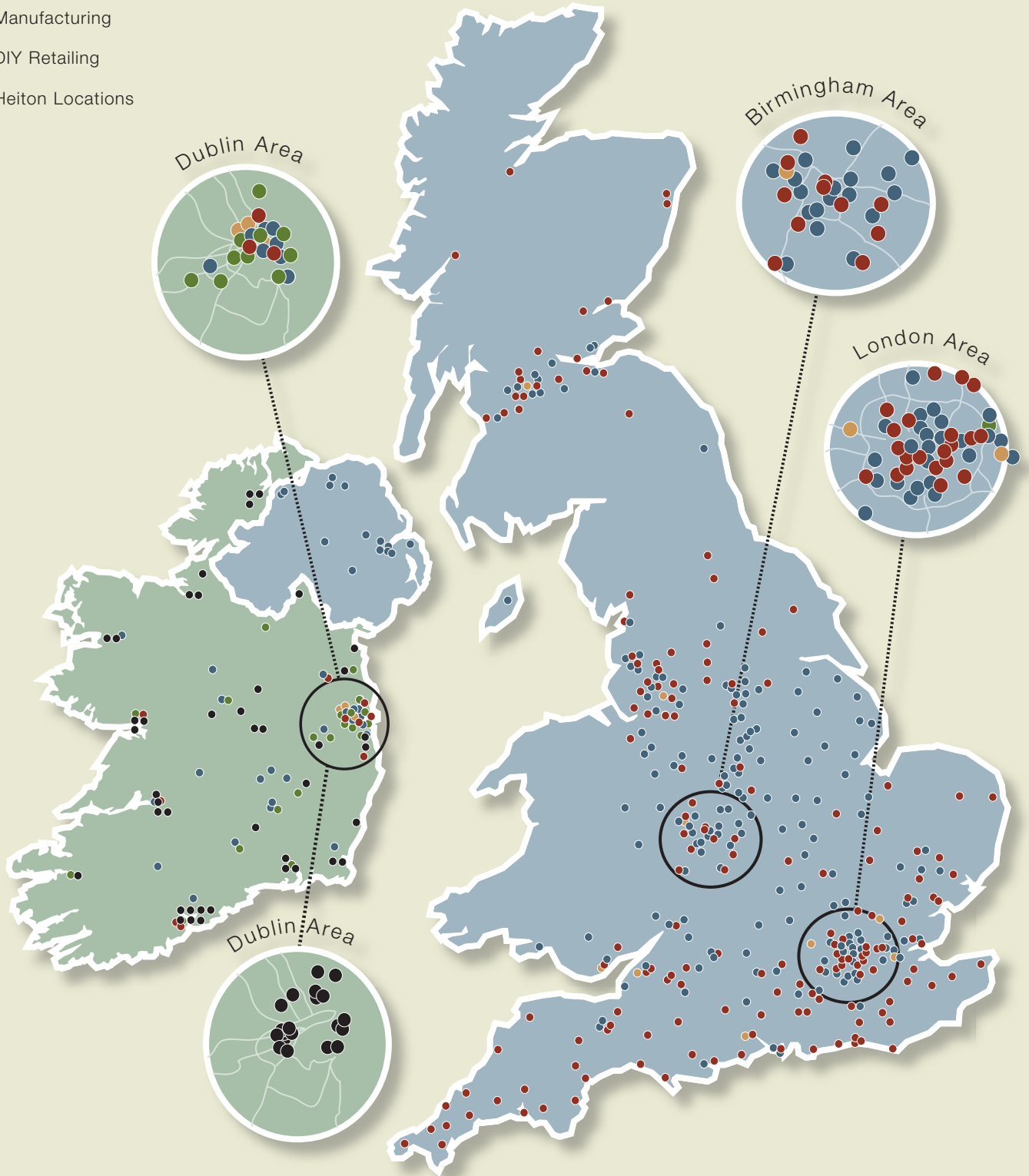
Before amortisation of intangibles and property profit

- UK
- Ireland



Trading Locations

- Builders Merchanding
- Plumbers Merchanding
- Manufacturing
- DIY Retailing
- Heiton Locations



Chairman's Statement



This was the Group's fourteenth consecutive year of record results and also marked completion of the Heitons acquisition, a significant strategic move and the Group's largest acquisition to date.

Grafton Group plc is pleased to report strong growth in sales, profits and earnings for 2005.

HIGHLIGHTS
<ul style="list-style-type: none"> • Sales were up 40 per cent to €2.63 billion (2004: €1.87 billion). • Operating profit increased by 35 per cent to €215.9 million (2004: €159.5 million). • Adjusted earnings per share increased by 21 per cent to 67.8 cent (2004: 56.1 cent). • Basic earnings per share increased by 19 per cent to 70.3 cent (2004: 59.1 cent). • Cash generated from operations was up 26 per cent to €224 million (2004: €178 million). • Heiton Group plc, acquired in January 2005, contributed €48.8 million to Group operating profit for 2005.

There was a significant advance in Irish profit for 2005 due to the Heiton acquisition and strong organic growth in the Group's established Irish merchandising operations. Trading conditions in the UK weakened as the second half developed and overall UK profit for the year was in line with 2004.

The results for 2005 demonstrate the benefit to our shareholders of rebalancing of the Group's operations between the UK and Ireland with stronger profits in Ireland compensating for the slow down in the UK market. The Group's consistent strategy of broadening its earnings base and developing strong market positions and brands in the UK and Ireland enabled the achievement of new record levels of sales, profits and earnings in 2005.

Completion of the acquisition of Heiton Group plc on 7 January 2005 substantially increased the scale of the Group's operations with Irish turnover more than doubling to exceed €1 billion. The acquisition consolidated the Group's market leadership position in the Irish builders merchandising and DIY markets. Heitons performed strongly in 2005 comfortably outperforming pre-acquisition expectations. The Group absorbed the Heiton businesses with a smooth transition on change of ownership to Grafton.

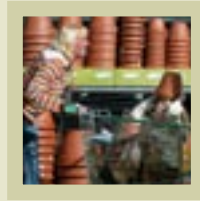
In the Republic of Ireland, the economy grew strongly and provided a very positive backdrop for record levels of residential construction and RMI activity. Irish turnover increased by 129 per cent to €1.03 billion (2004: €452 million) and operating profit increased by 110 per cent to €107.7 million (2004: €51.4 million). An almost full year contribution from Heitons, strong like for like sales growth in the established merchandising business and new store openings in the DIY business resulted in a significant increase in Irish sales and operating profit compared to 2004. The Irish businesses accounted for 39 per cent (2004: 24 per cent) of Group turnover and half (2004: 32 per cent) of Group operating profit for the year.

After a good start to the year, the performance of our UK business was influenced by a slowing UK economy. Despite a more difficult economic background, which led to more subdued demand in the repair, maintenance and improvement market, sales increased by 12 per cent to €1.60 billion (2004: €1.42 billion) and operating profit of €108.2 million matched the record level achieved in 2004.





Chairman's Statement (continued)



Development

To date the Group's successful acquisition strategy has been primarily based on the completion of small and medium sized bolt-on transactions. The successful acquisition of Heitons, a business turning over €608 million from 67 branches, demonstrated the Group's ability to undertake large transactions which are a good strategic fit and deliver shareholder value. The Group continued to benefit from a steady flow of bolt-on acquisitions in recent years completing sixteen transactions in 2005. In the UK, the Group acquired fourteen builders and plumbers merchanting businesses trading from nineteen branches with annual sales of €85 million. These transactions primarily improve our market coverage in the North West and South East. In Ireland, in addition to the Heiton transaction, the Group acquired two businesses, trading from three branches with annual sales of €47 million, which provided the Group with a significant opportunity to expand its product portfolio and geographic coverage in the builders and plumbers merchanting market.

The Group continued its strategy of developing organically completing nineteen projects with the opening of fourteen merchanting branches and a new dry mortar plant in the UK and four DIY stores in Ireland.

The 2005 acquisition program together with organic developments substantially increased the scale of the Group's operations, improved our market positions and provided a sound platform for the continued long term development of the Group. In January 2006 the Group acquired the remaining shares in Heiton's Polish business.

The Group used its healthy cashflow from operations and strong balance sheet to fund its record spend of €571.4 million (2004: €173.80 million) on acquisitions and capital projects while retaining financial strength and balance

sheet flexibility to continue to implement the Group's ongoing development strategy.

Share Purchase

The Company purchased one A ordinary share per Grafton unit for a cash consideration of 7.25 cent paid on 7 October 2005. The Board has decided to purchase a further A ordinary share per Grafton unit for a cash consideration of 8.5 cent payable on 31 March 2006.

The total share purchase payments to shareholders for 2005 amount to 15.75 cent per Grafton Unit, an increase of 21 per cent on total share purchase/redemption payments for 2004 of 13 cent per Grafton Unit.

Board

The Board is pleased to report the appointment of Roderick Ryan (49) as a non-executive Director. Mr. Ryan is a Chartered Accountant by profession and Group Executive Director of Glen Dimplex. He was formerly Managing Partner of Arthur Andersen in Ireland and, as a member of the European Executive Committee, he directed the industry section of Andersen's practice in the European Area. The Board is at an advanced stage in the appointment of a further non-executive Director.

International Financial Reporting Standards

The results for 2005 have been prepared in accordance with the Group's policies under International Financial Reporting Standards (IFRS). The transition date for implementation of IFRS by the Group was 1 January 2004. The financial statements for the year ended 31 December 2004, which were prepared in accordance with accounting practices generally accepted in the Republic of Ireland, have been restated under IFRS with effect from the transition date.

Chairman's Statement (continued)



Full details of the accounting policies adopted by the Group on implementation of IFRS were published on 6 July 2005 and are available on the Group's website www.graftonplc.com.

Operations Review – United Kingdom

UK sales increased by 12 per cent to €1.60 billion (2004: €1.42 billion) and operating profit was in line with last year's record level of €108.2 million. The operating margin declined to 6.8 per cent (2004: 7.6 per cent).

The UK has been a very favourable trading and operating environment since the mid 1990s enabling the Group to develop leading positions in the merchanting and mortar markets. The performance of the UK economy has been impressive over this period. Growth slowed however to 1.7 per cent in 2005 which, although below trend in the toughest year for the economy since the mid 1990's, was higher than growth in both the Euro area and European Union.

A series of interest rate rises, at a time of historically high household debt, and a slow down in the housing market weakened consumer confidence and the pace of consumer spending slowed. There was also a fall in the volume of property transactions and a drop in mortgage equity withdrawal. The combined effect of these factors reduced activity in the RMI market particularly during the second half of the year. This is the principal end-use market for the Group's merchanting sales.

The Group's like for like UK merchanting sales were flat in 2005 compared to an increase of 6.5 per cent in 2004. The increase in first half like for like sales was reversed in the second half in a weaker market. The increase in overall UK sales in 2005 was derived from acquisitions and branch openings in 2004 and 2005. In a more difficult trading environment the Group successfully maintained UK operating profit in line with the previous year.

Consolidation in the UK merchanting market continued in 2005 and the Group actively participated in that process acquiring fourteen builders and plumbers merchanting businesses trading from nineteen branches. Our presence in the UK merchanting market was further strengthened by Heiton's UK business, a six branch specialist drainage and ground engineering business, and the opening of fourteen greenfield branches. The UK merchanting network ended the year trading from 349 locations.

UK Builders Merchanting

The UK Builders merchanting division had a satisfactory year increasing sales and operating profit with the benefit of acquisitions. Sales in the second half of the year trended lower in line with weakening conditions in the RMI market.

Seven single branch merchants were acquired and a further six branches were added from the Heiton deal. Six greenfield branches were opened increasing the divisions trading locations to 182 by the year end.

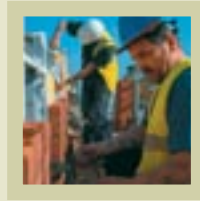
Buildbase increased sales and profit in a less buoyant and more competitive market place. The impact of lower volumes was partly mitigated by successfully implementing cost reduction and efficiency measures. At the end of its tenth year of trading Buildbase is now a key player in the UK merchanting market having successfully developed primarily through acquisition. More recently Buildbase has, in addition, grown its network by greenfield developments including four branch openings in 2005. Tool and equipment hire centres, trading as Hirebase, were added to eight branches.

Jacksons, one of the UK's leading regional merchanting brands with a major presence in the East Midlands market, had a successful second full year as part of the Group.





Chairman's Statement (continued)



In Northern Ireland, Macnaughton Blair, the leading merchant in the province where it trades from thirteen branches, increased sales and operating profit. Market conditions in the province continued to be favourable. The builders merchandising branch in Coleraine, acquired in 2004, was relocated to a new purpose built facility in the town. Macnaughton Blair acquired MFBP, a leading builders merchandising business on the Isle of Man and Houtman, a long established scaffolding business based in Belfast.

UK Plumbers Merchandising

Plumbase is the fourth largest plumbers merchandising chain in the UK with a strong branch presence in the South East, West Country, Midlands, East Anglia and Scotland. Market conditions were demanding for the business in 2005. Like for like sales were down for the year but our confidence in the longer term prospects for the business was demonstrated with the acquisition of seven plumbers merchandising businesses trading from twelve locations and the opening of eight greenfield branches increasing the network to 167 locations by the year end. Cost saving measures and margin improvement partially offset the impact on profit of lower volumes in the established branch network. Plumbase bathroom showrooms and the non-trade element of the business were more exposed to the slowdown in retail sales as consumer demand for housing and RMI related products weakened.

UK Mortar

EuroMix, the market leader in the supply of dry mortar trading from a network of eight dry mortar manufacturing plants, produces a range of quality mortars for use in block and brick-laying. EuroMix supplies the major national and regional building and construction companies involved in residential and commercial construction projects across

England and Scotland. During the year the business expanded its range of value added products including bagged products and sprayed renders.

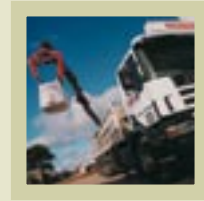
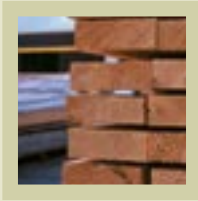
The business had to contend with lower activity in the new housing market, higher raw materials and transport costs and a more competitive trading environment. EuroMix increased sales due to a strong performance in the Harlow and Southampton plants, both of which continue to develop their market position, and the opening of a plant near Bristol in July to service demand in the West Country. The business reported a small decline in operating profit due to a more competitive market and higher input costs.

Operations Review – Republic of Ireland

Irish turnover increased by 129 per cent to €1.03 billion (2004: €452 million). Operating profit increased by 110 per cent to €107.7 million (2004: €51.4 million). The operating profit margin was 10.4 per cent (2004: 11.4 per cent). The overall reduction in margin reflected an increased margin in the established merchandising business and margin dilution arising from integration of the lower margin, heavy end market emphasis of the Heiton business.

The Irish economy has been one of the fastest growing economies in the developed world for well over a decade. In recent years the rate of growth has moderated in line with the economy's long term growth potential estimated at 4/5 per cent but is still significantly ahead of the average growth rate in the Euro area and EU. The growth profile of the economy changed in 2005 with strong growth in exports, a pick up in consumer spending and greater infrastructure and business investment. Consumer spending is believed to have been the principal source of economic growth in the year increasing by more than 5 per cent and supported by

Chairman's Statement (continued)



solid growth in incomes and employment. Job creation was at record levels with total employment reaching 2 million due to strong immigration from the new EU member states.

The construction sector in Ireland continued to be very buoyant in 2005. The rate of growth in residential construction slowed, as widely anticipated, to around 5 per cent with house completions for the year at a record 81,000 units (2004: 77,000 units). The strong increase in employment and the population has created a new stream of demand in the residential property market.

Irish Merchanting

2005 was an excellent year for the Group's Irish builders merchanting division with sales up 141 per cent to €690.5 million (2004: €286.1 million). The acquisition of Heiton's in January 2005 substantially strengthened the Group's builders merchanting interests in Ireland and consolidated Chadwicks and Heiton's position as the largest builders merchanting business in the Irish market.

The Heiton Buckley network of 25 branches is a unique fit with Chadwicks 31 branches with limited overlap and provides the Group with a presence in towns and cities across the country where Chadwicks was not previously represented including Cork City and along the Western Seaboard. Heiton's Irish merchanting operations also incorporate Heiton Steel, Ireland's largest steel stockholding business, and Sam Hire, the leading player in the small plant and tool hire business trading from 14 branches.

The Irish residential construction and repair and maintenance markets performed strongly throughout 2005 aided by low interest rates, high levels of job creation and strong growth in real disposable incomes. This very positive macro economic background was

strongly supportive of sales and profit growth in the Irish merchanting business.

Heiton's merchanting business performed strongly making an operating profit contribution well ahead of pre-acquisition expectations. Chadwicks the Group's core merchanting business also had an exceptional year. Like for like sales in the Heiton Buckley and Chadwicks merchanting branches were up 7 per cent for the year. While both merchants enjoyed good volume growth, there was vigorous competition in the market from the national chains and independents.

Cork Builders Providers and Telfords, two strong regional merchants, produced excellent results for the year increasing sales and operating profit strongly.

The performance of Heiton Steel in 2005 was influenced by a fall in steel prices internationally. The business successfully managed its response to the fall in prices achieving very solid profitability in line with its long term trend performance.

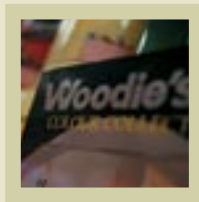
Heiton's Sam Hire business achieved significant profit improvement due primarily to operating cost reductions. The business opened its fourteenth branch at Santry, Dublin and relocated its Naas Road, Dublin branch to Tallaght during 2005. Three further branch openings in Dublin, Mullingar and Tullamore are planned for 2006.

The Heiton and Chadwicks management teams worked closely and successfully to realise substantial purchasing and overhead efficiencies in 2005 which will benefit the Group on an ongoing basis.

The Group acquired Davies plumbing, heating and drainage business and Garvey's builders merchants on 1 December 2005. The acquisition of Davies, which trades from 2 branches in the greater Dublin area, enables the division to broaden its product portfolio into



Chairman's Statement (continued)



an area which offers strong growth opportunities while Garvey's provides the Group with a strong merchandising presence in Roscommon, an important Midlands town.

Irish Retailing

The scale of the Group's Irish retailing operations increased substantially during 2005 due principally to the acquisition of Heiton's retailing business which trades under the Atlantic Homecare and In House at the Panelling Centre brands. At the time of acquisition the Atlantic Homecare DIY chain traded from 15 stores and In-house at the Panelling Centre, which markets a range of high quality kitchen and bedroom panelling products to trade and retail customers, traded from four stores.

Sales in the division were up 110 per cent to €272.6 million (2004:€129.8 million). The division's operating profit increased strongly, particularly during the second half, with contributions from the Atlantic Homecare, and In House at the Panelling Centre businesses and a good performance from Woodie's 2004 and 2005 store openings. Like for like sales in the Atlantic Homecare and Woodie's stores were down 2 per cent for the year reflecting an improvement in trading in the second half.

Growth in consumer spending picked up in 2004. This trend continued throughout 2005 with the benefit of income tax reductions, income growth, an increase in employment and the population and record levels of new house building. While this was an ideal economic background for retailing, there was also a significant increase in retail capacity across the country with the opening of new retail centres. There has been a particularly marked increase in the retail area devoted to DIY superstores with an increase in capacity of 83 per cent over the past two years.

Woodie's had its most active year ever on the development front with the opening of three stores in Naas, County Kildare in the first half and Carrickmines, South Dublin and Drogheda, County Louth in the second half. The Cork and Bray, County Wicklow stores were relocated in order to substantially expand the capacity of both stores to support a wider product offering and to provide greater choice for customers. The Woodie's stores opened in 2004 and 2005 and the two relocated stores performed strongly. Sales in a number of Woodie's established branches were lower due to the more competitive market place.

Atlantic Homecare increased its store network to sixteen with the opening of a new store in Limerick and prior to the year end extended the Mullingar store.

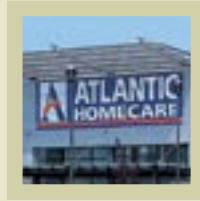
Woodie's Castlebar will officially open on 16th March 2006. Construction of stores in Navan and Nenagh is well advanced with openings expected from Spring 2006.

In House at the Panelling Centre increased sales and profits strongly. Plans are well advanced to continue the growth of this business with the opening of a fifth store in Galway and relocation of the Dun Laoghaire store to a larger facility in Spring 2006.

Irish Manufacturing

CPI's EuroMix division benefited from a buoyant residential construction market growing dry mortar volumes in the greater Dublin area.

Wright, a business engaged in the manufacture and installation of uPVC, aluminium and timber, windows and external doors, was also a beneficiary of the strong housing market increasing sales and profit for the year.



Management and Staff

The strong results achieved in 2005 reflect the commitment, skill and dedication of the management and staff throughout the Group's businesses in the UK and Ireland. People are central to our businesses and these qualities are required to enable the Group to continue to deliver above average results. On behalf of the Board, I take this opportunity to thank all management and staff throughout the Group for their support in achieving another set of record results for the Group and we warmly welcome all of those who have joined the Group during 2005 including our colleagues from Heiton Group plc, our largest ever acquisition.

Outlook

In Ireland, the fundamental factors which have driven strong growth in recent years remain favourable with the economy expected to perform strongly in 2006. The positive medium term outlook is based on subdued inflation pressure, a modest increase in the Euro interest rate, continued job growth and impressive growth in domestic demand helped by maturing SSIA accounts.

The prospects of the Irish housing market are also positive. The trend in housing registrations and planning permissions, leading indicators of housing completions, are supportive of a continuation of strong residential construction activity supported by both increased employment and immigration.

We expect that the favourable macro economic background in Ireland should lead to positive trading conditions for the Heiton Buckley and Chadwicks businesses and that both merchants should be beneficiaries of strong levels of activity anticipated in both the residential construction and RMI markets throughout 2006.

Consumer spending is expected to be a key driver of economic growth in 2006 and should be supportive of good demand in the Irish DIY market. We expect the sector to continue to be very competitive as the impact of additional capacity added in recent years unfolds and development of the market moves towards maturity.

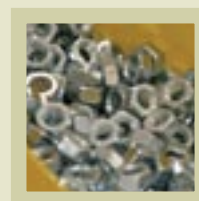
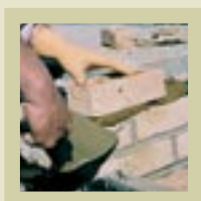
In the UK, the economy grew below trend in 2005 due to weaker consumer spending, a key component of growth in recent years. Recent economic data is encouraging with a strong recovery in housing transactions and mortgage approvals. Improving consumer confidence should support a gradual recovery in the RMI market but we continue to expect lower first half like for like sales in our merchandising business compared to the strong performance in the first half of 2005. The UK dry mortar market is expected to remain competitive due to the increased capacity in the sector. In a more difficult market, the UK business continues to focus on cost control and scale related synergies throughout the merchandising network. The Group also expects to benefit from its healthy pipeline of potential acquisition and organic growth opportunities.

The Group's strong financial position and substantial cashflows leave it well placed to continue to pursue its successful strategy.

On behalf of the Board

Michael Chadwick
Chairman

Group Finance Review



Results

The Group's track record of superior profit and earnings growth continued strongly in 2005 with profit before tax up 32 per cent to €192.2 million (2004: €145.8 million) and earnings per share before amortisation of intangibles and property profit up 21 per cent to 67.8 cent (2004: 56.1 cent). The scale of the Group's development over the last three years was reflected in turnover more than doubling to €2.63 billion from €1.15 billion in 2002. The Group's trading locations in the UK and Ireland over the same period increased to 478 at the end of 2005 from 294 at the end of 2002.

Components of Operating Profit Growth

Operating profit before amortisation of intangibles increased by €56.4 million (35 per cent) to €215.9 million from €159.5 million in 2004. Heiton Group plc, acquired in January 2005, contributed operating profit of €48.8 million in the year. Incremental operating profit from 17 bolt on acquisitions in the UK completed during 2004 amounted to €3.6 million. The operating profit contribution from 14 bolt on acquisitions in the UK completed during 2005 amounted to €3 million.

Like for like operating profit in the Irish business increased by €6.5 million (13 per cent) while operating profit in the like for like UK business declined by €2.4 million in a softer market. The Group completed 19 greenfield projects during 2005 which together with the incremental result from the 16 greenfield developments in 2004 reduced operating profit by €1.8 million. The results of the UK business are translated at the average Euro/Sterling exchange rate for the year. Sterling was weaker during 2005 and this resulted in a reduction in operating profit of €800,000 on translation of the UK results into Euro.

Shareholders' Funds

Shareholders' funds increased by 64 per cent to €813.8 million (31 December 2004: €495.5 million). Profit after tax for the year amounted to €166.1 million (2004: €125.9 million). Payments to shareholders as a result of the purchase of A ordinary shares reduced shareholders' funds by €33.7 million (2004: €25.8 million).

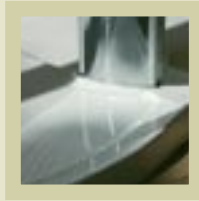
Sterling strength between the end of 2004 and the end of 2005 increased the Euro amount on translation of net assets in the UK business by €7.2 million. The actuarial loss, net of taxation, on the Group's defined benefit pension schemes charged to the Group Statement of Recognised Income and Expense amounted to €7.0 million (2004: €10.6 million).

The issue of Grafton Units during the year increased shareholders' funds by €178.7 million (2004: €1.5 million). The Group issued a total of 24 million Grafton Units during the year comprising the issue of 21.4 million Grafton Units valued at €173.6 million to shareholders in Heiton's, 1.2 million Units issued to UK employees under the Grafton Group (UK) plc Savings Related Share Options Scheme and 1.4 million Units issued under the Group's executive share schemes.

Measures of Financial Performance

Interest cover, an influential measure of the Group's capacity to service its debt obligations, continued to be very comfortable at 7.2 times (2004: 7.4 times).

Net borrowings at 31 December 2005 were €584.2 million compared to €349.2 million at 31 December 2004 giving gearing of 72 per cent compared to 70 per cent at 31 December 2004.



Return on average capital employed in 2005, a critical measure in the assessment of ongoing acquisition and development opportunities by the Group, was 16.5 per cent (2004: 19.9 per cent). The dilution in return on average capital employed was largely due to the substantial investment in Heiton Group plc, the full profit potential of which was not realised in 2005 with further integration benefits expected between 2006 and 2008.

The Group's working capital utilisation continued to improve during 2005 with the working capital intensity ratio falling to 12.2 per cent (2004: 12.7 per cent).

Cashflow

The Group's businesses have traditionally been very cash generative. This has been a key element in the Group's ability to finance a major acquisition and development program in recent years primarily from internal resources. Cashflow from operations was up 26 per cent to €224.5 million (2004: €178.2 million). The cashflow from operations includes an investment of €28.5 million (2005: €19.6 million) in working capital required to support the greenfield branch development program and increased like for like sales. In addition to cashflow from operations, asset disposals generated cashflow of €32.8 million (2004: €25.4 million).

The Group's spend on acquisitions and capital expenditure amounted to €571.5 million (2004: €173.8 million). Less than one third of this acquisition and capital spend was funded from the issue of shares worth €173.6 million to part fund the Heiton deal with the remainder of the funding coming from internal cash flow and leveraging the Group's balance sheet through an increase in net debt. The Group's debt to equity ratio of 72 per cent at 31 December 2005 was in line with recent years.

Acquisitions

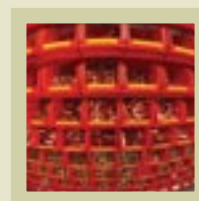
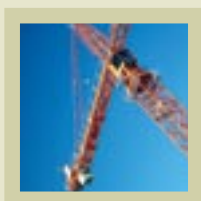
The Group completed the acquisition of Heiton Group plc and sixteen bolt on acquisition during 2005 increasing annual turnover by €745 million and the branch network by 89 locations. The total spend on acquisitions including debt acquired amounted to €470.9 million. This comprised expenditure of €359.0 million to acquire the remaining 71 per cent of the shares in Heitons not already owned by the Group and €111.9 million on 16 bolt on acquisitions. Deferred acquisition consideration paid during 2005 on prior year acquisitions amounted to €6.8 million.

Capital Expenditure and Asset Disposals

Capital Expenditure amounted to €100.6 million during 2005 (2004: €88.9 million). This cash outflow comprised replacement capital expenditure of €44.3 million (2004: €39.9 million) and expenditure of €56.3 million (2004: €49.0 million) on development projects. Expenditure on development projects included the opening of 14 builders and plumbers merchanting branches in the UK, 4 DIY stores in the Republic of Ireland and a new dry mortar plant in the UK. Development expenditure also incorporated various branch refurbishment and development initiatives including relocation of the Macnaughton Blair branch in Coleraine and a substantial redevelopment of Chadwick's branch in Naas, County Kildare.

The Group realised profit of €9.6 million on the disposal of surplus properties during 2005. This was the Group's fifth consecutive year to realise significant profits from the disposal of surplus properties. These profits have been excluded in calculating adjusted earnings per share.

Group Finance Review (continued)



Group Financing

The Group historically holds significant short term cash deposits and these amounted to €334.0 million at 31 December 2005 (31 December 2004: €135.9 million). The Group had gross debt of €918.2 million at 31 December 2005. Almost 60 per cent of gross debt is repayable after more than two years from the end of 2005 including 20 per cent which is repayable after more than 5 years. Group debt of €389.8 million at 31 December 2005 which is repayable within two years is largely matched by cash balances and deposits of €334.0 million.

In June 2005, the Group raised \$325 million through private placement of seven year and ten year senior notes with a group of US investors. The proceeds were converted into Sterling and used to partly refinance existing borrowings with the remainder held for general corporate purposes. This competitively priced source of funds strengthened the Group's balance sheet and improved the maturity profile of Group debt.

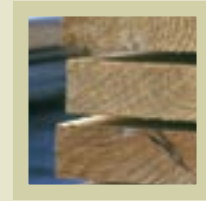
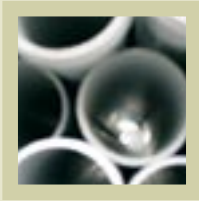
The Group had undrawn committed bank facilities of €41.8 million at 31 December 2005.

International Financial Reporting Standards

The results for 2005 have been prepared in accordance with the Group's policies under International Financial Reporting Standards (IFRS). Financial statements for the year ended 31 December 2004, which were prepared in accordance with accounting practices generally accepted in the Republic of Ireland, have been restated under IFRS with effect from the transition date of 1 January 2004.

The adoption of IFRS had a limited impact on the 2005 full year results and net assets of the Group. The change to IFRS represents an accounting change only and does not affect the underlying operations or cashflow generation of the Group. The principal changes for the Group arising from the introduction of IFRS were as follows:

- IFRS 2, 'Share based payment' requires expensing the cost of employee and executive rewards under the Group's share schemes through the Group Income Statement using a binomial model. The share based payments charge in the 2005 Group Income Statement is €2.2 million (2004: €0.9 million).
- Under IFRS 3, 'Business Combinations' goodwill is no longer amortised but must be tested annually for impairment. Under IAS 38, 'Intangible assets' there is a requirement to separately identify and amortise other intangibles acquired. The income statement for 2005 includes a charge of €2.2 million in respect of the amortisation of brands and customer lists associated with the Heiton acquisition.
- IAS 19, 'Employee Benefits', requires the assets and liabilities of defined benefit pension schemes to be shown on the face of the Group Balance Sheet. Actuarial gains and losses are charged to equity and, as a result, the net deficit of the Group's defined benefit pension schemes is carried in full on the Group's balance sheet. The balance sheet at 31 December 2005 includes a net pension scheme liability of €59 million, after recording actuarial losses of €8.9 million that arose in the year and were charged in the Group's Statement of Recognised Income and Expense.



- Under IAS 12, 'Income Taxes', deferred tax is recognised in respect of all temporary timing differences at the balance sheet date between the tax basis of assets and liabilities and their carrying value for financial reporting purposes. The Group's balance sheet at 31 December 2005 includes an additional deferred tax liability of €27.3 million. This results from the creation of deferred tax in respect of fair value revaluations of properties in the balance sheets of businesses acquired, the revaluation of Irish freehold and long leasehold properties in 1998 and gains on property disposals which were rolled over.

Summary

The Group's strong cashflows and balance sheet leave it well positioned to continue growing its UK and Irish businesses through acquisition and organic development.

Colm Ó Nualláin

Finance Director

Principal Brands

UK Builders Merchants

The UK builders merchants division trades from 182 branches, principally under the Buildbase brand, and has a strong presence in the South East, Midlands and North of England.

BUILDBASE

Irish Builders Merchants

In the Republic of Ireland, the Group operates the largest builders and plumbers merchandising business trading from 31 branches nationally under the Chadwicks brand and from 25 branches nationally under the Heiton Buckley brand.

CHADWICKS

Heiton Buckley
BUILDERS MERCHANTS

Principal Brands

Jacksons trades from 20 branches in the East Midlands where it is the largest builders merchant in the region.

jackson
Building Centres
JACKSON BUILDING CENTRES LIMITED

DIY Retailing

In the Republic of Ireland, the Group is the largest DIY retailer trading from 22 stores nationally under the Woodie's DIY brand and from 16 stores nationally under the Atlantic Homecare brand.

Woodie's DIY
AND GARDEN CENTRES

ATLANTIC
HOMECARE

UK Plumbers Merchants

The UK plumbers merchandising division, trading under the Plumbase brand from 167 branches, has a strong presence in the South East, Midlands, East Anglia, West Country and Scotland.

PLUMBASE

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 8 plants which provide market coverage across England and Scotland.

EuroMix

Board of Directors

Michael Chadwick

BA, MSc

EXECUTIVE CHAIRMAN

Michael Chadwick (54) 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 other companies in which he has invested.

Colm Ó Nualláin

B Comm, FCA

FINANCE DIRECTOR

Colm Ó Nualláin (52) 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 Martin

BBS, MA, FCA

EXECUTIVE DIRECTOR

Leo Martin (54) was appointed to the Board in January 2005 following the acquisition of Heiton Group plc. He was Chief Executive of Heiton Group plc, having joined Heiton and the Board of Heiton as Finance Director in 1986. Prior to joining Heiton he was a Director of the Switzer Group in Ireland with responsibility for finance and the catalogue export business.

Fergus Malone

BE, MBA

EXECUTIVE DIRECTOR

Fergus Malone (63) 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.



Anthony E. Collins

MA, B Comm, Solicitor

DEPUTY CHAIRMAN -
NON-EXECUTIVE

Anthony Collins (66) 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, Chairman of the Advisory Board of the Automobile Association Ireland and a Director of the Institute of Directors in Ireland Ltd.

Richard W. Jewson

(UK) MA

NON-EXECUTIVE DIRECTOR

Richard Jewson (61) joined the Board in 1995. He is Chairman of Archant Ltd and PFI Infrastructure plc and a Director of Temple Bar Investment Trust plc and Lexi Holdings plc. He was previously Chairman of Savills plc, Queens Moat House plc and Meyer International plc.

Gillian Bowler

(UK)

NON-EXECUTIVE DIRECTOR

Gillian Bowler (53) joined the Board in 1995. She is Chairman of Irish Life & Permanent plc and Budget Travel Ltd and is a Director of the VHI. She is also Chairman of Fáilte Ireland. She formerly served as Chairman of 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.

Charles Rinn

MBA FCCA

GROUP FINANCIAL
CONTROLLER AND
SECRETARY

Board Committees

Audit

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

Remuneration

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

Nomination

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

Finance

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

Financial Review

Group Income Statements	IFRS		Irish GAAP						
	2005 €m	2004 €m	2003 €m	2002 €m	2001 €m	2000 €m	1999 €m	1998 €m	1997 €m
Revenue	2,629.5	1,872.3	1,496.0	1,152.4	988.8	830.5	620.2	427.6	327.6
Operating profit*	213.8	161.1	115.8	89.7	77.3	64.6	46.3	33.1	25.6
Exceptional profit	9.6	7.5	3.4	3.7	2.3	-	-	-	-
Finance cost (net)	(31.2)	(22.8)	(17.2)	(13.2)	(12.4)	(11.8)	(8.1)	(4.9)	(2.4)
Profit before taxation	192.2	145.8	102.0	80.2	67.2	52.8	38.2	28.2	23.2
Taxation	(26.1)	(19.9)	(15.3)	(12.0)	(8.7)	(6.9)	(4.6)	(4.0)	(3.5)
Profit after taxation	166.1	125.9	86.7	68.2	58.5	45.9	33.6	24.2	19.7
<hr/>									
Balance Sheets	2005 €m	2004 €m	2003 €m	2002 €m	2001 €m	2000 €m	1999 €m	1998 €m	1997 €m
Capital employed									
Goodwill and intangibles	547.8	247.1	210.8	100.4	62.5	51.7	31.7	9.8	-
Property, plant and equipment	623.2	406.2	346.8	302.3	251.5	209.6	175.9	140.7	61.8
Financial assets	0.3	47.0	33.7	33.6	33.6	18.9	19.0	0.2	12.5
Net current assets#	303.2	195.2	198.5	144.3	129.5	106.5	76.2	60.2	29.4
Other net non-current liabilities	(76.5)	(50.8)	(28.3)	(18.0)	(17.7)	(16.1)	(14.1)	(12.4)	(1.2)
	1,398.0	844.7	761.5	562.6	459.4	370.6	288.7	198.5	102.5
<hr/>									
Financed as follows:									
Shareholders' funds equity	813.8	495.5	449.8	322.0	264.5	216.5	181.3	139.8	78.6
Net debt/(cash)	584.2	349.2	311.7	240.6	194.9	154.1	107.4	58.7	23.9
	1,398.0	844.7	761.5	562.6	459.4	370.6	288.7	198.5	102.5
<hr/>									
Other Information									
Acquisitions & investments	477.7	88.7	220.1	88.8	61.8	56.6	63.6	53.4	29.7
Purchase of property, plant and equipment	100.6	88.9	69.3	68.0	42.0	43.2	29.5	20.6	14.6
	578.3	177.6	289.4	156.8	103.8	99.8	93.1	74.0	44.3
Depreciation and intangible amortisation	50.4	34.6	37.6	26.6	21.9	16.5	12.6	7.2	5.4
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Financial Highlights	2005	2004	2003	2002	2001	2000	1999	1998	1997
Earnings per share before amortisation & exceptional profit (cent)	67.8	56.1	45.1	37.0	32.1	25.9	19.5	14.2	11.6
Share purchase/dividend (cent)	15.75	13.0	10.5	8.5	7.5	6.1	4.5	3.3	2.7
Cashflow per share (cent)	91.6	75.4	60.1	53.9	46.2	36.2	27.5	19.4	15.7
Net assets per share (cent)	342.8	232.2	211.5	181.6	150.2	124.3	104.9	84.9	48.8
Interest cover (times)	7.2	7.4	7.5	7.4	6.7	5.7	5.8	6.8	10.6
Share purchase/dividend cover	4.3	4.3	4.3	4.4	4.3	4.3	4.3	4.3	4.3
Net debt to shareholders' funds	72%	70%	69%	75%	74%	71%	59%	42%	30%

The summary financial information is stated under IFRS for 2005 and 2004 and under Irish GAAP for all years from 1987 to 2003.

* Including income from financial assets and after charging amortisation of intangible assets

Excluding cash/debt

Irish GAAP

1996	1995	1994	1993	1992	1991	1990	1989	1988	1987
€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
244.0	195.7	169.0	133.2	122.4	119.9	109.5	87.8	67.6	62.8
19.1	14.2	11.3	6.1	6.5	6.1	7.3	5.7	3.3	2.2
1.8	0.8	-	-	-	-	-	-	-	-
(1.3)	(1.1)	(1.2)	(0.9)	(1.6)	(1.6)	(0.7)	(0.8)	(0.5)	(0.6)
19.6	13.9	10.1	5.2	4.9	4.5	6.6	4.9	2.8	1.6
(2.9)	(2.5)	(2.1)	(1.1)	(1.2)	(1.1)	(2.1)	(1.8)	(0.7)	(0.4)
16.7	11.4	8.0	4.1	3.7	3.4	4.5	3.1	2.1	1.2

1996	1995	1994	1993	1992	1991	1990	1989	1988	1987
€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
-	-	-	-	-	-	-	-	-	-
48.5	43.2	40.1	35.9	33.0	33.7	30.6	21.2	19.4	18.1
0.1	-	1.2	3.4	1.0	1.9	1.3	-	-	0.4
21.4	21.5	18.2	17.9	18.4	18.6	18.7	16.1	11.1	9.3
(1.1)	(1.1)	(1.1)	(1.1)	(1.0)	(1.0)	(1.0)	(0.6)	(0.5)	(0.2)
68.9	63.6	58.4	56.1	51.4	53.2	49.6	36.7	30.0	27.6

70.6	57.7	49.9	45.7	42.2	40.7	38.7	36.0	25.1	23.9
(1.7)	5.9	8.5	10.4	9.2	12.5	10.9	0.7	4.9	3.7
68.9	63.6	58.4	56.1	51.4	53.2	49.6	36.7	30.0	27.6

8.0	1.4	5.8	2.7	-	1.2	7.8	0.1	1.6	-
7.6	7.7	5.7	5.2	2.4	5.9	7.8	3.5	2.7	1.3
15.6	9.1	11.5	7.9	2.4	7.1	15.6	3.6	4.3	1.3
4.2	3.6	3.0	2.6	2.1	2.1	1.4	1.0	0.9	1.1

1996	1995	1994	1993	1992	1991	1990	1989	1988	1987
9.0	6.5	4.8	2.5	2.2	2.0	2.7	2.3	1.6	0.9
2.1	1.5	1.0	0.9	0.8	0.7	0.7	0.6	0.5	0.4
13.1	9.5	7.0	4.3	3.7	3.5	3.8	3.3	2.4	1.8
44.2	36.6	31.7	29.3	27.0	26.2	24.9	23.1	20.2	19.4
15.4	13.1	9.8	7.0	4.1	3.8	10.2	6.9	6.7	3.8
4.3	4.3	4.7	2.9	2.9	2.7	3.8	3.8	3.3	2.4
-	10%	17%	23%	22%	31%	28%	2%	19%	16%

Report of the Directors

The Directors present their report to the shareholders together with the audited financial statements for the year ended 31 December 2005.

Group Results

Group revenue of €2.63 billion was 40 per cent higher than Group revenue of €1.87 billion in 2004. Group profit before taxation amounted to €192.2 million compared with €145.8 million in the previous year, an increase of 32 per cent. Basic earnings per share amounted to 70.3c compared with 59.1c in the previous year, an increase of 19 per cent. Adjusted earnings per share (before amortisation of intangible assets and profit on disposal of property) increased by 21 per cent to 67.8c compared to 56.1c in 2004. After deducting taxation of €26.1 million, retained profit of €166.1 million was transferred to reserves. The cost of purchasing two A Ordinary Share per Grafton Unit on 29 March 2005 and 7 October 2005 amounted to €33.75 million. The financial statements for the year ended 31 December 2005 are set out in detail on pages 45 to 107.

Share Purchase

Following the purchase of one A Ordinary Share per Grafton Unit for a cash consideration of 7.25 cent on 7 October 2005, the Board approved the purchase of one A Ordinary Share per Grafton Unit for cash consideration of 8.5 cent payable on 31 March 2006, giving total payments for the year of 15.75 cent. This represents an increase of 21 per cent on share purchase/redemption payments of 13.0 cent paid for 2004.

Review of the Business

Shareholders are referred to the Chairman's Statement and Group Financial Review which contain a review of operations, the financial performance of the Group and the outlook for 2006.

The principle risks and uncertainties faced by the Group's businesses relate to the macro economic environment in both Ireland and the UK. The level of activity in the residential and non-residential construction and in the repair, maintenance and improvement markets in particular influence demand in the Group's UK and Irish builders merchenting, mortar and DIY businesses. Activity in these markets is sensitive to economic conditions generally including economic growth, interest rates, inflation, unemployment and demographic trends.

During 2005 the Irish economy experienced very buoyant trading conditions in the construction sector generally and the Group's Irish businesses benefited accordingly. In the UK, the trading conditions in the RMI sector weakened as the year progressed and the profitability of the Group's core activities was relatively flat for the year.

An important element of the Group's strategy over the past ten years has been growth through bolt-on acquisitions combined with a small number of larger strategically based acquisitions. The Group cannot control the pace of consolidation in the builders' merchenting markets and the pace of acquisition activity going forward is not predictable although the Group continues to have a healthy pipeline of potential acquisitions.

The Group's objective is to maintain or develop strong market positions in the markets in which Group companies operate. The Group has traditionally grown a number of its businesses primarily or mainly through organic and greenfield development. The Group is committed to continue this development as long as suitable opportunities can be identified and capitalised upon.

Board of Directors

Mr. Michael Chadwick and Mr. Colm Ó Nualláin retire from the board by rotation and, being eligible, offer themselves for re-election.

Mr. Anthony 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.

Report of the Directors

Mr. Roderick Ryan was appointed to the Board with effect from 15 March 2006 and, in accordance with the Articles of Association, holds office until the Annual General Meeting and, being eligible, offers himself for re-election.

The Directors seeking re-election do not have service contracts with the Company.

Share Capital

At 31 December 2005, a Grafton Unit comprised one ordinary share of 5 cent and seven 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.

Substantial Holdings

So far as the Company is aware, in addition to the Chairman, Mr. Michael Chadwick, whose holding of 18,837,849 ordinary shares represents 7.9% of the shares in issue, the following held shares representing three per cent or more of its ordinary share capital at 14 March 2006.

Name	Holding	%
Bank of Ireland Asset Management Limited*	26,841,710	11.3
Bank of Ireland Nominees Ltd NRI Account#	18,605,360	7.8
Bank of Ireland Nominees Ltd NRS Account	16,420,567	6.9
Goodbody Stockbrokers Nominees Ltd. GSCLT Account	13,269,225	5.6
Citibank Nominees (Ireland) Ltd Exempt Account	8,497,812	3.6

* This nominee shareholder has informed the company that this shareholding relates to 135 different holdings.

This nominee shareholder has informed the company that this shareholding relates to 113 different holdings.

The 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.

International Financial Reporting Standards

The results for 2005 have been prepared in accordance with the Group's policies under International Financial Reporting Standards (IFRS). The transition date for implementation of IFRS by the Group was 1 January 2004. The financial statements for the year ended 31 December 2004, which were prepared in accordance with accounting practices generally accepted in the Republic of Ireland, have been restated under IFRS with effect from the transition date.

Full details of the accounting policies adopted by the Group on implementation of IFRS were published on 6 July 2005 and are available on the Group's website www.graftonplc.com.

Companies (Auditing and Accountancy) Act 2003

The Directors note that the Companies (Auditing and Accountancy) Act 2003 has been issued and continue to assess its implications for the Group.

Report of the Directors

Subsidiaries

The Group's principal operating subsidiary undertakings are set out on pages 93 and 94.

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 Berkley Court Hotel, Landsdowne Road, Dublin 4 on 8 May 2006 at 12.30 pm and your attention is drawn to the circular enclosed with this report 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

14 March 2006

Corporate Social Responsibility

The Group has long recognised 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 where 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.

Health and Safety

The Group is committed to achieving the best practicable standards 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 actively work to identify and minimise health and safety risks. They try 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 associated cost of claims from employees and customers.

Human Resources

The success of the Group over a long period is due to 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 are recognised as good employers in the UK and Ireland. We aim to reward management and staff fairly by reference to skills, performance, peers and local market conditions. We provide incentives to management and staff through remuneration policies which 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.

We are 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 programs are important to the growth and prosperity of our business. Significant attention and resources are devoted to this area. Training programs directly organised by Group businesses, include the Plumbase Academy, 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 programs help to ensure that we develop, retain and attract the best talent at all levels in our business. We aim to fill vacancies through internal promotions and complement internal appointments with recruitment from outside the organisation.

We have Revenue approved share schemes in place in the UK and Ireland which enable employees to share in the success and future growth of the Group. The majority of our employees in Ireland are members of the Group's Share Participation Scheme which has enabled them to benefit from acquiring shares in the Group tax efficiently. Following a highly successful first offer under the Group's UK SAYE Scheme in 2001 which matured in 2005, the Group launched a new invitation to almost 5,000 eligible UK employees to acquire attractively discounted shares under the scheme.

Corporate Social Responsibility

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. We also support a range of charitable causes, mainly at local level, by giving donations.

In Ireland, Woodie's DIY are sponsor of the senior track and field championships, an important event in the Irish sporting calendar featuring the best athletes in Ireland across almost thirty disciplines of athletics. Oxford, the location of the first Buildbase branch acquired in 1996 and head office to the business, is also home to Oxford United Football Club who are sponsored by Buildbase. Jacksons are sponsor to the Lincoln 10 kilometre race, an important sporting event in the Lincoln area. Employees across the Group also take part in different fundraising activities. Staff at Buildbase raised over €150,000 for Macmillan Cancer Relief and staff at Jacksons raised funds for the Lincolnshire and Nottinghamshire Air Ambulance.

Corporate Governance

Compliance with the Combined Code

The Board is committed to maintaining the highest standards of Corporate Governance. The Board is accountable to the Company's shareholders for good governance and this statement describes how the Board applies the principles of good governance set out in the Combined Code (as appended to the Listing Rules of the Financial Services Authority) and the revised Combined Code ("2003 FRC Combined Code") that has applied to the Company with effect from 1 January 2004.

The Board

As at 31 December 2005, the Board of Directors was made up of 7 members comprising the Executive Chairman, three executive Directors and three non-executive Directors, who are collectively responsible for the success of the Group. Mr. Anthony Collins, Deputy Chairman, is Senior Independent Director. Directors' biographical details are set out on page 23. The Directors of the Group have extensive knowledge of the builders merchandising, DIY retailing and mortar manufacturing businesses operated by the Group in the UK and Ireland.

The Board routinely meets six 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 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 the Directors and the Company Secretary; approving policies relating to Directors' remuneration and the severance of Directors contracts 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 all 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 also periodically meets senior management of the Group's businesses in order to help the Board gain a deeper understanding of the Group's operations and markets.

The Board continues to hold the view that there remains a compelling commercial benefit to the Group and its shareholders in the combining of the role of Chairman and Chief Executive, and the holding of that combined office by Mr. Michael Chadwick. The combination of the roles are balanced from a governance point of view by the strong input of the non-executive Directors of the Group's 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.

Corporate Governance

Four non-executive Directors, Mr. Anthony Collins, Ms. Gillian Bowler, Mr. Richard Jewson and Mr. Roderick Ryan 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 four 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 2003 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 are beyond doubt. All three directors are financially independent of the company and have other significant commercial and professional commitments. Over the past twelve years Grafton Group plc has grown from its small mainly Irish base to being the leading player 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 and unique contribution to the Board during this period of growth. Each of these independent 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 has provided the Board with stability and an invaluable resource during a time of significant development and opportunity following completion of the Heiton transaction, the Group's largest ever acquisition completed in January 2005.

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. Additionally, new Directors are subject to election by shareholders at the first opportunity after their appointment. It is the Board's 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 and Mr. Jewson retire from the Board and offer themselves for re-election at the AGM on 8 May 2006 in accordance with Board policy.

The number of independent non-executive Directors represents half of the Board's membership. The overall balance of the Board is kept under ongoing review and with effect from 15 March 2006 the Board appointed Mr. Roderick Ryan as a non-executive Director. The Board is at an advanced stage in the search for an additional non-executive Director and anticipates that a further appointment will be made over the coming months.

The Board has agreed to manage the orderly succession of non-executive Directors over the coming years and to do so without compromising the effectiveness 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 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 and to identify areas in which the effectiveness of the Board may be improved. This is achieved through annual discussion between each Director and the Senior Independent Director. The results of the evaluation process are presented to the Board for consideration of the issues identified.

Corporate Governance

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 representation on the Board and sufficient non-executive Director representation to provide Board balance and also to provide the Board with the breadth of experience to reflect the scale and geographic spread 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 interim and annual results. In addition to the annual and interim results, the Group issues trading and development updates twice yearly and a trading update at the Annual General Meeting. Major acquisitions are also notified to the market and the Company's website www.graftonplc.com presents information about the Group including interim and annual results and all announcements. The Chairman and Finance Director give feedback to the Board on contacts with institutional shareholders 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 attended by each Director during 2005 was as follows:

	Board Committee	Audit Committee	Finance Committee	Remuneration Committee	Nomination
Number of Meetings	6	3	50	5	6
M. Chadwick	6	-	49	-	6
A. E. Collins	6	3	-	5	6
C. Ó Nualláin	6	-	45	-	-
L. J. Martin#	6	-	11	-	-
J. F. Malone	6	-	-	-	-
G. Bowler	6	3	-	5	4
R. W. Jewson	6	3	-	5	3
N. D. Kilroy*	3	-	-	-	-

Mr. C. Rinn is a member of the Finance Committee and attended 48 meetings of the Committee during the year.

Appointed to Finance Committee on 12 September 2005

* Retired from the Board on 31 August 2005

The Independent non-executive Directors met during the year both with and without the Chairman present to evaluate his performance. 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 2003 FRC Combined Code and are available from the company and can also be found on the company's website at www.graftonplc.com. Membership of the various committees is shown on page 23. The Company Secretary is secretary to all Board Committees.

Corporate Governance

Audit Committee

During the year the Audit Committee comprised Richard W. Jewson, who chairs the committee, Gillian Bowler and Anthony Collins. 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.

Mr. Richard Jewson brings to the Committee recent and relevant financial experience. It will be seen from the Directors biographical details appearing on page 23 that members of the committee bring a wide range of financial, legal and commercial experience to the Committee.

Under its terms of reference, the Audit Committee monitors the integrity of the Group's financial statements and any formal announcement 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 Reporting Partner is appointed every five years and senior audit staff are rotated on an ongoing basis. Non-audit tax and secretarial services were provided by KPMG during 2005.

The Committee conducts twice yearly reviews of 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 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 Reporting Partner and Tax Partners, together with the Finance Director attend certain Audit Committee meetings at the request of the Chairman. The Committee also meets in private session and twice a year 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 2005 the Audit Committee discharged its responsibilities by:

- Reviewing the Group's draft Financial Statements and draft Interim Result Statement before recommending their approval to the Board and reviewing the external Auditor's detailed reports thereon. In particular, the Committee discussed significant accounting policies, estimates and judgements that had been applied in preparing these reports and received advice from the external auditor in relation to these matters. The Committee also received and considered reports concerning the Group's tax provisions and defined benefit pension schemes. The Committee gained assurance from these reports and discussions with the auditor and executive management that such liabilities were appropriately reflected in the financial statements;
- Reviewing the Group's development and trading updates prior to release;
- Reviewing the Internal Audit work program and reports prepared by the Group Internal Audit function during the year including consideration of the effectiveness of internal control;
- The Committee received monthly reports which summarised the findings of all internal audit reports prepared by the Group Internal Audit function and twice yearly received copies of the full reports issued by the Group Internal Audit function. These reports cover the work undertaken, actions recommended and the response of the executive management to those recommendations;
- Reviewing the External Auditor's plan for the 2005 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 Performance Improvement Observation Reports on internal controls in the Group's businesses prepared by the Auditor as part of the Group's external audit process;
- Reviewing risks associated with the business;

Corporate Governance

- During the year the Committee considered the accounting policies proposed and ultimately adopted by the Group under International Financial Reporting Standards and took advice from the Auditor on the policies proposed and on areas which required judgement to be applied in adopting certain policies under IFRS and their appropriateness to the business of the Group.

The committee also monitored adoption of the Group's Whistleblowing procedures ensuring that appropriate arrangements were maintained for employees to be able 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 Collins and Mr. Richard Jewson all of whom are determined by the Board to be independent. The committee met 5 times during the year and the Directors in attendance at each meeting is shown in the table on page 33. 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 or on the Company'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'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 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 other members of the executive management as it is designated to consider;
- Approving the rules of any Group share, share option or other incentive scheme and approving the grant, award, allocation or issue of shares, share options or other benefits conferred by such schemes;
- Full details of the committee's remit and work are set out in the Directors' Report on Remuneration on pages 38 to 41.

Nomination Committee

The Nomination Committee comprises Mr. Anthony Collins, Chairman of the committee, Mr. Michael Chadwick, Ms. Gillian Bowler, and Mr. Richard Jewson. The Nomination Committee met six times during the year to consider the Board's membership, to identify additional skills and experience which might benefit the Board's performance, to interview candidates for appointment to the Board and to recommend an appointment to the Board.

During the year the Committee continued the search for two Independent non-executive Directors. External search consultants, specialising in the recruitment of non-executive Directors to publicly quoted companies, were retained in Dublin and London to assist the committee in the identification of potential candidates. The committee recommended the appointment of Mr. Roderick Ryan to the Board and expects to be in a position to make a recommendation to the Board to appoint a further non-executive Director over the coming months.

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.

Corporate Governance

Finance Committee

The Finance Committee comprises Mr. M. Chadwick, Executive Chairman, Mr. C. Ó Nualláin, Finance Director, Mr. L. J. Martin, Executive Director and Mr. C. Rinn, Group Financial Controller and Secretary. The Committee deals with capital expenditure under the limit reserved for the Board, acquisition opportunities, treasury matters and day to day 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 mis-statement or loss.

A process for identifying, evaluating and managing significant risks faced by the Group, in accordance with the Guidance for Directors on the 2003 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 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 all internal audit reports and meets with the internal and external auditor 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 throughout the year considered the significant risks affecting the business and the way in which these risks are managed, controlled and monitored.

Corporate Governance

Going Concern

The Directors, having made enquiries, believe that the Group has adequate resources to continue in operational existence for the foreseeable future and, on this basis, 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 2003 FRC Combined Code for the year under review and has complied with the provisions of the 2003 FRC Combined Code except that the roles of Chairman and Chief Executive are held by the same person and the number of independent non-executive Directors is not more than half of the Board but as noted above the Board appointed an independent non-executive Director with effect from 15 March 2006 and the process of appointing a further non-executive Director is at an advanced stage with an announcement expected in the coming months.

Directors' Report on Remuneration

The Remuneration Committee, comprises Gillian Bowler (Committee Chairman), Anthony E. Collins and 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 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 remuneration of the non-executive Directors is determined by the Board within the 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 2003 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 bonus, pension and the ability to participate in the 1999 Grafton Group Share Scheme and the Grafton Group Employee Share Participation Scheme.

Service Contracts

No executive Director has a service contract with a period of notice extending beyond 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.

Performance Related Bonus

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

Pensions

Three executive Directors participate in a Group defined benefit scheme. Pensions are calculated on basic salary and bonus which is limited to a pre-determined maximum percentage of basic salary. The calculation of pensions under the defined benefit scheme is consistent with the calculation of pension benefits for certain senior executives in the Group.

Share Scheme

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 may be acquired by conversion subject to the conditions set out below:

- (i) Basic shares which cannot be acquired before the expiration of five years, unless the Remuneration Committee agrees to a shorter period which shall not be less than three years, and 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.

Directors' Report on Remuneration

- (ii) Second tier shares which cannot be acquired before the expiration of five years and 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.

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 Pension Entitlements

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

	Basic salary 2005 €'000	Performance related bonus 2005 €'000	Share based payments 2005 €'000	Other benefits 2005 €'000	Total 2005 €'000	Total 2004 €'000
Remuneration for 2005						
Executive Directors						
M. Chadwick	492	341	-	38	871	774
C.Ó Nualláin	390	270	103	32	795	694*
L.J. Martin	336	344	10	28	718	-
J.F. Malone	230	150	-	25	405	410
	1,448	1,105	113	123	2,789	1,878
				Fees 2005 €'000	Total 2005 €'000	Total 2004 €'000
Non-executive Directors						
A.E. Collins				70	70	50
G. Bowler				70	70	40
R.W. Jewson				70	70	50
N.D. Kilroy**				27	27	75
				237	237	215
Sub-total					3,026	2,093
Pension contribution on behalf of executive Directors#					1,166	1,776
Total					4,192	3,869

* Includes €76,000 relating to a share based payments charge for 2004 under IFRS.

** Retired from the Board on 31 August 2005

This reflects the pension contributions made by the Company to the pension scheme as opposed to the IAS 19 pension charge.

Directors' Report on Remuneration

Directors' Pensions

Pension benefits earned by Directors who are members of a defined benefit pension scheme were as follows:

	Increase in accrued pension during the year	Accumulated total accrued pension at year end	Transfer value of the increase in accumulated accrued benefits at year end
	€'000	€'000	€'000
M. Chadwick	55	405	991
C. Ó Nualláin	36	230	453
L. J. Martin	37	234	551

Directors' and Secretary's Interests

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

Director	31 December 2005	31 December 2004
	Grafton Units*	Grafton Units
M. Chadwick	18,837,849	19,098,900
A.E. Collins	420,000	390,000
C. Ó Nualláin	856,949	658,176
L. J. Martin	184,235	-
J.F. Malone	528,476	520,972
G. Bowler	132,000	132,000
R.W. Jewson	42,204	42,204

Mr. M. Chadwick also holds an interest in 2,986,560 (2004: 2,986,560) Grafton Units in his capacity as a Trustee of a family trust and a non-beneficial interest as nominee in 178,640 Grafton Units. Mr. M. Chadwick and Mr. C. Ó Nualláin have an interest in 825,788 (2004: 985,032) Grafton Units as Trustees of the Grafton Group plc Employee Share Participation Scheme.

There have been no changes in the interests of the Directors between 31 December 2005 and the date of this report.

Mr. C. Rinn, Secretary, had an interest in 177,728 Grafton Units at 31 December 2005 (2004: 27,760).

Mr. Fergus Malone had a beneficial interest in 80 ordinary shares in Tribiani Limited, a subsidiary undertaking at 31 December 2005 (31 December 2004: 80). This represented 5 per cent of the issued ordinary shares of the company. Mr. Malone had an entitlement to have the option to invest in an Approved Retirement Fund (ARF). The registered number of the company is 316401.

*At 31 December 2005 a Grafton Unit comprised one ordinary share of 5 cent each and seven 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.

Directors' Report on Remuneration

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				Price €	Period over which Grafton Units may be acquired	
	1 January 2005	31 December 2005	Basic	Second Tier			
L. J. Martin	-	120,000#	60,000	60,000	8.11	Oct 2010	Oct 2015
C. Ó Nualláin	74,192	74,192	74,192	-	2.21	June 2003	May 2008
	159,192	-	-	-	1.81	July 2004	July 2009
	159,192	-	-	-	2.07	May 2005	April 2010
	159,192	159,192	5,306	153,886	2.83	May 2006	April 2011
	127,354	127,354	31,839	95,515	4.00	April 2007	March 2012
	160,000	160,000	80,000	80,000	5.45	Nov 2008	Oct 2013
	160,000	160,000	80,000	80,000	6.20	May 2009	April 2014
	-	120,000#	60,000	60,000	8.11	Oct 2010	Oct 2015
	<u>999,122</u>	<u>800,738</u>	<u>331,337</u>	<u>469,401</u>			
J. F. Malone	159,192	159,192	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
	<u>477,576</u>	<u>477,576</u>	<u>334,303</u>	<u>143,273</u>			

Mr. C Ó Nualláin acquired 159,192 Grafton Units at €1.81 per Unit on 11 March 2005 and 159,192 Grafton Units at €2.07 per Unit on 11 May 2005 in accordance with the rules of the 1999 Grafton Share Scheme. The market value of a Grafton Unit was €9.54 on 11 March 2005 and €8.30 on 11 May 2005.

Mr. C. Rinn had an interest to acquire 383,273 Grafton Units at 31 December 2005 (31 December 2004: 451,852) in accordance with the 1999 Grafton Group Share Scheme including an interest to acquire 80,000 Grafton Units granted on 24 October 2005 at €8.11 per unit. Mr. Rinn acquired 148,579 Grafton Units on 31 May 2005 at an average price of €1.79 per Unit in accordance with the rules of the Grafton Group Share Schemes. The market price of a Grafton Unit on 31 May 2005 was €9.43.

The closing price of a Grafton Unit on 31 December 2005 was €9.20 and the price range during the year was between €7.80 and €10.45.

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.

Entitlements by conversion issued on 24 October 2005

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 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 2005.

The Group 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 2005 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 judgments and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Acts 1963 to 2005. 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.

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.

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.

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 2005 which comprise the Group Income Statement, the Group and Company Balance Sheets, the Group and Company Cash Flow Statements, the Group and Company Statements of Recognised Income and Expense and the related notes on pages 45 to 107. 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 42.

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 in the case of the company as applied in accordance with the provisions of the Companies Acts 1963 to 2005, and have been properly prepared in accordance with the Companies Acts 1963 to 2005 and Article 4 of the IAS Regulation. We also report to you our opinion as to: 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 Directors' Report 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 2003 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 Directors' Report, 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.

Independent Auditor's Report (continued)

To the Members of Grafton Group plc

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 judgements 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.

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 2005 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 2005, of the state of the company's affairs as at 31 December 2005; and
- the financial statements have been properly prepared in accordance with the Companies Acts 1963 to 2005 and Article 4 of the IAS Regulation.

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 directors' report 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 2005 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

14 March 2006

Group Income Statement

For the year ended 31 December 2005

	Notes	2005 €'000	2004 €'000
Revenue	1	2,629,464	1,872,346
Operating costs	2	(2,415,694)	(1,712,802)
Operating profit before property profit		213,770	159,544
Property profit	3	9,640	7,521
Operating profit		223,410	167,065
Income from financial assets		-	1,541
Interest expense	6	(48,803)	(33,339)
Interest income	6	17,574	10,559
Profit before tax		192,181	145,826
Income tax expense	8	(26,102)	(19,936)
Profit after tax for the financial year		166,079	125,890
Profit attributable to equity holders of the company		166,079	125,890
Earnings per ordinary share - basic	10	70.26c	59.14c
Diluted earnings per share	10	68.80c	57.69c

On behalf of the Board

M Chadwick
C Ó Nualláin
Directors
14 March 2006

Group Statement of Recognised Income and Expense

For the year ended 31 December 2005

	Notes	2005 €'000	2004 €'000
Items of income and expense recognised directly within equity:			
Currency translation effects - on foreign currency net investments	22	7,999	(2,176)
- on foreign currency borrowings	22	(811)	20
Actuarial loss on Group defined benefit pension schemes	40	(8,946)	(11,760)
Deferred tax asset on Group defined benefit pension schemes	30	1,944	1,186
Fair value movement in cash flow hedge	23	(1,332)	-
Deferred tax on cash flow hedge	23	167	-
Net expense recognised directly in equity		(979)	(12,730)
Profit after tax for the financial year		166,079	125,890
Total recognised income and expense for the financial year		165,100	113,160
Attributable to:			
Equity holders of the company		165,100	113,160
Effect of Change in accounting policy			
Effect of adoption of IAS 32 and IAS 39 on 1 January 2005 (with 2004 not restated) on:			
Fair value reserve	21	53,974	-
Cash flow hedge reserve – net of deferred tax	23	1,450	-
		55,424	-
Movement on Group Retained Earnings			
	Notes	2005 €'000	2004 €'000
At 1 January		347,044	257,155
Profit for the financial year		166,079	125,890
Redemption of redeemable shares	9	-	(23,392)
Purchase of A ordinary shares	9	(33,751)	(2,131)
Actuarial loss on pensions (net of tax)		(7,002)	(10,574)
Dividend		-	(266)
Deferred tax on share based payments	30	157	123
Transfer from revaluation reserve	20	2,853	239
At 31 December		475,380	347,044
The retained earnings is analysed as follows:			
Parent company		84,816	56,407
Subsidiary undertakings		390,564	290,637
		475,380	347,044

Group Balance Sheet

as at 31 December 2005

	Notes	2005 €'000	2004 €'000
ASSETS			
Non-current assets			
Property, plant and equipment	12	623,228	406,207
Goodwill	11	532,323	247,155
Intangible assets	11	15,519	-
Financial assets	13	256	47,019
Deferred tax assets	30	25,980	14,313
Total non-current assets		1,197,306	714,694
Current assets			
Inventories	14	356,647	237,680
Trade and other receivables	15	499,308	318,165
Derivative and other financial instruments	25	5,708	-
Cash and cash equivalents	34	334,023	135,868
Total current assets		1,195,686	691,713
Total assets		2,392,992	1,406,407
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Equity share capital	17	12,037	10,864
Share premium account	18	281,038	103,600
Capital redemption reserve	19	274	227
Revaluation reserve	20	36,574	34,988
Other reserves	21	3,191	971
Cash flow hedge reserve	23	285	-
Foreign currency translation reserve	22	5,032	(2,156)
Retained earnings		475,380	347,044
Total equity		813,811	495,538
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	24	713,712	378,401
Deferred tax liabilities	30	42,932	27,968
Retirement benefit obligations	40	59,032	35,597
Provisions	26	500	1,552
Total non-current liabilities		816,176	443,518
Current liabilities			
Interest-bearing loans and borrowings	24	209,278	106,696
Trade and other payables	27	498,717	310,786
Current income tax liabilities		50,610	45,436
Derivative financial instruments	25	923	-
Provisions	26	3,477	4,433
Total current liabilities		763,005	467,351
Total liabilities		1,579,181	910,869
Total equity and liabilities		2,392,992	1,406,407

On behalf of the Board

M Chadwick

C Ó Nualláin

Directors

14 March 2006

Group Cash Flow Statement

For the year ended 31 December 2005

	Note	2005 €'000	2004 €'000
Profit before taxation		192,181	145,826
Interest income		(17,574)	(10,559)
Interest expense		48,803	33,339
Income from financial assets		-	(1,541)
Property profit		(9,640)	(7,521)
Operating profit		213,770	159,544
Property development profit		-	6,729
Depreciation		48,248	34,626
Intangible amortisation		2,176	-
Share based payments charge		2,220	892
Net profit on sale of plant and equipment		(2,564)	(2,179)
Contributions to pension schemes in excess of IAS 19 charge		(10,888)	(1,791)
Increase in working capital	32	(28,485)	(19,641)
Cash generated from operations		224,477	178,180
Interest paid		(39,233)	(27,111)
Income taxes paid		(15,226)	(7,301)
Cash flows from operating activities		170,018	143,768
Investing activities			
<i>Inflows</i>			
Proceeds from sale of property, plant and equipment		32,793	25,437
Interest received		7,738	4,849
Dividends received		-	2,364
		40,531	32,650
<i>Outflows</i>			
Acquisition of subsidiary undertakings and businesses	33	(395,451)	(61,805)
Net cash/(debt) acquired with subsidiary undertakings	33	22,897	718
Deferred acquisition consideration		(6,844)	(3,750)
Purchase of property, plant and equipment		(100,559)	(88,917)
Purchase of financial assets		-	(13,351)
		(479,957)	(167,105)
Cash flows from investing activities		(439,426)	(134,455)
Financing activities			
<i>Inflows</i>			
Proceeds from the issue of share capital		178,658	1,288
Proceeds from long term borrowings		373,078	69,843
		551,736	71,131
<i>Outflows</i>			
Repayments of long term borrowings		(35,673)	(5,673)
Redemption of redeemable shares	9	-	(23,392)
Purchase of A ordinary shares	9	(33,751)	(2,131)
Payment of finance lease liabilities		(2,061)	(23,834)
Redemption of loan notes payable		(25,237)	(24,758)
Dividend paid	9	-	(53)
		(96,722)	(79,841)
Cash flows from financing activities		455,014	(8,710)
Net increase in cash and cash equivalents		185,606	603
Cash and cash equivalents at 1 January		105,822	106,557
Effect of exchange rate fluctuations on cash held		416	(1,338)
Cash and cash equivalents at 31 December		291,844	105,822
Cash and cash equivalents are broken down as follows:			
Cash at bank and short term deposits		334,023	135,868
Overdrafts		(42,179)	(30,046)
		291,844	105,822

Company Balance Sheet

as at 31 December 2005

	Notes	2005 €'000	2004 €'000
ASSETS			
Non-current assets			
Property, plant and equipment	12	350	334
Financial assets	13	343,719	20,248
Total non-current assets		344,069	20,582
Current assets			
Trade and other receivables	15	506,560	292,264
Cash and cash equivalents		4,694	2,087
Deferred tax asset	30	280	548
Total current assets		511,534	294,899
Total assets		855,603	315,481
EQUITY			
Capital and reserves attributable to the company's equity holders			
Equity share capital	17	12,037	10,864
Share premium account	18	281,038	103,600
Capital redemption reserve	19	274	227
Other reserve	21	3,191	971
Retained earnings		84,816	56,407
Total equity		381,356	172,069
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	24	19,262	37,258
Deferred tax liabilities	30	69	54
Retirement benefit obligations	40	1,972	4,387
Total non-current liabilities		21,303	41,699
Current liabilities			
Interest-bearing loans and borrowings	24	10,017	9,742
Trade and other payables	27	442,914	91,959
Current income tax liabilities		13	12
Total current liabilities		452,944	101,713
Total liabilities		474,247	143,412
Total equity and liabilities		855,603	315,481

On behalf of the Board

M Chadwick

C Ó Nualláin

Directors

14 March 2006

Company Cash Flow Statement

For the year ended 31 December 2005

	Notes	2005 €'000	2004 €'000
Profit before tax		63,854	41,633
Interest income		(1,401)	(123)
Interest expense		2,543	2,873
Dividends received		(50,600)	(42,700)
Operating profit		14,396	1,683
Depreciation		127	131
Share based payments charge		249	184
Contributions to pension schemes in excess of IAS 19 charge		(3,819)	(1,030)
Increase in working capital and financing	32	137,182	(14,857)
Cash generated from operations		148,135	(13,889)
Interest paid		(1,209)	(2,761)
Income taxes paid		(5)	(96)
Cash flows from operating activities		146,921	(16,746)
Investing activities			
<i>Inflows</i>			
Dividends received		50,600	42,700
Proceeds from sale of property, plant and equipment		-	10,550
		50,600	53,250
<i>Outflows</i>			
Additional investment in subsidiary undertakings		(1,949)	(1,070)
Purchase of property, plant and equipment		(143)	(10,615)
Acquisition of subsidiary undertakings		(319,551)	-
		(321,643)	(11,685)
Cash flows from investing activities		(271,043)	41,565
Financing activities			
<i>Inflows</i>			
Proceeds from the issue of share capital		178,658	1,288
Proceeds from long term borrowings		-	9,177
		178,658	10,465
<i>Outflows</i>			
Repayment of long term borrowings		(9,184)	-
Redemption of redeemable shares	9	-	(23,392)
Purchase of A ordinary shares	9	(33,751)	(2,131)
Redemption of loan notes payable		(9,637)	(9,360)
Dividend paid	9	-	(53)
		(52,572)	(34,936)
Cash flows from financing activities		126,086	(24,471)
Net increase in cash and cash equivalents		1,964	348
Cash and cash equivalents at 1 January		2,083	1,501
Effect of exchange rate fluctuations on cash held		643	234
Cash and cash equivalents at 31 December		4,690	2,083
Cash and cash equivalents are broken down as follows:			
Cash at bank and short term deposits		4,694	2,087
Overdrafts		(4)	(4)
		4,690	2,083

Company Statement of Recognised Income and Expense

	Notes	2005 €'000	2004 €'000
Items of income and expense recognised directly within equity:			
Actuarial loss on Company defined benefit pension schemes	40	(1,404)	(4,609)
Deferred tax asset on Company defined benefit pension schemes	30	176	576
Net expense recognised directly in equity		(1,228)	(4,033)
Profit after tax for the financial year		63,388	40,839
Total recognised income and expense for the financial year		62,160	36,806
Attributable to:			
Equity holders of the Company		62,160	36,806

Accounting Policies

Grafton Group plc (the 'Company') is a company domiciled and incorporated in Ireland. The Group's financial statements for the year ended 31 December 2005 consolidate the individual financial statements of the Company and its subsidiaries (together referred to as "the Group").

The accounting policies applied in the preparation of the financial statements for the year ended 31 December 2005 are set out below. These have been applied consistently with the exception of those accounting policies pertaining to IAS 32 *Financial Instruments: Disclosure and Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement* which in accordance with the transitional provisions of IFRS 1 *First-time Adoption of International Financial Reporting Standards* were not applied in the restatement of the 2004 comparatives presented in these financial statements. Accounting policies affected by IAS 32 and IAS 39 are highlighted and details of the policies applied in the 2004 statutory numbers are also set out below.

As required by European Union (EU) law from 1 January 2005, the Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and their interpretations issued by the International Accounting standards Board (IASB) as adopted by the EU. The individual financial statements of the Company ('Company financial statements') have been prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the Companies Acts, 1963 to 2005 which permits a Company, that publishes its Company and Group financial statements together, to take advantage of the exemption in Section 148(8) of the Companies Act 1963 from presenting to its members its Company income statement and related notes that form part of the approved Company financial statements.

Statement of Compliance

These are the Company's and Group's first financial statements prepared in accordance with IFRS as adopted by the EU and IFRS 1, *First-time Adoption of International Financial Reporting Standards* has been applied.

The IFRSs adopted by the EU applied by the Company and Group in the preparation of these financial statements are those that were effective at 31 December 2005 together with the early adoption of the Amendment to IAS 19 *Actuarial Gains and Losses, Group Plans and Disclosures*. The following provides a brief outline of the likely impact on future financial statements of relevant IFRSs adopted by the EU which are not yet effective and have not been early adopted in these financial statements:

- Amendment to IAS 1: Capital disclosures. This amendment may require additional disclosures regarding the capital structure of the Company and the Group.
- Amendments to IAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions. This amendment is not expected to impact on the Group significantly.
- Amendments to IAS 39: The Fair Value Option. This amendment is not expected to impact on the Group significantly.
- Amendments to IAS 39 and IFRS 4 Financial Guarantee Contracts. This amendment is not expected to impact on the Group significantly.
- IFRS 7 Financial Instruments: Disclosure. This statement updates and extends the existing disclosure requirements of IAS 32 and will require disclosures relating to risk management policies and processes.

First Time Adoption of IFRSs

The Group and Company are required to determine their IFRS accounting policies and apply them retrospectively to establish their opening balance sheets under IFRS at their date of transition. The transitional impact of the recognition and measurement of IFRS as disclosed in the Restatement of 2004 financial information under IFRS was published on 6 July 2005. IFRS 1 *First-time Adoption of International Financial Reporting Standards* allows a number of exemptions on adoption of IFRS for the first time. The date of transition to IFRSs for the Group and Company is 1 January 2004. Where estimates had been made under Irish GAAP, consistent estimates (after adjustments to reflect any difference in accounting policies) have been made on transition to IFRS. Judgements affecting the balance sheets of the Company and Group have not been revisited with the benefit of hindsight. The Group has availed of the following exemptions as permitted by IFRS 1:

Accounting Policies

Business Combinations

The Group has elected not to apply the provisions of IFRS 3 *Business Combinations* retrospectively to business combinations before 1 January 2004. Accordingly, no adjustments have been made for historical business combinations and accumulated amortisation on goodwill arising before 1 January 2004 has not been reversed. The net carrying value of goodwill under Irish GAAP has been designated as the deemed cost of goodwill under IFRS.

Cumulative Translation Differences

Cumulative translation differences of foreign operations have not been restated on an IFRS basis. These are deemed to be zero at the date of transition.

Financial Instruments

The Group and Company has availed of the exemption not to restate comparative amounts for 2004 for the impacts of IAS 32 and IAS 39. These are treated as changes in accounting policies and shown as opening adjustments on 1 January 2005 and in the statement of recognised income and expenses.

Share Based Payment

The provisions of IFRS 2 in respect of share-based payment plans have not been applied to options and awards granted on or before 7 November 2002 which had not vested by 1 January 2005.

Basis of Preparation

The Group and Company financial statements of the Company are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, certain financial assets and share based payments. The accounting policies have been applied consistently by Group entities. The financial statements are presented in euro, rounded to the nearest thousand.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that may have an effect on the financial statements and estimates with a risk of adjustment in the next year are discussed in note 41.

Basis of Consolidation

The Group financial statements consolidate the financial statements of Grafton Group plc and its subsidiaries.

Subsidiaries are those entities over which the Group has the power to control the operating and financial policy so as to obtain economic benefit from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The amounts included in these financial statements in respect of the subsidiaries are taken from their latest financial statements prepared up to their respective year ends, together with management accounts for the intervening periods to the period end, where necessary, although all subsidiaries have coterminous financial year ends. Where necessary, the accounting policies of new subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Accounting Policies

Intragroup balances and any unrealised gains and losses or income and expenses arising from intra-group transactions are eliminated in preparing the Group financial statements, except to the extent they provide evidence of impairment.

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.

Investment in Subsidiaries – Company

Investments in subsidiaries are carried at cost less impairment. Dividend income is recognised when the right to receive payment is established.

Joint Venture

Joint ventures are those entities over which the Group exercises control jointly, under a contractual agreement, with one or more parties. The consolidated financial statements include the Group's proportionate share of the entities assets and liabilities, revenue and expenses with items of a similar nature on a line by line basis from the date that joint control commences to the date that joint control ceases.

Construction Contracts and Property Development- Joint Venture

Costs incurred during construction contracts are capitalised within work and progress. Finance costs incurred that are directly attributable to the project are also capitalised. Revenue and profit is recognised where it is possible to estimate reliably the outcome of the contract on a percentage completion basis.

Income 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. Non-monetary assets are carried at historical cost and not subsequently retranslated. 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. 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.

Accounting Policies

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.

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 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 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.

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 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 12 months of the acquisition date and reflected as a restatement of the acquisition balance sheet.

Accounting Policies

Goodwill

Goodwill arising on acquisitions prior to the date of transition to IFRS as adopted by the EU 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.

The carrying amounts of the Group's goodwill is 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 the goodwill as allocated to individual cash generating units exceeds its recoverable amount. Impairment losses are recognised in the income statement.

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 is 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 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.

The carrying amount of intangible assets with finite lives are reviewed at each balance sheet date to determine whether there is any indication of impairment. An impairment loss is recognised in the income statement whenever the carrying amount of the asset exceeds its recoverable amount.

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.

Accounting Policies

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 fair value being the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are measured at amortised cost using the effective interest method. Effective interest rate is calculated by taking into account any issue costs, and any expected discount or premium on settlement.

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 finance cost.

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

Accounting Policies

Pensions and Other Post-Employment Benefits

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 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.

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 income and costs 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.

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. 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 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 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 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.

Accounting Policies

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. The company has adopted the geographical segment as its primary reporting segment.

Finance Costs

Finance costs comprise 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.

Finance Income

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

Income Tax

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

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 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 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 repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity.

Accounting Policies

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.

Financial Instruments, Derivatives and Hedging – From 1 January 2005

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. Fair value is the amount which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arms length transaction. 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) or hedges of net investment.

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.

(i) 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 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 (i.e., when interest income or expense is recognised). 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.

Accounting Policies

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, 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 the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the income statement.

(ii) Fair Value Hedge

Where a derivative financial instrument hedges the changes in fair value of a recognised asset or liability or an unrecognised firm commitment (or an identified portion of such asset, liability or firm commitment), any gain or loss on the hedging instrument is recognised in the income statement. The hedging item also is stated at fair value in respect of the risk being hedged, with any gain or loss being recognised in the income statement.

(iii) Hedge of Monetary Assets and Liabilities

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.

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

Financial Instruments – As Required Under Previous GAAP

Financial assets are carried at cost less impairment if any.

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 profit and loss account 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.

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 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	
	2005	2004	2005	2004	2005	2004
	€'000	€'000	€'000	€'000	€'000	€'000
Segment Revenue						
Sales to external customers	1,032,899	451,742	1,596,565	1,420,604	2,629,464	1,872,346
Operating profit before property profit and intangible amortisation	107,702	51,360	108,244	108,184	215,946	159,544
Intangible amortisation	(2,176)	-	-	-	(2,176)	-
Operating profit before property profit	105,526	51,360	108,244	108,184	213,770	159,544
Property profit	7,963	6,729	1,677	792	9,640	7,521
Operating profit	113,489	58,089	109,921	108,976	223,410	167,065
Income from financial assets					-	1,541
Finance cost					(48,803)	(33,339)
Finance income					17,574	10,559
Profit before tax					192,181	145,826
Income tax expense					(26,102)	(19,936)
Profit for the financial year					166,079	125,890

	Ireland		UK		Group	
	2005	2004	2005	2004	2005	2004
	€'000	€'000	€'000	€'000	€'000	€'000
Segment assets	912,347	252,004	1,114,678	957,203	2,027,025	1,209,207
Unallocated assets	-	-	-	-	365,967	197,200
Total assets					2,392,992	1,406,407

	Ireland		UK		Group	
	2005	2004	2005	2004	2005	2004
	€'000	€'000	€'000	€'000	€'000	€'000
Segment liabilities	(326,863)	(138,630)	(285,473)	(259,174)	(612,336)	(397,804)
Unallocated liabilities	-	-	-	-	(966,845)	(513,065)
Total liabilities					(1,579,181)	(910,869)

Notes to the Financial Statements

1. Segmental Analysis (continued)

Geographic Segment (continued)

	Ireland		UK		Group	
	2005	2004	2005	2004	2005	2004
	€'000	€'000	€'000	€'000	€'000	€'000
Capital expenditure	41,870	31,016	58,689	57,901	100,559	88,917
Depreciation and amortisation	20,961	8,743	29,463	25,883	50,424	34,626

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.

Business Segment

	Segment Revenue		Segment Assets		Capital Expenditure	
	2005	2004	2005	2004	2005	2004
	€'000	€'000	€'000	€'000	€'000	€'000
Irish merchanding	690,549	286,126	753,353	192,406	21,125	23,341
UK merchanding	1,533,700	1,359,923	1,048,079	900,951	45,080	46,331
Total merchanding	2,224,249	1,646,049	1,801,432	1,093,357	66,205	69,672
DIY	272,589	129,783	129,739	36,944	16,790	5,829
Manufacturing	132,626	96,514	95,854	78,906	17,564	13,416
	2,629,464	1,872,346	2,027,025	1,209,207	100,559	88,917

2. Operating Profit before Property Profit

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

	2005	2004
	€'000	€'000
Increase in stocks	(28,977)	(34,054)
Purchases and consumables	1,831,920	1,291,846
Staff costs (note 5)	351,077	248,079
Auditors' remuneration	908	840
Depreciation	48,248	34,626
Lease rentals and other hire charges	27,340	20,173
Intangible amortisation	2,176	-
Net profit on sale of scaffolding	(2,047)	(2,585)
(Profit)/loss on disposal of other fixed assets	(517)	406
Other operating charges	185,566	153,471
	2,415,694	1,712,802

Notes to the Financial Statements

2. Operating Profit before Property Profit (continued)

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

	Group		Company	
	2005 €'000	2004 €'000	2005 €'000	2004 €'000
Audit Services				
Statutory audit	908	840	65	60
Further assurance services	125	125	10	10
Tax compliance and advisory services	900	1,182	900	1,182
	1,933	2,147	975	1,252

3. Property Development Profit and Profit on Disposal of Property

(a) Profit on Disposal of Property

The Group realised a profit of €9,640,000 (2004: €792,000) on the sale or part disposal of a number of properties in Ireland and one property in the United Kingdom. The estimated taxation payable on property profit amounts to €1,909,000 (2004: €238,000).

(b) Property Development Profit

The Group realised a property development profit of €6,729,000 in 2004 on the development of the Woodie's store on the Naas Road, Dublin. The estimated taxation payable on this profit amounted to €841,000.

4. Directors' Remuneration, Pension Entitlements and Interests

Directors' remuneration, pension entitlements and interests in shares and share options are presented in the Report of the Remuneration Committee on pages 38 to 41.

5. Employment

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

	Group		Company	
	2005	2004	2005	2004
Merchandising and DIY retailing	9,897	7,086	-	-
Manufacturing	399	414	-	-
Holding company	18	19	18	19
	10,314	7,519	18	19

The aggregate remuneration costs of employees were:

	2005 €'000	2004 €'000	2005 €'000	2004 €'000
Wages and salaries	306,235	219,400	4,331	3,788
Social welfare	30,385	21,127	412	473
Share based payments expense	2,220	892	248	184
Defined benefit pension	5,972	3,160	425	307
Defined contribution pension	6,265	3,500	222	290
Charged to operating profit	351,077	248,079	5,638	5,042
Actuarial loss on pension schemes	8,946	11,760	1,404	4,609
Finance cost on pension scheme liabilities	9,431	6,090	491	402
Expected return on pension scheme assets	(8,579)	(5,803)	(435)	(460)
Total employee benefit cost	360,875	260,126	7,098	9,593

Notes to the Financial Statements

5. Employment (continued)

Key Management

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

	Group		Company	
	2005	2004	2005	2004
Number of Individuals	12	10	9	8
	2005	2004	2005	2004
	€'000	€'000	€'000	€'000
Short-term employee benefits	4,187	2,807	3,306	2,303
Share based payment expense	268	181	166	114
IAS 19 pension charge	646	548	549	502
Charged to operating profit	5,101	3,536	4,021	2,919
Gross increase in pension scheme liability	4,070	4,002	3,630	3,822
	9,171	7,538	7,651	6,741

6. Finance Costs and Finance Income

	2005	2004
	€'000	€'000
Interest expense:		
Bank overdrafts and loans	27,609	21,755
Interest on finance leases	1,233	2,001
Finance cost on pension scheme liabilities	9,431	6,090
Interest on loan notes	10,530	3,493
	48,803	33,339
Interest income:		
Interest income on deposits	(8,995)	(4,756)
Expected return on pension plan assets	(8,579)	(5,803)
	(17,574)	(10,559)

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. The related balance sheets of the Group's United Kingdom subsidiaries at 31 December 2005 and 31 December 2004 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 2005 was Stg68.38p (2004: Stg67.86p). The euro/sterling exchange rate at 31 December 2005 was Stg68.53p (2004: Stg70.51p).

Notes to the Financial Statements

8. Income Tax Expense

(a) Income tax expense recognised in the income statement

	2005 €'000	2004 €'000
Current tax expense		
Irish corporation tax	11,736	1,960
UK corporation tax	1,934	4,823
	13,670	6,783
Deferred tax expense		
Irish	1,415	1,254
UK	11,017	11,899
Total deferred tax	12,432	13,153
Total income tax expense in income statement	26,102	19,936

(b) Reconciliation of effective tax rate

	2005 €'000	2004 €'000
Profit before tax	192,181	145,826
Profit before tax multiplied by the standard rate of tax of 12.5% (2004: 12.5%)	24,023	18,228
<i>Effects of:</i>		
Expenses not deductible for tax purposes	6,196	5,730
Differences in effective tax rates on overseas earnings	(4,117)	(1,770)
Higher Irish tax rates on property disposals	230	321
Income at reduced Irish rates	(149)	(103)
Other differences	(81)	(2,470)
Total income tax expense in income statement	26,102	19,936

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

	2005 €'000	2004 €'000
Share based payments	(157)	(123)
Pension deficit	(1,944)	(1,186)
Financing – cash flow hedge	40	-
	(2,061)	(1,309)

Notes to the Financial Statements

8. Income Tax Expense (continued)

(d) Factors that may affect future tax rates

The standard rate of corporation tax in Ireland reduced to 12.5 per cent with effect from 1 January 2003.

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. Similarly, no deferred tax assets or liabilities have been recognised in respect of temporary differences associated with investments in subsidiaries.

9. Purchase of A Ordinary Shares, Redemption of Redeemable Shares and Dividends on Equity Shares

	2005	2004
	€'000	€'000
Group and Company		
Purchase of one A ordinary share for 7.0 cent - paid 29 March 2005	16,542	-
Purchase of one A ordinary share for 7.25 cent - paid 14 October 2005	17,209	-
Redemption of one redeemable share for 6.0 cent - paid 19 March 2004	-	12,759
Redemption of six redeemable shares for 5.0 cent - paid 19 March 2004	-	10,633
Purchase of one A ordinary share for 1.0 cent - paid 1 October 2004	-	2,131
	33,751	25,523
Dividend paid	-	266
Subscription proceeds used for issue of A ordinary shares	-	(213)
Net dividend paid	-	53

The Board resolved to purchase one A ordinary share per Grafton Unit for a cash consideration of 8.5 cent payable on 31 March 2006. Accordingly, no final dividend will be declared in respect of the year ended 31 December 2005. This follows the purchase of one A ordinary share per Grafton Unit for a cash consideration of 7.25 cent which was paid on 7 October 2005, to give total payments for the year of 15.75 cent. This represents an increase of 21 per cent on share purchases/redemptions of 13.0 cent per Grafton Unit paid for 2004. The share purchase on 31 March 2006 is chargeable to reserves in 2006.

In 2004 the company declared a special dividend of 0.125 cent per ordinary share payable on 14 June 2004 which was used as subscription proceeds for the issue of ten A ordinary shares per Grafton Unit.

Notes to the Financial Statements

10. Earnings per Share - Group

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

	2005 €'000	2004 €'000
Numerator for basic, adjusted and diluted earnings per share:		
Profit after tax for the financial year	166,079	125,890
Numerator for basic and diluted earnings per share	166,079	125,890
Property profit after tax	(7,731)	(6,442)
Intangible amortisation after tax	1,904	-
Numerator for adjusted earnings per share	160,252	119,448
Denominator for basic and adjusted earnings per share:		
Weighted average number of Grafton Units in issue	236,371,547	212,875,181
Effect of potential dilutive Grafton Units	5,023,349	5,329,373
Denominator for diluted earnings per share	241,394,896	218,204,554
Earnings per share (cent)		
- Basic	70.26	59.14
- Diluted	68.80	57.69
Adjusted earnings per share (cent)		
- Basic	67.80	56.11

Share entitlements of 1,312,745 (2004:1,893,100) which are currently anti-dilutive are not included in the above calculations.

11. Goodwill - Group

	2005 €'000	2004 €'000
Cost		
At 1 January	266,186	229,863
Acquired during the year (note 33)	278,892	38,071
Translation adjustment	5,758	(1,748)
At 31 December	550,836	266,186
Amortisation		
At 1 January	19,031	19,023
Translation adjustment	(518)	8
At 31 December	18,513	19,031
Net book amount	532,323	247,155

Goodwill acquired through business combinations has been allocated for impairment testing to the UK and Ireland as follows:

	2005 €'000	2004 €'000
UK	262,347	229,766
Ireland	269,976	17,389
	532,323	247,155

Notes to the Financial Statements

11. Goodwill - Group (continued)

Goodwill acquired through business combinations is monitored for impairment by review of the underlying performance of each individual acquisition compared to pre-acquisition objectives and budgets. Goodwill was also tested for impairment by review of profit and cashflow forecasts and budgets.

The key assumptions in the value in use calculations used to assess impairment were as follows:

Forecast sales are based on historical sales growth together with managements' expectation of future macro-economic factors affecting the industry and other developments and initiatives in the business.

Forecast gross margin is based on the historically achieved gross margin together with managements' assessment of competitive factors within the industry and opportunities for margin improvement.

Cash flows were discounted using rates of 5.1% and 3.5% for the UK and Ireland respectively.

11(a) Intangible Assets - Group

	Brands	Customer	
	€'000	Relationships	Total
		€'000	€'000
Cost			
Acquisitions during the year	5,658	12,037	17,695
At 31 December 2005	5,658	12,037	17,695
Amortisation			
Amortised during the year	696	1,480	2,176
At 31 December 2005	696	1,480	2,176
Net book amount at 31 December 2005	4,962	10,557	15,519
Net book amount at 1 January 2005	-	-	-

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. The brands acquired during the year, as part of the acquisition of Heiton Group plc, were Heiton Buckley, Atlantic Homecare, In House at the Panelling Centre and Sam Hire.

The value attributable to customer relationships was determined based on managements' estimate of the profitability of recurring customers.

Notes to the Financial Statements

12. Property, Plant and Equipment

	Freehold Land and Buildings €'000	Leasehold Land and Buildings €'000	Plant Machinery and Motor Vehicles €'000	Total €'000
Group				
Cost				
At 1 January 2004	208,928	51,446	180,676	441,050
Additions	26,908	10,590	51,419	88,917
Acquisitions	11,638	2,255	3,868	17,761
Disposals	(12,132)	(596)	(19,707)	(32,435)
Exchange adjustment	(600)	(104)	(526)	(1,230)
At 1 January 2005	234,742	63,591	215,730	514,063
Additions	24,620	8,096	67,843	100,559
Acquisitions	138,774	400	37,537	176,711
Disposals	(9,620)	(650)	(27,892)	(38,162)
Exchange adjustment	5,243	2,156	4,988	12,387
At 31 December 2005	393,759	73,593	298,206	765,558
Depreciation				
At 1 January 2004	7,114	4,960	72,414	84,488
Charge for year	2,917	2,641	29,068	34,626
Disposals	(126)	(186)	(9,657)	(9,969)
Exchange adjustment	(94)	(85)	(1,110)	(1,289)
At 1 January 2005	9,811	7,330	90,715	107,856
Charge for year	5,068	3,176	40,004	48,248
Disposals	(648)	(288)	(16,635)	(17,571)
Exchange adjustment	346	245	3,206	3,797
At 31 December 2005	14,577	10,463	117,290	142,330
Net book amount				
At 31 December 2005	379,182	63,130	180,916	623,228
At 31 December 2004	224,931	56,261	125,015	406,207
At 31 December 2003	201,814	46,486	108,262	356,562

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. The valuations, which were made on an open market for existing use basis, amounted to €58.0 million which at the date of transition 1 January 2004, were deemed to be cost for the purpose of the transition to IFRS. The remaining properties, which are located in the United Kingdom, are included at cost less depreciation.

Notes to the Financial Statements

12. Property, Plant and Equipment (continued)

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

	Plant, Machinery & Motor Vehicles		Leasehold Properties	
	2005 €'000	2004 €'000	2005 €'000	2004 €'000
Cost	13,483	3,618	13,936	9,750
Accumulated depreciation	(4,561)	(2,384)	(1,040)	(429)
Net book amount	8,922	1,234	12,896	9,321
Depreciation charge for year	1,073	1,051	611	429

During the year the Group repaid finance leases amounting to €2.1 million (2004: €23.8 million).

	Property, Plant and Equipment	
	2005 €'000	2004 €'000
Company		
Cost		
At 1 January	1,057	992
Additions	143	10,615
Disposals	-	(10,550)
At 31 December	1,200	1,057
Depreciation		
At 1 January	723	592
Charge for year	127	131
Disposals	-	-
At 31 December	850	723
Net book amount		
At 31 December	350	334
At 31 December	334	400

Notes to the Financial Statements

13. Financial Assets

	Group	Company		
	Other Investments €'000	Other Investments €'000	Shares in Subsidiary Undertakings €'000	Total €'000
At 1 January 2004	33,665	13	18,457	18,470
Translation adjustment	(14)	-	-	-
Acquisitions	17	-	-	-
Capital contribution	-	-	708	708
Acquired in year	13,351	-	1,070	1,070
At 1 January 2005	47,019	13	20,235	20,248
Fair value adjustment at 1 January 2005	53,974	-	-	-
As restated on 1 January 2005	100,993	13	20,235	20,248
Acquisitions	39	-	321,500	321,500
Capital contribution	-	-	1,971	1,971
Translation adjustment	6	-	-	-
Transferred to acquisitions	(100,782)	-	-	-
At 31 December 2005	256	13	343,706	343,719

On 7 January 2005, following clearance from the Competition Authority in Ireland, the Group completed the acquisition of Heiton Group plc for a total consideration of €406 million including debt assumed and the cost of the Group's 29 per cent investment in the business held prior to the offer.

Interest in Joint Venture

The Group has a 50 per cent interest in Navan Retail Developments Limited, a joint venture company, whose principal activity is the development of a retail site in Navan, Co. Meath. The Group advanced €12.2 million to Navan Retail Developments Limited. The joint venture has been accounted for using proportionate accounting. Included for Navan Retail Developments Limited in the consolidated financial statements is work-in-progress of €5.8 million and other current assets of €0.3 million totalling €6.1 million with a corresponding amount included in interest bearing debt within non-current liabilities. No revenue or profit has been recognised in the income statement in respect of this development. Interest capitalised by the joint venture amounted to €151,000.

The Group is committed to providing further funding to enable Navan Retail Developments Limited to complete the development.

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

14. Inventories

	Group	
	2005 €'000	2004 €'000
Raw materials	2,311	1,997
Work in progress	5,836	-
Finished goods	8,925	9,283
Goods purchased for resale	339,575	226,400
	356,647	237,680

Notes to the Financial Statements

15. Trade and Other Receivables

	Group		Company	
	2005 €'000	2004 €'000	2005 €'000	2004 €'000
<i>Amounts falling due within one year:</i>				
Trade debtors	394,032	259,699	-	-
Amounts owed by subsidiary undertakings	-	-	502,419	289,368
Prepayments	99,176	58,466	4,141	2,896
Amount owed by joint venture	6,100	-	-	-
	499,308	318,165	506,560	292,264

16. Statement of Changes in Equity

Group	Notes	2005 €'000	2004 €'000
At beginning of period		495,538	405,651
Impact of adoption of IAS 32 & IAS 39		55,424	-
At beginning of period as adjusted		550,962	405,651
Elimination of fair value reserve arising on acquisition of Heiton Group plc	21	(49,535)	-
Issue of ordinary and A ordinary share capital		178,658	1,501
Adjustment for share based payments expense		2,220	892
Deferred tax on share based payments expense		157	123
Dividend	9	-	(266)
Redemption of redeemable shares	9	-	(23,392)
Purchase of A ordinary shares	9	(33,751)	(2,131)
Total recognised income and expense for the year		165,100	113,160
Closing shareholders' funds - equity		813,811	495,538
Company		2005 €'000	2004 €'000
At beginning of period		172,069	158,659
Issue of ordinary and A ordinary share capital		178,658	1,501
Adjustment for share based payments expense		2,220	892
Dividend	9	-	(266)
Redemption of redeemable shares	9	-	(23,392)
Purchase of A ordinary shares	9	(33,751)	(2,131)
Total recognised income and expense for the year		62,160	36,806
At end of period		381,356	172,069

Notes to the Financial Statements

17. Share Capital

		2005	2004
		€'000	€'000
Group and Company			
Authorised:			
Equity shares			
300 million ordinary shares of 5c each		15,000	15,000
3 billion A ordinary shares of 0.01c each		300	300
		15,300	15,300
	Issue Price	2005	2004
	€	Nominal Value	Nominal Value
		€'000	€'000
Issued and fully paid:			
Ordinary shares			
At 1 January	213,438,192	10,672	10,632
Issued to Heitons Shareholders	21,382,117	1,069	-
Issued under UK SAYE scheme	1,228,763	61	-
Grafton Group Share Schemes			
Date options and entitlements to acquire shares granted			
September 1994	0.45	-	1
October 1995	0.52	-	4
April 1996	0.65	201,855	-
April 1997	1.07	84,709	3
June 1998	2.21	118,314	5
July 1999	1.81	281,240	27
Sept 1999	1.93	63,677	-
May 2000	2.07	597,011	-
May 2001	2.83	10,612	-
April 2002	4.00	11,674	-
		1,369,092	40
At 31 December	237,418,164	11,871	10,672
A Ordinary Shares			
At 1 January	1,920,943,728	192	-
Issue of new A ordinary shares - June 2004	-	-	212.6
A ordinary shares issued in year	214,669,895	21	0.7
Purchase of 1 A ordinary share per Grafton Unit	(236,310,763)	(23)	-
Purchase of 1 A ordinary share per Grafton Unit	(237,375,712)	(24)	(21.3)
At 31 December	1,661,927,148	166	192
Redeemable shares			
At 1 January	-	-	149
Redemption of redeemable shares transferred to the capital redemption reserve	-	-	(149)
At 31 December	-	-	-
Total nominal share capital issued		12,037	10,864

Notes to the Financial Statements

17. Share Capital (continued)

Grafton Units Issued During 2005

The number of Grafton Units issued during the year under the Group's Share Schemes was 1,369,092 and the total consideration received amounted to €2,430,000.

The Group issued 21.4 million Grafton Units to the former shareholders of Heiton Group plc in connection with the acquisition of the company. UK employees were issued 1.2 million Grafton Units under the Grafton Group (UK) plc Savings Related Share Option Scheme.

Grafton Units

At 31 December 2005 a Grafton Unit comprised one ordinary share of 5 cent and seven 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. At 31 December 2004 a Grafton Unit comprised one ordinary share of 5 cent and nine 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.

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. The 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.

The 'A' Ordinary Shares rank *pari passu* with Grafton's ordinary shares as regards 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 0.01 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.

Notes to the Financial Statements

18. Share Premium Account

	2005 €'000	2004 €'000
Group and Company		
At 1 January	103,600	102,352
Premium on shares issued to Heiton shareholders	172,534	-
Premium on shares issued under share schemes	5,076	1,248
Costs of share issue	(172)	-
At 31 December	281,038	103,600

The premium on shares issued under share schemes is net of expenses of €172,000.

19. Capital Redemption Reserve

	2005 €'000	2004 €'000
Group and Company		
At 1 January	227	57
Redemption of redeemable shares	-	149
Purchase of A ordinary shares	47	21
At 31 December	274	227

20. Revaluation Reserve

	2005 €'000	2004 €'000
Group		
At 1 January	34,988	35,227
Transfer to retained earnings	(2,853)	(239)
Transfer from fair value reserve	4,439	-
At 31 December	36,574	34,988

Notes to the Financial Statements

21. Other Reserves

	2005 €'000	2004 €'000
Group and Company		
Shares to be Issued		
At 1 January	971	79
Provision for cost of share based payments	2,220	892
At 31 December	3,191	971
Fair Value Reserve		
	2005 €'000	2004 €'000
Group		
At 1 January	-	-
Fair value Heiton investment	53,974	-
As restated under IAS 32	53,974	-
Eliminated on acquisition of Heitons	(49,535)	-
Transfer to revaluation reserve	(4,439)	-
At 31 December	-	-

22. Foreign Currency Translation Reserve

	2005 €'000	2004 €'000
Group		
At 1 January	(2,156)	-
On foreign currency net investments	7,999	(2,176)
On foreign currency borrowings	(811)	20
At 31 December	5,032	(2,156)

23. Cash Flow Hedge Reserve

	2005 €'000	2004 €'000
Group		
At 1 January	1,657	-
Adjustment for deferred tax	(207)	-
Movement in year including deferred tax	(1,165)	-
At 31 December	285	-

Notes to the Financial Statements

24. Interest Bearing Loans and Borrowings

	Group		Company	
	2005	2004	2005	2004
Non-Current Liabilities	€'000	€'000	€'000	€'000
Bank loans	408,504	339,270	-	9,177
Unsecured senior notes	289,213	28,081	19,262	28,081
Obligations under finance leases (Note 29)	15,995	11,050	-	-
	713,712	378,401	19,262	37,258
Current Liabilities				
<i>Interest-bearing loans and borrowings:</i>				
Bank loans and overdrafts	183,498	76,139	4	4
Vendor loan notes	13,847	9,360	-	-
Other loan notes	9,902	20,172	10,013	9,738
Obligations under finance leases (Note 29)	2,031	1,025	-	-
	209,278	106,696	10,017	9,742

During 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 the interest rate payable on the loan notes is currently variable by reference to six month LIBOR rates.

During 2005 the Group completed a US\$325 million debt financing in the US Private Placement Market and issued unsecured senior loan notes maturing between 2009 and 2015. US\$250 million of the US dollar proceeds were swapped into sterling and the interest rate payable on the loan notes is currently variable by reference to six month LIBOR rates. The balance of US\$75 million was received in sterling and the interest 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 2006 and September 2008. The interest rates payable on these loan notes are set at fixed rates or on terms directly related to London Inter-Bank Offer Rate (LIBOR).

25. Derivatives

	Group	
	2005	2004
	€'000	€'000
<i>Included in current assets:</i>		
Fair value of cross currency swaps	5,383	-
Fair value of interest rate swaps	325	-
	5,708	-
<i>Included in current liabilities:</i>		
Fair value of cross currency swaps	(923)	-
	4,785	-

Notes to the Financial Statements

25. Derivatives (continued)

Nature of Derivative Instruments	Hedge Period	Underlying Hedge	Notional Payable Amount of Contracts Outstanding	Notional Receivable Amount of Contracts Outstanding	Fair Value Asset	Fair Value Liability
					€'000	€'000
Interest rate swap	August 2007 to April 2008	Interest rate	Stg £109,590,000	Stg £109,590,000	325	-
Cross currency swap	June 2008 to June 2015	Interest rate & foreign currency	USD \$250,000,000	Stg £137,665,251	5,383	-
Cross currency swap	May 2006 to May 2008	Interest rate & foreign currency	USD \$10,000,000 USD \$33,000,000	Eur €8,436,794 Stg £19,800,000	-	923

26. Provisions

	Group		Company	
	2005 €'000	2004 €'000	2005 €'000	2004 €'000
Non-current liabilities:				
Deferred acquisition consideration	500	1,552	-	-
Current liabilities:				
Deferred acquisition consideration	3,352	4,433	-	-
WEEE provision	125	-	-	-
	3,477	4,433	-	-

The deferred acquisition consideration may become payable over the period from March 2006 to December 2007.

27. Trade and Other Payables

	Group		Company	
	2005 €'000	2004 €'000	2005 €'000	2004 €'000
<i>Trade and other payables:</i>				
Trade creditors	347,826	217,717	101	-
Accruals	122,954	75,367	8,723	6,216
Amounts owed to subsidiary undertakings	-	-	433,470	85,635
Social welfare	2,561	1,637	-	-
Income tax deducted under PAYE	6,075	3,946	508	108
Value added tax	19,301	12,119	112	-
	498,717	310,786	442,914	91,959

Notes to the Financial Statements

28. Loans

	Group		Company	
	2005	2004	2005	2004
	€'000	€'000	€'000	€'000
<i>Bank loans, loan notes and senior unsecured notes are repayable as follows:</i>				
Between one and two years	175,850	61,112	9,630	9,360
Between two and five years	349,239	255,227	9,632	27,898
After five years	172,628	51,012	-	-
	697,717	367,351	19,262	37,258
Bank loans repayable within one year	141,319	46,093	-	-
Loan notes repayable within one year	23,749	29,532	10,013	9,738
	862,785	442,976	29,275	46,996
<i>Loans fully repayable between one and five years:</i>				
Not by instalment	318,850	243,583	-	9,177
By instalment	206,239	72,756	19,262	28,081
	525,089	316,339	19,262	37,258
<i>Loans fully repayable in more than five years:</i>				
By instalment	172,628	51,012	-	-
	697,717	367,351	19,262	37,258

29. Obligations under Finance Leases

Group	2005			2004		
	Minimum Lease Payments	Interest	Principal	Minimum Lease Payments	Interest	Principal
	€'000	€'000	€'000	€'000	€'000	€'000
<i>Committed finance lease obligations:</i>						
Within one year	2,997	966	2,031	1,704	679	1,025
Between one and five years	7,154	3,864	3,290	4,938	2,716	2,222
Later than five years	27,832	15,127	12,705	22,812	13,984	8,828
	37,983	19,957	18,026	29,454	17,379	12,075

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

Notes to the Financial Statements

30. Deferred Taxation

Recognised deferred tax assets and liabilities	Group			Group		
	Assets	Liabilities	Net Assets/ Liabilities	Assets	Liabilities	Net Assets/ Liabilities
	2005	2005	2005	2004	2004	2004
	€'000	€'000	€'000	€'000	€'000	€'000
Property, plant and equipment	(1,978)	39,713	37,735	(3,863)	29,173	25,310
Intangible assets	-	1,940	1,940	-	-	-
Financing related expenses	(3,082)	40	(3,042)	(876)	-	(876)
Employee share schemes	(836)	-	(836)	-	(212)	(212)
Other items	(3,970)	1,239	(2,731)	(2,841)	(993)	(3,834)
Tax value of losses carried forward	(5,441)	-	(5,441)	-	-	-
Pension	(10,673)	-	(10,673)	(6,733)	-	(6,733)
Tax (assets) / liabilities	(25,980)	42,932	16,952	(14,313)	27,968	13,655

	Company			Company		
	Assets	Liabilities	Net Assets/ Liabilities	Assets	Liabilities	Net Assets/ Liabilities
	2005	2005	2005	2004	2004	2004
	€'000	€'000	€'000	€'000	€'000	€'000
Other	-	69	69	-	54	54
Pension	(280)	-	(280)	(548)	-	(548)
Tax (assets) / liabilities	(280)	69	(211)	(548)	54	(494)

Analysis of net deferred tax asset / liability

	Group 2005					
	Balance 1 Jan 05	Recognised in Income	Recognised in Equity	Foreign Exchange Retranslation	Arising on Acquisitions	Balance 31 Dec 05
	€'000	€'000	€'000	€'000	€'000	€'000
Property, plant and equipment	25,310	1,516	-	267	10,642	37,735
Intangible assets	-	(272)	-	-	2,212	1,940
Financing related	(876)	(2,206)	40	-	-	(3,042)
Employee share schemes	(212)	(467)	(157)	-	-	(836)
Other items	(3,834)	863	-	107	133	(2,731)
Tax value of losses carried forward	-	11,675	-	-	(17,116)	(5,441)
Pension related	(6,733)	1,323	(1,944)	171	(3,490)	(10,673)
Total	13,655	12,432	(2,061)	545	(7,619)	16,952

Notes to the Financial Statements

30. Deferred Taxation (continued)

Group 2004						
	Balance	Recognised	Recognised	Foreign	Arising on	Balance
	1 Jan 04	in Income	in Equity	Exchange	Acquisitions	31 Dec 04
	€'000	€'000	€'000	Retranslation	€'000	€'000
				€'000		
Property, plant and equipment	10,418	16,415	-	(506)	(1,017)	25,310
Financing related	2,359	(3,235)	-	-	-	(876)
Employee share schemes	-	(123)	(123)	34	-	(212)
Other items	(3,723)	(116)	-	(46)	51	(3,834)
Pension related	(5,759)	212	(1,186)	-	-	(6,733)
	3,295	13,153	(1,309)	(518)	(966)	13,655

Company 2005						
	Balance	Recognised	Recognised	Foreign	Arising on	Balance
	1 Jan 05	in Income	in Equity	Exchange	Acquisitions	31 Dec 05
	€'000	€'000	€'000	Retranslation	€'000	€'000
				€'000		
Other items	54	15	-	-	-	69
Pension related	(548)	444	(176)	-	-	(280)
	(494)	459	(176)	-	-	(211)

Company 2004						
	Balance	Recognised	Recognised	Foreign	Arising on	Balance
	1 Jan 04	in Income	in Equity	Exchange	Acquisitions	31 Dec 04
	€'000	€'000	€'000	Retranslation	€'000	€'000
				€'000		
Other items	-	54	-	-	-	54
Pension related	(621)	649	(576)	-	-	(548)
	(621)	703	(576)	-	-	(494)

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 €63.4 million (2004: €40.8 million) attributable to the parent undertaking for the financial year.

Notes to the Financial Statements

32. Movement in Working Capital

Group	Inventory	Trade and Other Receivables	Trade and Other Payables	Total
	€'000	€'000	€'000	€'000
At 1 January 2005	237,680	318,165	(310,786)	245,059
Translation adjustment	5,140	9,589	(8,425)	6,304
Interest accruals and other movements	(21)	1,257	(10,419)	(9,183)
Acquisitions	90,011	152,542	(155,980)	86,573
Movement in 2005	23,837	17,755	(13,107)	28,485
At 31 December 2005	356,647	499,308	(498,717)	357,238
Movement in 2004	34,414	29,312	(44,085)	19,641

Company	Trade and Other Receivables	Trade and Other Payables	Total
	€'000	€'000	€'000
At 1 January 2005	292,264	(91,959)	200,305
Translation adjustment	9,251	(8,792)	459
Interest accrual and other movements	8	56	64
Movement in 2005	205,037	(342,219)	(137,182)
At 31 December 2005	506,560	(442,914)	63,646
Movement in 2004	19,560	(4,703)	14,857

33. Acquisition of Subsidiary Undertakings and Businesses

During the year the Group made three Irish and fourteen UK acquisitions at a total cost of €471 million including net debt acquired. In Ireland the Group acquired Heiton Group plc on 7 January 2005, Garvey's, a single branch builders merchant based in Roscommon, and Davies, a specialist merchant trading from two branches in the greater Dublin area were acquired on 1 December 2005.

The UK acquisitions added seven builders and twelve plumbers merchanting branches. These included seven single branch builders merchanting businesses located at Bolton, Lancashire; Sudbury, Suffolk; Hadleigh, Suffolk; Douglas, Isle of Man; Longridge, Lancashire; Sandy, Bedfordshire and Belfast in Northern Ireland.

The seven plumbers merchanting businesses acquired added twelve branches. The five single branch businesses trade from the following locations; Fort William, Invernesshire; Bramhall, Cheshire; Darwen, Lancashire; Heathfield, East Sussex and Kirkintilloch in Scotland. The two multi branch plumbers merchanting businesses acquired were: Camberley Plumbing and Heating trading from four branches in Camberley and Woking, Surrey; Liphook, Hampshire and from Reading in Berkshire, and Domestic Plumbing and Heating Supplies, a three branch business located in Preston and Morecambe, Lancashire and Kendal in Cumbria.

In the year ended 31 December 2004, the Group made seventeen UK acquisitions at a total cost of €85 million which comprised twenty builders and two plumbers merchanting branches. These included five two branch builders merchants as follows: Thompson Builders Merchants based in Preston, Lancashire; Hall & Rogers located in central Manchester and Everton, Liverpool; Keelsupply which trades from Newton-le-Willows, St Helens and from Leyland, Lancashire; Slocombe & Butcher based in Weston-Super-Mare, North Somerset and Wellington, Somerset and Castle Builders Merchants based in Littlelever, Bolton and Crewe in Cheshire.

Notes to the Financial Statements

33. Acquisition of Subsidiary Undertakings and Businesses (continued)

The Group also acquired ten single branch builders merchandising businesses located at Coleraine and Bangor, Northern Ireland; Horncastle, Lincolnshire; Rushden, Northamptonshire; Ashton in Makerfield, St Helens; Airdrie, Scotland; Shrewsbury, Shropshire; Warrington; Stockport; Harrogate, North Yorkshire and two plumbers merchandising businesses located at Ely, Cambridgeshire and Blandford Forum in Dorset.

Acquisitions would have contributed €57.8 million and €6.8 million to operating profit in the years ended 31 December 2005 and 2004 respectively, assuming that they had been acquired on 1 January of both years.

In 2005, Heitons contributed revenue of €607.7 million and operating profit of €48.8 million in the period since acquisition (7 January 2005).

	2005 €'000	2004 €'000
<i>The fair values of assets and liabilities acquired are set out below;</i>		
Intangible assets	17,695	-
Property, plant and equipment	176,711	17,761
Financial assets	39	17
Inventories	90,011	9,290
Trade and other receivables	152,542	23,424
Trade and other payables	(155,980)	(14,986)
Deferred consideration	(4,141)	-
Employee benefits	(25,014)	-
Corporation tax	(6,198)	(1,503)
Deferred tax liability	(12,762)	(842)
Deferred tax asset	20,381	1,808
Finance leases acquired	(7,934)	(1,388)
Bank debt acquired	(76,864)	-
Loan notes acquired	(12,655)	-
Net assets acquired excluding cash and overdrafts	155,831	33,581
Goodwill	278,892	38,071
Consideration	434,723	71,652
Satisfied by:		
Cash paid	221,828	61,805
Cash acquired	(26,468)	(4,221)
Bank overdrafts assumed on acquisition	3,571	3,503
Net cash outflow	198,931	61,087
Shares issued*	173,623	-
Further payments accrued	10,055	-
Deferred acquisition consideration	-	1,480
Loan notes issued to vendors of businesses acquired	867	9,085
Investment held in business acquired at start of year	46,808	-
Fair value adjustment at 1 January 2005	53,974	-
Fair value eliminated on consolidation of Heitons	(49,535)	-
	434,723	71,652

* 21.4 million Grafton Units were issued at a share price of €8.12 (share price on 6 January 2005).

Notes to the Financial Statements

33. Acquisition of Subsidiary Undertakings and Businesses (continued)

The fair value of net assets acquired of €155,831,000 includes the Heiton Group plc acquisition which constituted a material acquisition for the Group.

	Fair Value €'000	Consideration €'000	Goodwill €'000
Heiton Group plc	107,498	320,768	213,270
Other acquisitions	48,333	113,955	65,622
	155,831	434,723	278,892

The fair values were calculated as follows:

	Book Value €'000	Fair Value Adjustment €'000	Fair Value €'000
Heiton Group plc			
Intangible assets	-	17,695	17,695
Financial assets	2,832	(2,832)	-
Property, plant and equipment	147,481	-	147,481
Working capital	79,412	(5,438)	73,974
Deferred consideration	(4,141)	-	(4,141)
Employee benefits	(24,249)	-	(24,249)
Corporation tax	(4,724)	(500)	(5,224)
Deferred tax liability	(9,255)	(2,307)	(11,562)
Deferred tax asset	3,031	-	3,031
Finance leases	(7,646)	-	(7,646)
Bank debt	(69,206)	-	(69,206)
Loan notes	(12,655)	-	(12,655)
	100,880	6,618	107,498
Other acquisitions			
Financial assets	39	-	39
Property, plant and equipment	27,980	1,250	29,230
Working capital	12,479	120	12,599
Employee benefits	(765)	-	(765)
Corporation tax	(974)	-	(974)
Deferred tax liability	(925)	(275)	(1,200)
Deferred tax asset	17,350	-	17,350
Finance leases	(288)	-	(288)
Bank debt	(7,658)	-	(7,658)
	47,238	1,095	48,333

The fair values adjustments noted above have arisen as follows:

Heiton Group plc

- Recognition of intangible assets for brands and customer relationships under IFRS 3 Business Combinations and IAS 38 Intangible Assets.
- Financial assets were reduced for impairment as required by IAS 36 Impairment of Assets.
- The assets and liabilities have been fair valued at the date of acquisition.
- Under IFRS 3 stocks have been valued at selling price adjusted for costs of disposal and a reasonable profit allowance for selling effort.
- Under IAS 12 Income Taxes corporation and deferred tax has been provided on the above adjustments.

Notes to the Financial Statements

33. Acquisition of Subsidiary Undertakings and Businesses (continued)

Other Acquisitions

- Fixed assets have been fair valued to market value at date of acquisition.
- Under IFRS 3 stocks have been valued at selling price adjusted for costs of disposal and a reasonable profit allowance for selling effort.
- Deferred tax has been provided on the above adjustments Under IAS 12 Income Taxes.

Goodwill has arisen on the above transactions due to synergies between the acquired entities and the Group.

34. Analysis of Net Debt

	At 1 Jan 2005 €'000	Cash Flow €'000	Acquisitions €'000	Non-Cash Movement €'000	Translation Adjustment €'000	Movement in Derivatives €'000	At 31 Dec 2005 €'000
Cash at bank and in hand	135,868	197,435	-	-	720	-	334,023
Overdrafts	(30,046)	(11,829)	-	-	(304)	-	(42,179)
Total cash and cash equivalents	105,822	185,606	-	-	416	-	291,844
Debt due after 1 year	(339,270)	(52,268)	(71,364)	64,191	(9,793)	-	(408,504)
Unsecured Senior Notes and loan notes due after 1 year	(28,081)	(260,933)	(8,437)	13,849	(812)	(4,799)	(289,213)
Interest bearing loan due within 1 year							
- Bank loans	(46,093)	(24,204)	(5,500)	(64,191)	(1,331)	-	(141,319)
- Loan notes	(29,532)	25,237	(5,085)	(13,849)	(859)	339	(23,749)
Finance leases	(12,075)	2,061	(7,934)	-	(78)	-	(18,026)
Total term finance	(455,051)	(310,107)	(98,320)	-	(12,873)	(4,460)	(880,811)
Net debt	(349,229)	(124,501)	(98,320)	-	(12,457)	(4,460)	(588,967)
Derivative financial instruments	1,657	-	-	-	-	3,128	4,785
Net debt as adjusted	(347,572)	(124,501)	(98,320)	-	(12,457)	(1,332)	(584,182)

Analysis of Net Debt

	At 1 Jan 2004 €'000	Cash Flow €'000	Acquisitions €'000	Non-Cash Movement €'000	Translation Adjustment €'000	At 31 Dec 2004 €'000
Cash at bank and on deposit	138,956	(2,906)	-	-	(182)	135,868
Overdrafts	(32,399)	3,509	-	-	(1,156)	(30,046)
Total cash and cash equivalent	106,557	603	-	-	(1,338)	105,822
Interest bearing loan due after 1 year	(308,560)	(69,843)	-	39,002	131	(339,270)
Unsecured Senior Notes and loan notes due after 1 year	(37,457)	-	-	9,360	16	(28,081)
Interest bearing loan due within 1 year						
- Bank loans	(12,770)	5,673	-	(39,002)	6	(46,093)
- Loan notes	(36,359)	24,758	(9,085)	(9,360)	514	(29,532)
Finance leases	(34,614)	23,834	(1,388)	-	93	(12,075)
Total term finance	(429,760)	(15,578)	(10,473)	-	760	(455,051)
Net debt	(323,203)	(14,975)	(10,473)	-	(578)	(349,229)

The non-cash movements reflects the re-scheduling of debt in the year.

Notes to the Financial Statements

35. Reconciliation of Net Cash Flow Movement in Net Debt

	Group		Company	
	2005 €'000	2004 €'000	2005 €'000	2004 €'000
<i>For the year ended 31 December</i>				
Net increase in cash and cash equivalents	185,606	603	1,964	348
Cashflow from increase in debt and lease financing	(310,107)	(15,578)	18,821	183
Change in net debt resulting from cash flows	(124,501)	(14,975)	20,785	531
Loan notes issued on acquisition of subsidiary undertakings	(867)	(9,085)	-	-
Finance leases acquired with subsidiary undertakings	(7,934)	(1,388)	-	-
Bank loans and loan notes acquired with subsidiary undertakings	(89,519)	-	-	-
Translation adjustment	(12,457)	(578)	(457)	289
Net movement in derivative financial instruments	(1,332)	-	-	-
Movement in net debt in the year	(236,610)	(26,026)	20,328	820
Net debt at 1 January	(349,229)	(323,203)	(44,913)	(45,733)
IAS 32/39 adjustment at 1 January	1,657	-	-	-
Net debt restated at 1 January	(347,572)	(323,203)	(44,913)	(45,733)
Net debt at 31 December	(584,182)	(349,229)	(24,585)	(44,913)

Group Net Debt

	2005 €'000	2004 €'000
Bank loans and overdrafts repayable within one year	183,498	76,139
Bank loans repayable after more than one year	408,504	339,270
Unsecured senior notes repayable after more than one year	289,213	28,081
Loan notes repayable within one year	23,749	29,532
Derivative financial instruments	(4,785)	-
Finance leases	18,026	12,075
	918,205	485,097
Cash and short term bank deposits	(334,023)	(135,868)
Net debt	584,182	349,229
Shareholders' funds	813,811	495,538
Gearing	72%	70%

Notes to the Financial Statements

36. Financial Instruments and Risk Management

As permitted under IFRS 1, the Group applied hedge accounting in accordance with Irish GAAP for the year ended 31 December 2004 and adopted IAS 32 and IAS 39 from 1 January 2005. Exposure to credit, interest rate and currency risk arises in the normal course of the Group's business. Derivative financial instruments are used to hedge exposure to fluctuations in foreign exchange rates and interest rates.

Interest rate and currency profile

The interest rate and currency profile of the Group's net debt and net worth as at 31 December 2005 after reflecting the impact of derivatives was as follows:

	Euro €'000	Sterling €'000	Total €'000
Weighted average fixed interest rates	6.0%*	5.0%	5.10%
Weighted average fixed debt periods – years	23.6*	1.99	2.84
Fixed rate debt	(17,434)	(160,507)	(177,941)
Floating rate debt	(220,231)	(524,818)	(745,049)
Cash and short term bank deposits	138,720	195,303	334,023
Net debt by currency	(98,945)	(490,022)	(588,967)
Financial assets	16	240	256
Deferred acquisition consideration due after more than one year	(500)	-	(500)
Net financial assets and liabilities (excluding short term debtors and creditors)	(99,429)	(489,782)	(589,211)
Capital employed	695,338	707,684	1,403,022
Shareholders' funds (net worth)	595,909	217,902	813,811

*Relates primarily to premises held under IAS 17 finance leases.

Maturity of Financial Liabilities

The maturity profile of the Group's financial liabilities (bank debt, loan notes, deferred consideration and finance leases) are summarised as follows:

	Bank and Other Debt	Other Financial Liabilities	Total	Bank and Other Debt	Other Financial Liabilities	Total
	2005 €'000	2005 €'000	2005 €'000	2004 €'000	2004 €'000	2004 €'000
Due within one year	209,499	3,352	212,851	106,696	4,433	111,129
Between one and two years	176,424	500	176,924	61,964	1,552	63,516
Between two and three years	209,329	-	209,329	182,830	-	182,830
Between three and four years	80,764	-	80,764	56,239	-	56,239
Between four and five years	59,914	-	59,914	17,448	-	17,448
After five years	187,060	-	187,060	59,920	-	59,920
	922,990	3,852	926,842	485,097	5,985	491,082
Derivatives	(4,785)	-	(4,785)	-	-	-
	918,205	3,852	922,057	485,097	5,985	491,082

Notes to the Financial Statements

36. Financial Instruments and Risk Management (continued)

Information presented in accordance with previous Irish GAAP

The interest rate and currency profile of the Group's net debt and net worth as at 31 December 2004 was as follows:

	Euro €'000	Sterling €'000	Total €'000
Weighted average fixed interest rates	6%*	4.5%	4.59%
Weighted average fixed debt periods – years	26.4*	2.98	3.49
Fixed rate debt	(9,552)	(158,027)	(167,579)
Floating rate debt	(568)	(316,950)	(317,518)
Cash and short term bank deposits	104,360	31,508	135,868
Net cash (debt) by currency	94,240	(443,469)	(349,229)
Financial assets	46,824	195	47,019
Deferred acquisition consideration due after more than one year	(772)	(780)	(1,552)
Net financial assets and liabilities (excluding short term debtors and creditors)	140,292	(444,054)	(303,762)
Capital employed	203,425	595,875	799,300
Shareholders' funds (net worth)	343,717	151,821	495,538

*Relates primarily to premises held under IAS 17 finance leases.

The Group's floating rate debt attracts interest rates primarily on one to twelve month EURIBOR (Euro) and LIBOR (Sterling). Cash and short term bank deposits comprise deposits placed at money market rates for periods of up to three months.

Notes to the Financial Statements

36. Financial Instruments and Risk Management (continued)

In respect of income-earning financial assets and interest bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods to which they relate.

	Effective Interest Rate	Total €'000	6 months or less €'000	6 to 12 months €'000	1-2 Years €'000	2- 5 Years €'000	More than 5 years €'000
Sterling deposits	4.52%	195,303	195,303	-	-	-	-
Euro deposits	2.10%	61,221	61,221	-	-	-	-
Cash at bank	3.13%	77,499	77,499	-	-	-	-
Cash and cash equivalents		334,023	334,023	-	-	-	-
Sterling bank overdrafts	5.50%	(42,179)	(42,179)	-	-	-	-
Deposits and cash less overdrafts	291,844	291,844	-	-	-	-	-
<i>Floating rate debt:</i>							
Euro loans	2.90%	(134,706)	(134,706)	-	-	-	-
Sterling loans	4.94%	(255,202)	(255,202)	-	-	-	-
<i>Fixed rate debt:</i>							
Sterling loans	4.99%	(159,915)	-	-	(86,954)	(72,961)	-
Total loans		(549,823)	(389,908)	-	(86,954)	(72,961)	-
Finance leases	6.00%	(18,026)	-	(2,031)	(576)	(769)	(14,650)
<i>Loan notes:</i>							
US dollar loan notes	5.19%	(304,617)	(304,617)	-	-	-	-
Euro loan notes	7.00%	(8,345)	(8,345)	-	-	-	-
Total loan notes		(312,962)	(312,962)	-	-	-	-
		(588,967)	(411,026)	(2,031)	(87,530)	(73,730)	(14,650)
Derivatives		4,785	4,460	-	325	-	-
		(584,182)	(406,566)	(2,031)	(87,205)	(73,730)	(14,650)

Borrowing Facilities

The Group had undrawn committed borrowing facilities at 31 December 2005 of €41.8 million (2004: €91.9 million) in respect of which all conditions precedent have been met.

Notes to the Financial Statements

36. Financial Instruments and Risk Management (continued)

Fair Value of Financial Assets and Financial Liabilities

A comparison of the book and fair values of the Group's financial assets and financial liabilities is set out below:

	Book Value	Fair Value	Book Value	Fair Value
	2005	2005	2004	2004
	€'000	€'000	€'000	€'000
Overdraft and short term borrowings	(183,498)	(183,498)	(85,499)	(85,499)
Loans and unsecured senior notes due after more than one year	(697,717)	(697,717)	(367,351)	(367,351)
Derivatives	4,799	4,799	-	-
Loans notes	(23,749)	(23,749)	(20,172)	(20,172)
Derivatives	(339)	(339)	-	-
Leasing	(18,026)	(18,026)	(12,075)	(12,075)
Cash and short-term deposits	334,023	334,023	135,868	135,868
	(584,507)	(584,507)	(349,229)	(349,229)
Other investments	256	256	47,019	100,993
Interest rate SWAP's	325	325	-	1,657
	(583,926)	(583,926)	(302,210)	(246,579)

Fair Value

The Group estimates fair value by using interest rate yield curves to create and discount future cash flows. In addition forward cross currency/interest rate swaps are used to translate future cash flows. The total amount of fair value charges that were recognised in the Income Statement for the year was nil.

Gains and Losses on Forward Foreign Exchange

At 31 December 2004 there were no gains or losses on forward foreign exchange contract hedges carried forward for future recognition in the income statement.

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, forward and spot foreign currency contracts and interest rate swaps are undertaken periodically to hedge underlying trading and interest rate 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.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments in the balance sheet.

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. The Group uses a limited number of forward currency contracts to manage currency risks arising in the ordinary course of business where considered appropriate.

Notes to the Financial Statements

36. Financial Instruments and Risk Management (continued)

The Group's current policy in relation to its UK operations is to hedge the balance sheet exposure by means of matching sterling assets with sterling borrowings.

If borrowing is made in a non-functional currency, the funds are immediately swapped into a functional currency.

Hedging

The Group has exposure to variability in interest rates on certain debt instruments issued and took the decision to eliminate part of this risk by entering into interest rate swaps to fix rates. The swaps mature over the next three years and have fixed sterling interest rates ranging from 3.89% to 4.99%. At 31 December 2005, the Group had interest rate swaps with a notional contract amount of Stg£109,590,000.

The Group classifies these interest rate swaps as cash flow hedges and states them at their fair value. The fair value of these swaps at 31 December 2005 was €325,000, and a corresponding entry was recorded in the cash flow hedge reserve in equity as a result of these hedges being fully effective.

Interest Rate Risk

The majority of the Group's ongoing operations are financed from a mixture of cash generated from operations and borrowings. Borrowings are initially secured at floating interest rates and interest rate risk is monitored on an ongoing basis. Interest rate swaps and forward rate agreements are used to manage interest rate risk when considered appropriate having regard to the interest rate environment.

The Group has exposure to US Dollar fluctuations through the US Dollar Private Placements. The Group's policy is to hedge this exposure. In order to achieve this objective the Group entered into a number of cross currency interest rate swaps.

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 2005 was €4,460,000.

Funding and Liquidity

The Group has significant cash resources at its disposal which together with undrawn bank facilities provide flexibility in financing existing operations, acquisitions and other developments.

37. Capital Expenditure Commitments

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

	Group		Company	
	2005 €'000	2004 €'000	2005 €'000	2004 €'000
Contracted for	15,512	14,580	-	-
Not contracted for	50,268	47,213	-	-
	65,780	61,793	-	-

Capital commitments in the UK and Ireland amount to €40.6 million and €25.2 million respectively.

Notes to the Financial Statements

38. Operating Leases

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

	Group				Company	
	Land and Buildings	Other	Land and Buildings	Other	Land and Buildings	Land and Buildings
	2005	2005	2004	2004	2005	2004
	€'000	€'000	€'000	€'000	€'000	€'000
<i>Operating leases which expire:</i>						
Within one year	511	292	99	-	-	-
Between two and five years	6,597	3,025	4,592	68	-	-
Over five years	690,192	465	319,267	-	7,716	8,145
	697,300	3,782	323,958	68	7,716	8,145

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 2005 €27.34 million (2004: €20.17 million) was recognised as an expense in the income statement in respect of operating leases.

39. Guarantees and Principal Operating Subsidiaries

The Company has given guarantees in respect of the bank borrowings of subsidiary undertakings which amounted to €868 million at the balance sheet date.

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 Homecare Limited	DIY superstores
Panelling Centre Limited	Kitchen panelling products

Notes to the Financial Statements

39. Guarantees and Principal Operating Subsidiaries (continued)

This guarantee also applies to the following 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, Circle Syntalux Limited, Circle Paints Manufacturing Ireland Limited, Cheshunt Limited, Kenn Truss Limited, Tiska Limited, Topez Limited, Denningco Limited, Universal Providers Limited, Heron Financial Services 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 Limited, Heiton McFerran (Donegal) 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, Leo Wright Investments Limited, Wright Window Systems Limited, Tullamore Hardware Limited, Paddy Power (Kilbarry) Limited, House of Woods Limited, Eddies Hardware Limited, Stassen Retail Limited, Frank Barrett & Sons Limited and Barretts of Ballinasloe Limited.

The Company owns 100% 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.

*Registered office is Ashfield, Naas Road, Clondalkin, Dublin 22.

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 company does not expect the amendment to have any impact on the company financial statements.

The principal operating subsidiaries operating in the United Kingdom are:

Name of Company	Nature of Business
Buildbase Limited	Builders merchants
Jackson Building Centres Limited	Builders merchants
Plumbase Limited	Plumbers merchants
Macnaughton Blair and Company Limited	Builders merchants
CPI Mortars Limited	Mortar manufacturers

The registered office of Buildbase Limited, Plumbase Limited and CPI Mortars 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 and for Macnaughton Blair and Company Limited the registered office is 4 Balmoral Road, Balmoral Industrial Estate, Belfast, Northern Ireland.

Notes to the Financial Statements

40. Pension Commitments and Share Based Payments

(a) 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 nine defined benefit schemes in Ireland and four in the UK. Full actuarial valuations were carried out at 1 July 2003, 1 January 2004, 1 July 2004, 30 April 2004 and 1 July 2005 for the nine Irish schemes and at 31 December 2002, 1 April 2004, 1 March 2005 and 1 April 2005 for the four UK schemes and all were updated to 31 December 2005 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:

Valuation Method	At 31 Dec	At 31 Dec	At 31 Dec	At 31 Dec	At 31 Dec	At 31 Dec
	2005	2005	2004	2004	2003	2003
	Irish	UK	Irish	UK	Irish	UK
	Schemes	Schemes	Schemes	Schemes	Schemes	Schemes
	Projected	Projected	Projected	Projected	Projected	Projected
	Unit	Unit	Unit	Unit	Unit	Unit
Rate of increase in salaries	3.5%	3.5%	3.5%	3.6%	3.5%	3.5%
Rate of increase of pensions in payment	0%-3%	2.5%	-	2.6%	-	2.5%
Discount rate	4.1%	4.75%	4.7%	5.3%	5.3%	5.3%
Inflation rate increase	2.3%	2.5%	2.3%	2.6%	2.5%	2.5%

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

Scheme Assets

The assets in these schemes and the long term rates of return expected at 31 December 2005, 31 December 2004 and 31 December 2003 are set out below:

	2005	2005	2004	2004	2003	2003
	Irish	UK	Irish	UK	Irish	UK
	Schemes	Schemes	Schemes	Schemes	Schemes	Schemes
Equities	7.5%	7.5%	7.25%	7.25%	7.25%	7.25%
Bonds	3.1%	4.5%	3.8%	5.1%	4.75%	5.3%
Property	6.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Cash	2.5%	4.5%	4.0%	4.5%	4.0%	4.0%

Notes to the Financial Statements

40. Pension Commitments and Share Based Payments (continued)

(a) Pension Commitments (continued)

		2005		2004		2003
	%	€'000	%	€'000	%	€'000
Equities	78	135,128	68	64,783	67	58,813
Bonds	13	22,775	15	14,030	15	13,377
Property	5	9,573	3	2,766	3	2,325
Cash	4	6,436	14	13,203	15	12,931
		<u>173,912</u>		<u>94,782</u>		<u>87,446</u>
Actuarial value of liabilities		<u>(232,944)</u>		<u>(130,379)</u>		<u>(112,867)</u>
Deficit in the schemes		<u>(59,032)</u>		<u>(35,597)</u>		<u>(25,421)</u>
On an after tax basis:						
Related deferred tax asset		<u>10,673</u>		<u>6,733</u>		<u>5,759</u>
Net pension liability		<u>(48,359)</u>		<u>(28,864)</u>		<u>(19,662)</u>

Movements in present value of defined benefit obligations

	Group		Company	
	2005 €'000	2004 €'000	2005 €'000	2004 €'000
At 1 January	130,379	112,867	10,213	9,296
Acquired on acquisitions during the year	57,906	-	-	-
Current service cost	5,972	3,160	425	307
Interest cost	9,431	6,090	491	402
Actuarial losses	28,477	13,270	2,526	3,981
Contributions by members	2,597	1,811	100	101
Benefits paid	(3,981)	(6,602)	(25)	(3,874)
Translation adjustment	2,163	(217)	-	-
At 31 December	232,944	130,379	13,730	10,213

Movements in fair value of plan assets

	Group		Company	
	2005 €'000	2004 €'000	2005 €'000	2004 €'000
At 1 January	94,782	87,446	5,826	8,487
Acquired on acquisitions during the year	32,892	-	-	-
Expected return on plan assets	8,579	5,803	435	460
Actuarial gains	19,531	1,510	1,122	(628)
Contributions by employer	17,712	4,951	4,300	1,280
Contributions by members	2,591	1,811	100	101
Benefits paid	(3,981)	(6,602)	(25)	(3,874)
Translation adjustment	1,806	(137)	-	-
At 31 December	173,912	94,782	11,758	5,826

Notes to the Financial Statements

40. Pension Commitments and Share Based Payments (continued)

(a) Pension Commitments (continued)

Expense recognised in operating costs

	Group		Company	
	2005 €'000	2004 €'000	2005 €'000	2004 €'000
Current service cost	5,972	3,160	425	307
Past service cost	-	-	-	-
Total operating charge	5,972	3,160	425	307

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

	2005 €'000	2004 €'000	2005 €'000	2004 €'000
Operating costs	5,972	3,160	425	307
Finance income (expected return on scheme assets)	(8,579)	(5,803)	(435)	(460)
Finance expense (interest on scheme liabilities)	9,431	6,090	491	402
Total income statement charge	6,824	3,447	481	249

Cumulative net actuarial losses reported in the Statement of Recognised Income and Expenses since 1 January 2004, the transition date, to 31 December 2005 is €20.7 million (2004: €11.8 million).

Movement in deficit during the year

	Group		Company	
	2005 €'000	2004 €'000	2005 €'000	2004 €'000
Deficit in the schemes at start of year	(35,597)	(25,421)	(4,387)	(809)
<i>Movement in year:</i>				
Acquired on acquisitions during the year	(25,014)	-	-	-
Current service cost	(5,972)	(3,160)	(425)	(307)
Employer contribution paid	17,712	4,951	4,300	1,280
Past service cost	-	-	-	-
Other finance income (net)	(852)	(287)	(56)	58
Actuarial loss (net)	(8,946)	(11,760)	(1,404)	(4,609)
Translation adjustment	(363)	80	-	-
Deficit in the schemes at end of year	(59,032)	(35,597)	(1,972)	(4,387)

Notes to the Financial Statements

40. Pension Commitments and Share Based Payments (continued)

(b) 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 may be acquired by conversion subject to the conditions set out below:

- (i) Basic shares which cannot be acquired before the expiration of five years, unless the Remuneration Committee agrees to a shorter period which shall not be less than three years, and 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 acquired before the expiration of five years and 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.

Share Schemes

The number of Grafton Units issued during the year under the Company's executive Share Schemes was 1,369,092 (2004: 794,553) and the total consideration received amounted to €2,430,000 (2004: €1,302,000). Costs relating to the issues were €172,000. In accordance with the terms of the 1999 Grafton Group Share Scheme and the Grafton Group (UK) plc Approved Share Option Scheme, entitlements to acquire 2,274,000 Grafton Units were granted during the year. Entitlements outstanding at 31 December 2005 amounted to 11,780,873 (2004: 11,081,141). Grafton Units may be acquired, in accordance with the terms of the schemes, at prices ranging between €0.65 and €8.11 during the period to 2015.

UK SAYE Scheme

Options over 1,302,992 (2004: 1,387,417) Grafton Units were outstanding at 31 December 2005, pursuant to a new three year saving contract under Grafton Group (UK) plc Saving's Related Share Option Scheme at a price of €7.64, which represented a discount of 20 per cent to the market price on the date of the grant. These options are normally exercisable within a period of six months after the third anniversary of the savings contract, being April 2008. The number of Grafton units issued during the year under the Company's original 2001 SAYE scheme was 1,228,763 and the total consideration amounted to €2,777,000 or €2.26 per share which represented a discount of 20 per cent to the market price on the date of the original grant in 2001.

A summary of the share entitlements granted in 2005 and 2004 are set out below:

	2005	1999	1999
	UK SAYE	Grafton Group	Grafton Group
	Scheme	Share Scheme	Share Scheme
	2005	2005	2004
Grant Date	6 April 2005	7 November 2005	5 May 2004
Share price at grant date	€9.55	€8.11	€6.20
Exercise price	€7.64	€8.11	€6.20
Number of employees	1,911	132	100
Shares under option	1,361,613	2,274,000	1,893,100
Vesting period	3 years	5 years	5 years
Expected volatility	30%	30%	30%
Option life	3.5 years	10 years	10 years
Expected life	3.5 years	6 years	6 years
Risk free rate	3.7%	4.34%	4.1%
Expected dividends expressed as dividend yield	1.74%	1.48%	2.64%
Possibility of ceasing employment before vesting	5%	0%	0%
Valuation model	Binomial model	Binomial model	Binomial model
Fair value per option	€2.82	€2.81	€1.56

Notes to the Financial Statements

40. Pension Commitments and Share Based Payments (continued)

(b) Share based payments (continued)

This expected volatility is based on historic volatility over the past 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. A reconciliation of share entitlement movement over the year is as follows:

	2005		2004	
	Number ('000)	Weighted Average Exercise Price €	Number ('000)	Weighted Average Exercise Price €
Outstanding at 1 January	11,081,141	3.63	9,984,619	2.98
Granted	2,274,000	8.11	1,893,100	6.20
Forfeited	(205,176)	4.59	(2,025)	4.08
Exercised/Acquired	(1,369,092)	1.78	(794,553)	1.64
Outstanding at 31 December	11,780,873	4.69	11,081,141	3.63
Exercisable at 31 December	2,933,665	1.94	2,577,117	1.75

41. Accounting Estimates and Judgements

The Group's main accounting policies affecting its results of operations and financial condition are set out on pages 52 to 61. Judgements and assumptions have been made by management in applying the Group's accounting policies in certain areas. Actual results may differ from the 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 €532.3 million at 31 December 2005. Goodwill is required to be tested for impairment at least annually or more frequently if changes in circumstances or the occurrence of events indicated potential impairment exists. The Company 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, in estimating terminal growth values and in selecting an appropriate discount rate. No impairment resulted from the annual impairment test in 2005.

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 €232.9 million. The Group also has plan assets totalling €173.9 million giving a net deficit position of €59 million for the Group. The size of the obligation is sensitive to actuarial assumptions. These include demographic assumptions covering mortality and longevity, and economic assumptions covering price and medical costs inflation, benefit and salary increases together with the discount rate used. The size of the plan assets is also sensitive to asset return levels and the level of contributions from the Company.

Notes to the Financial Statements

42. Related Party Transactions

Grafton Group plc has advanced €12.2 million to Navan Retail Developments Limited, a joint venture company. This balance is outstanding at the year end.

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

Management charge of €13.6 million in the year ended 31 December 2005 (2004 €9.8 million).

Dividend income of €50.6 million in the year ended 31 December 2005 (2004 €42.7 million).

Provision of finance for certain subsidiaries.

43. Summary of Transition to IFRS

The most significant changes arising from the transition to IFRS from Irish GAAP are described in the following paragraphs.

- (a) A 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 €9,321,000 at 31 December 2004 (1 January 2004: €9,750,000) in the carrying value of property within property, plant and equipment together with the related finance lease creditor of €11,058,000 (1 January 2004: €11,488,000). 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. A higher charge is incurred in the early years of a lease owing to the impact of higher interest charges which resulted in 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 and is primarily a reclassification between operating costs and net finance costs.
- (b) The 2004 charge of €12.8 million under Irish GAAP for goodwill amortisation does not arise under IFRS and results in an increase in pre-tax profit. The acquisition balance sheets for businesses acquired during 2004 have not given rise to the recognition of intangible assets other than goodwill on the basis that the intangible assets arising were not considered material.

IFRS 3 requires that finished goods in respect of acquisitions should be valued on the basis of selling price in the acquisition balance sheet as adjusted for the 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 has been recognised in respect of the restatement of inventory to fair value for acquisitions made in 2004.

Notes to the Financial Statements

43. Summary of Transition to IFRS (continued)

- (c) 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:

Deferred tax liabilities arising on:	31 December 2004 €'000	1 January 2004 €'000
Property revaluation surpluses	4,999	5,033
Fair value asset uplifts in business combinations	12,765	12,228
Rolled over capital gains	1,003	1,003
Reversal of SSAP 24 pension prepayment	(700)	(789)
Reclassification of deferred tax assets previously offset against deferred tax liabilities	7,368	5,959
	25,435	23,434
Reclassification to current tax liabilities	(31,362)	(31,362)
	(5,927)	(7,928)
Deferred tax assets arising on:		
Deficit on defined benefit pension scheme	6,733	5,759
Reclassification of deferred tax assets previously offset against deferred tax liabilities	7,368	5,959
UK share scheme	212	-
	14,313	11,718

- (d) 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 1 January 2004 of €5,315,000 (31 December 2004: €4,673,000).

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 €2.4 million (€2.1 million net of finance costs). The related tax effect is an increase of €0.3 million in the deferred tax charge.

- (e) IFRS 2, "Share-based Payment" requires the expensing of share based payments, which is primarily in relation to the Grafton Group Share Scheme which 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. An expense of €892,000 (estimated tax savings €123,000) has been recognised in the Group Income Statement in respect of the year ended 31 December 2004 and this is based on share entitlements granted in November 2003 and May 2004. This has resulted in an increase in the share capital to be issued of €79,000 as at 1 January 2004 and €971,000 cumulative as at 31 December 2004.
- (f) 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") with no net impact on capital and reserves attributable to the Group's equity holders.

Notes to the Financial Statements

43. Summary of Transition to IFRS (continued)

(g) The following were the adjustments to retained earnings:

	31 December 2004 €'000	1 January 2004 €'000
Share based payments	(759)	(79)
Employee benefits	(32,917)	(24,188)
Business combinations	12,750	-
Income tax	(13,231)	(13,231)
Leases	(1,737)	(1,738)
Reclassification to currency translation reserve	1,795	-
	(34,099)	(39,236)

Income Statement for the year ended 31 December 2004

	Irish GAAP €'000	Restated under IFRS €'000	Notes	Transition to IFRS €'000
Turnover	1,872,346	1,872,346		-
Cost of sales	(1,255,107)	(1,255,207)	(b)	(100)
Gross profit	617,239	617,139	-	(100)
Operating costs	(459,838)	(457,595)	(d)	2,243
Property development profit	6,729	6,729		-
Goodwill amortisation	(12,820)	-	(b)	12,820
Operating profit	151,310	166,273		14,963
Profit on disposal of property	792	792		-
Profit before net finance costs and income from financial assets	152,102	167,065		14,963
Income from financial assets	1,541	1,541		-
Net finance costs	(21,792)	(22,780)	(a)	(988)
Profit on ordinary activities before taxation	131,851	145,826		13,975
Taxation	(19,788)	(19,936)	(d)	(148)
Profit for the financial year	112,063	125,890		13,827
Attributable to:				
Equity holders of the Company	112,063	125,890		13,827
Basic earnings per share (cent)	52.64c	59.14c		
Adjusted earnings per share (cent)	55.64c	56.11c		

Notes to the Financial Statements

43. Summary of Transition to IFRS (continued)

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

	Irish GAAP €'000	Restated under IFRS €'000	Notes	Transition to IFRS €'000
ASSETS				
Non-current assets				
Property, plant and equipment	396,886	406,207	(a)	9,321
Intangible assets - goodwill	234,309	247,155	(b)	12,846
Financial assets	47,019	47,019		-
Deferred tax assets	-	14,313	(c)	14,313
	678,214	714,694		36,480
Current assets				
Inventories	237,680	237,680		
Trade and other receivables	322,838	318,165	(d)	(4,673)
Cash and cash equivalents	135,868	135,868		-
	696,386	691,713		(4,673)
Total assets	1,374,600	1,406,407		31,807
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	34,988	(c)	(4,999)
Other reserve – shares to be issued	-	971	(e)	971
Foreign currency translation reserve	-	(2,156)	(f)	(2,156)
Retained earnings	381,143	347,044	(g)	(34,099)
Total equity	535,821	495,538		(40,283)
LIABILITIES				
Non-current liabilities				
Interest bearing loans and borrowings	367,773	378,401	(a)	10,628
Retirement benefit obligations	-	35,597	(d)	35,597
Deferred tax liabilities	33,895	27,968	(c)	(5,927)
Deferred acquisition consideration	1,552	1,552		-
	403,220	443,518		40,298
Current liabilities				
Interest bearing loans and borrowings	106,266	106,696	(a)	430
Trade and other payables	310,786	310,786		-
Current tax liabilities	14,074	45,436	(c)	31,362
Deferred acquisition consideration	4,433	4,433		-
	435,559	467,351		31,792
Total liabilities	838,779	910,869		72,090
Total equity and liabilities	1,374,600	1,406,407		31,807

Notes to the Financial Statements

43. Summary of Transition to IFRS (continued)

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

	Irish GAAP €'000	Restated under IFRS €'000	Notes	Transition to IFRS €'000
ASSETS				
Non-current assets				
Property, plant and equipment	346,812	356,562	(a)	9,750
Intangible assets - goodwill	210,840	210,840		-
Financial assets	33,665	33,665		-
Deferred tax assets	-	11,718	(c)	11,718
	591,317	612,785		21,468
Current assets				
Inventories	194,436	194,436		-
Trade and other receivables	272,797	267,482	(d)	(5,315)
Cash and cash equivalents	138,956	138,956		-
	606,189	600,874		(5,315)
Total assets	1,197,506	1,213,659		16,153
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	35,227	(c)	(5,033)
Other reserve – shares to be issued	-	79	(e)	79
Foreign currency translation reserve	-	-		-
Retained earnings	296,391	257,155	(g)	(39,236)
Total equity	449,841	405,651		(44,190)
LIABILITIES				
Non-current liabilities				
Interest bearing loans and borrowings	364,553	375,611	(a)	11,058
Retirement benefit obligations	-	25,421	(d)	25,421
Deferred tax liabilities	22,941	15,013	(c)	(7,928)
Deferred acquisition consideration	5,373	5,373		-
	392,867	421,418		28,551
Current liabilities				
Interest bearing loans and borrowings	86,118	86,548	(a)	430
Trade and other payables	252,422	252,422		-
Current tax liabilities	13,313	44,675	(c)	31,362
Deferred acquisition consideration	2,945	2,945		-
	354,798	386,590		31,792
Total liabilities	747,665	808,008		60,343
Total equity and liabilities	1,197,506	1,213,659		16,153

Notes to the Financial Statements

43. Summary of Transition to IFRS (continued)

Explanation of material adjustment to the cash flow statement for 2004

The inclusion within borrowings of the lease creditor has the effect of increasing net debt. Cash-flows are however unaffected. There are no other material differences between the cash flow statement presented under IFRS and the cash flow statement prepared under Irish GAAP.

Transition at 1 January 2005 of adopting IAS 32 and IAS 39

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

		IFRS 31 Dec 2004 €'000	Effect of adoption of IAS 32/39 €'000	IFRS 1 January 2005 €'000
Non-current assets	(a)	714,694	53,974	768,668
Current assets	(b)	691,713	1,657	693,370
Total assets		<u>1,406,407</u>	<u>55,631</u>	<u>1,462,038</u>
Equity		<u>495,538</u>	<u>55,424</u>	<u>550,962</u>
Non-current liabilities	(c)	443,518	(1,650)	441,868
Current liabilities	(d)	467,351	1,857	469,208
Total liabilities		<u>910,869</u>	<u>207</u>	<u>911,076</u>
Total equity and liabilities		<u>1,406,407</u>	<u>55,631</u>	<u>1,462,038</u>

(a) Non-Current Assets – Financial Assets

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

(b) Derivative Financial Instruments

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

(c) Interest Bearing Loans and Borrowings

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

(d) Interest Bearing Loans and Derivative Financial Instruments

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

Notes to the Financial Statements

43. Summary of Transition to IFRS (continued)

The most significant changes arising to the Company balance sheet from the transition to IFRS from Irish GAAP are described in the following paragraphs.

- (a) In accordance with the exemption under IFRS 1, the Company 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 €4.97 million which represents the sum of the deficit plus the reversal of a SSAP 24 debtor in the Irish GAAP balance sheet as at 1 January 2004 of €4,162,000. This has resulted in the creation of a deferred tax asset of €621,000. As at 31 December 2004, the pre-tax reduction in net assets was €8.017 million which represents the sum of the deficit plus the reversal of a SSAP 24 debtor of €3.63 million.
- (b) IFRS 2, "Share-based Payment", which is primarily in relation to the 1999 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. An expense of €16,000 and €184,000 has been recognised in the Company Income Statement and an increase of financial assets of €63,000 and €771,000 has been recognised on the Company Balance Sheet in respect of the years ended 31 December 2003 and 2004 respectively.

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

	Irish GAAP €'000	Restated under IFRS €'000	Notes	Transition to IFRS €'000
ASSETS				
Non-current assets				
Property, plant and equipment	400	400		-
Financial assets	18,407	18,470	(b)	63
	18,807	18,870		63
Current assets				
Trade and other receivables	277,244	273,082	(a)	(4,162)
Cash and cash equivalents	1,505	1,505		-
Deferred tax asset	-	621	(a)	621
	278,749	275,208		(3,541)
Total assets	297,556	294,078		(3,478)
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		-
Other reserve – shares to be issued	-	79	(b)	79
Retained earnings	49,756	45,390	(a) and (b)	(4,366)
Total equity	162,946	158,659		(4,287)
LIABILITIES				
Non-current liabilities				
Interest bearing loans and borrowings	37,457	37,457		-
Retirement benefit obligations	-	809	(a)	809
	37,457	38,266		809
Current liabilities				
Interest bearing loans and borrowings	9,781	9,781		-
Trade and other payables	8,927	8,927		-
Current tax liabilities	15	15		-
Amounts owed to subsidiary undertakings	78,430	78,430		-
	97,153	97,153		-
Total liabilities	134,610	135,419		809
Total equity and liabilities	297,556	294,078		(3,478)

Notes to the Financial Statements

43. Summary of Transition to IFRS (continued)

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

	Previous Irish GAAP €'000	Restated under IFRS €'000	Notes	Transition to IFRS €'000
ASSETS				
Non-current assets				
Property, plant and equipment	334	334		-
Financial assets	19,477	20,248	(b)	771
	19,811	20,582		771
Current assets				
Trade and other receivables	295,894	292,264	(a)	(3,630)
Cash and cash equivalents	2,087	2,087		-
Deferred tax asset	-	548	(a)	548
	297,981	294,899		(3,082)
Total assets	317,792	315,481		(2,311)
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		-
Other reserves- shares to be issued	-	971	(b)	971
Retained earnings	63,622	56,407	(a) and (b)	(7,215)
Total equity	178,313	172,069		(6,244)
LIABILITIES				
Non-current liabilities				
Interest bearing loans and borrowings	37,258	37,258		-
Retirement benefit obligations	-	4,387	(a)	4,387
Deferred tax liabilities	508	54	(a)	(454)
	37,766	41,699		3,933
Current liabilities				
Interest bearing loans and borrowings	9,742	9,742		-
Trade and other payables	6,324	6,324		-
Current tax liabilities	12	12		-
Amounts owed to subsidiary undertakings	85,635	85,635		-
	101,713	101,713		-
Total liabilities	139,479	143,412		3,933
Total equity and liabilities	317,792	315,481		(2,311)

44. Approval of Financial Statements

The Board of Directors approved the financial statements on 14 March 2006.

Corporate Information

Auditor	KPMG, Dublin
Bankers	Bank of Ireland Ulster Bank Markets AIB Bank Lloyds TSB Bank IIB Bank Barclays Bank
Solicitors	Arthur Cox, 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 Corporate Registrars plc 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

Interim results	13 September 2005
Full year results	15 March 2006
Annual report issued	3 April 2006
Annual general meeting	8 May 2006

Purchase of A Ordinary Share

Interim	1 October 2005
Final	24 March 2006



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