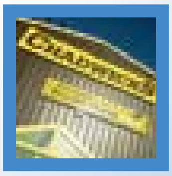
Grafton Group plc
Annual Report 2006



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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 384 locations comprising 179 Plumbers Merchanting branches trading under the Plumbase brand, and 205 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 nine manufacturing facilities in England and Scotland.

In Northern Ireland, Macnaughton Blair is one of the leading builders merchants in the province trading from 16 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 29 branches principally 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 25 Woodie's DIY 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 26 per cent. Grafton Group plc shares are listed on the Irish and London Stock Exchanges.

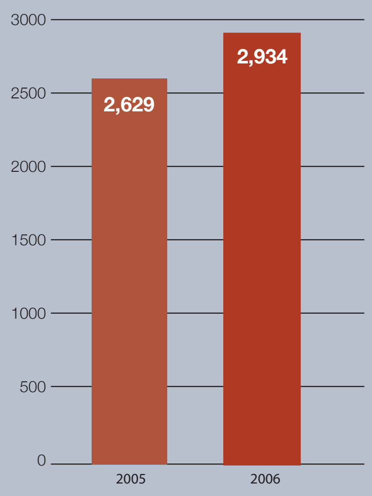
Financial Highlights 2006

	2006	2005	Change
Revenue (€ million)	**2,934**	2,629	+12%
EBITDA (€ million)	**336**	274	+23%
Operating profit* (€ million)	**245**	216	+13%
Profit before taxation (€ million)	**249**	192	+30%
EPS – basic (cent)	**91.0**	70.3	+29%
Adjusted EPS * (cent)	**78.0**	67.8	+15%
Share purchase per Grafton unit (cent)	**18.75**	15.75	+19%
Share purchase cover (times)	**4.2**	4.3	
Net finance cost cover (times)	**9.0**	7.2	
Cash flow per share (cent) #	**114**	92	+24%
Net assets per share (cent)	**424**	343	+24%
Net debt to shareholders' funds	**54%**	72%	
Depreciation charge (€ million)	**53.2**	48.2	
Intangible amortisation (€ million)	**2.2**	2.2	
Acquisition expenditure (€ million)	**87**	478	
Capital expenditure (€ million)	**124**	101	

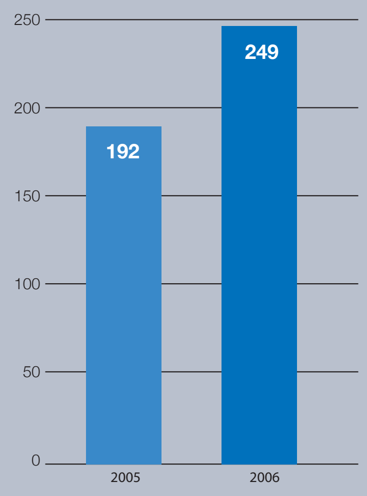
** Before intangible amortisation and property profit.*

 # Based on profit after tax plus depreciation and intangible amortisation.

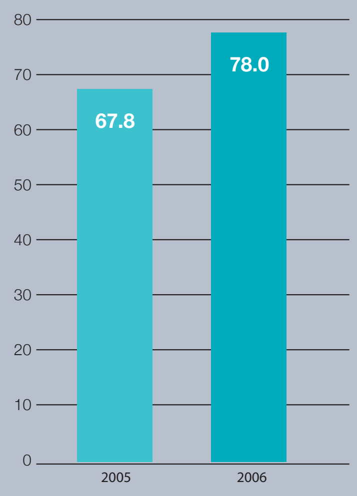
REVENUE
(€ million)



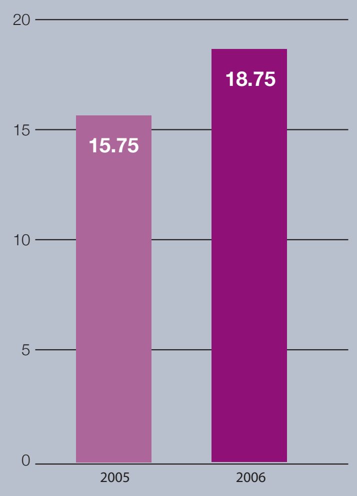
PROFIT BEFORE TAX
(€ million)



ADJUSTED EARNINGS PER SHARE
(€ cent)



SHARE PURCHASE PER GRAFTON UNIT
(€ cent)



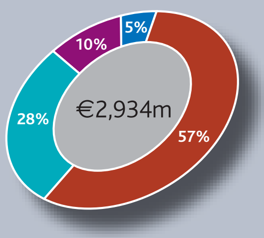
Regions and Divisions

The strength of the overall performance is a reflection of the Group's strategy of broadening its earning base and developing strong market positions and brands in Ireland and the UK.

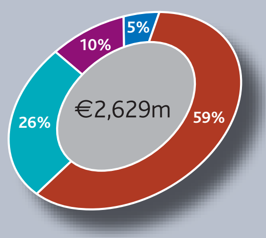
	Trading Locations		
	UK	Ireland	Total
Builders Merchants	205	69	**274**
Plumbers Merchants	179	8	**187**
Manufacturing Plants	9	4	**13**
DIY	-	46	**46**
Total	393	127	**520**

Divisional Turnover

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



2006

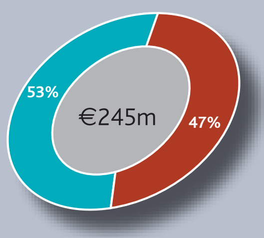


2005

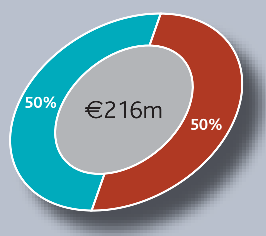
Operating Profit

Before intangible amortisation and property profit

- UK
- Ireland

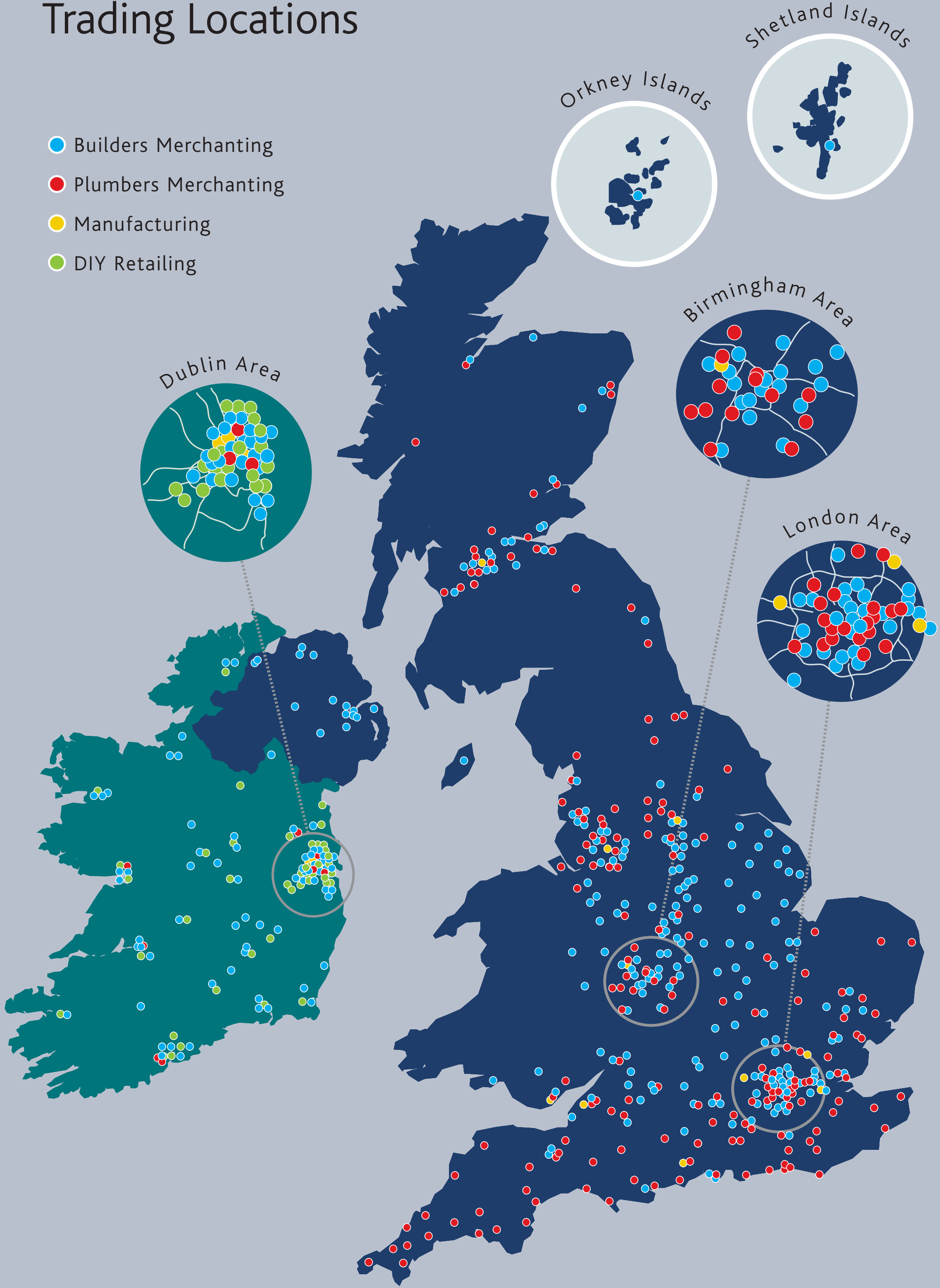


2006



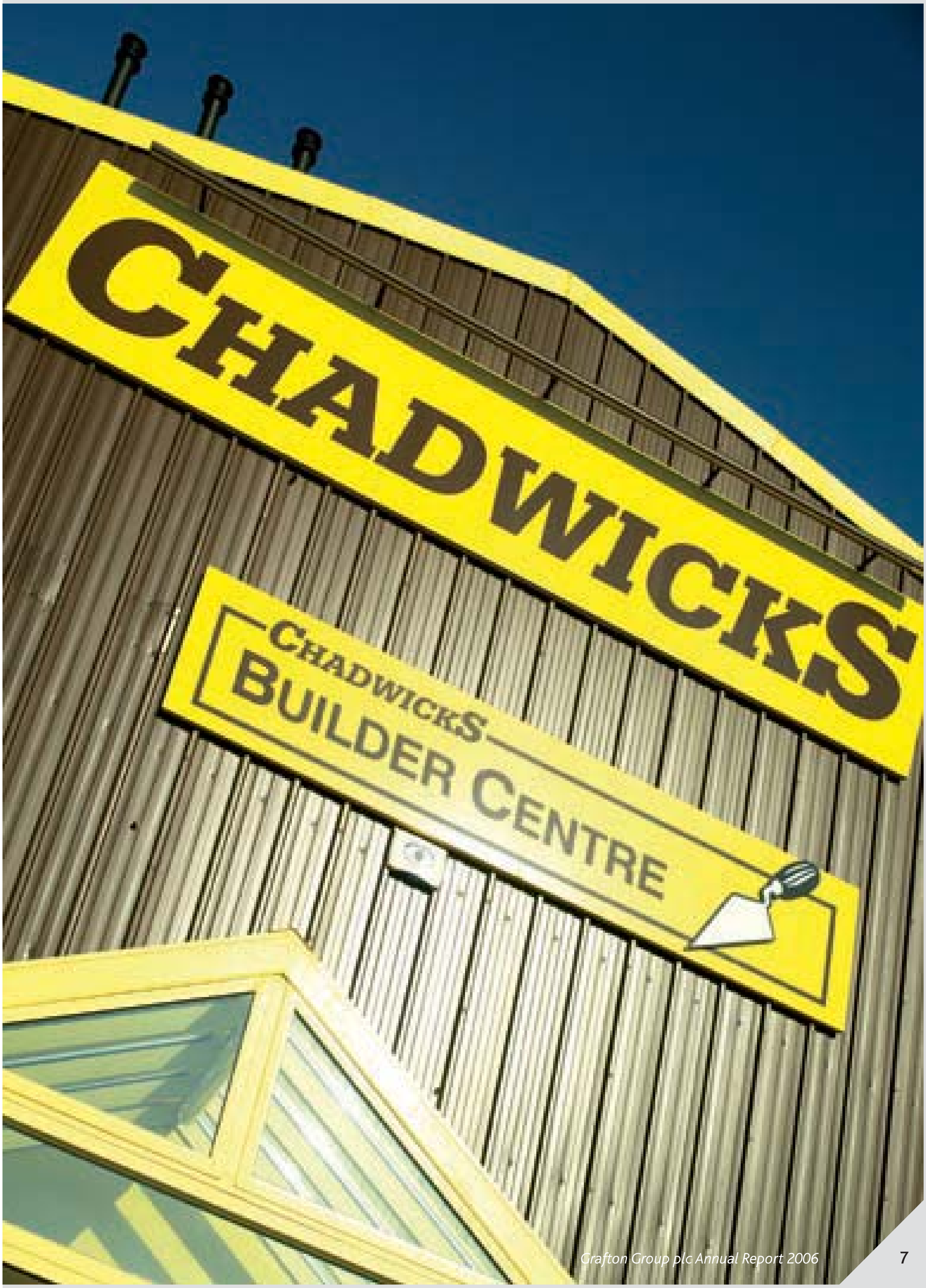
2005

Trading Locations




Irish Merchanting

The Irish merchanting business delivered another year of good growth in sales and operating profit with the benefit of a strongly performing economy driving demand in the residential new build and RMI markets.


CHADWICKS
CHADWICKS
BUILDER CENTRE



Irish Retailing

The Irish retailing business, trading under the Woodie's DIY, Atlantic Homecare and In House at the Panelling Centre brands, had a very good year reporting increased sales and operating profit.

UK Builders Merchanting

The UK Builders Merchanting division trading under the Buildbase, Jacksons, Macnaughton Blair and Selco brands continued to grow rapidly with record results and significant development activity.


BUILDBASE

UK Plumbers Merchanting

Plumbase is the UK's fourth largest plumbers merchanting chain with a network of 179 branches concentrated in the South East, West Country, Midlands, East Anglia and Scotland.

UK Mortar

EuroMix has a clear leadership position in the UK dry mortar market and has established a significant reputation as a preferred supplier due to the quality of its range of mortars and customer support.


CPI
EuroMix
Quality Mortar
Right when you need it!

Chairman's Statement

Grafton Group plc reports further growth in sales, profits and earnings per share for 2006.

Highlights

- Sales were up 12 per cent to €2.93 billion (2005: €2.63 billion).
- Operating profit* increased by 13 per cent to €244.9 million (2005: €215.9 million).
- Property profit of €38.0 million achieved during the year (2005: €9.6 million).
- Profit before tax up 30 per cent €249.4 million (2005: €192.2 million).
- Adjusted earnings per share increased by 15 per cent to 78.0 cent (2005: 67.8 cent).
- Basic earnings per share increased by 29 per cent to 91.0 cent (2005: 70.3 cent).
- Cash generated from operations and asset disposals was up 28 per cent to €329.5 million (2005: €257.3 million).
- Strong balance sheet with shareholders' funds increasing 25 per cent to exceed €1 billion for the first time.
- Gearing at eight year low while interest cover increased from 7.2 to 9 times.
- Twentieth consecutive year of increased share purchase/dividend payments.

* *Before intangible amortisation and property profit.*

The Group's Irish business delivered excellent results against a background of a strongly performing economy. The UK business traded in a softer market in the first half reporting lower profit but experienced improved demand in the second half leading to an increase in full year profit.

This was an excellent outcome for the year in view of the less favourable merchanting market in the UK in the first half. The strength of the overall performance is a reflection of the Group's successful strategy of broadening its earnings base and developing strong market positions and brands in the Irish merchanting and DIY markets and in the UK merchanting and mortar markets.

The acquisition of Heiton Group plc, the Group's largest acquisition to date, in January 2005 provided the Irish merchanting and DIY businesses with a much broader trading and geographic platform in a growth market in Ireland. The results of the business for the past two years have exceeded expectations and the Group achieved its hurdle rate of return on its original investment.

In the Republic of Ireland, continued high economic growth rates, record levels of house construction and RMI activity together with increased consumer spending were the key drivers of demand in the merchanting and DIY businesses. Strong like for like sales and profit growth in the established Irish business combined with contributions from acquisitions and new stores resulted in a substantial advance in profit. Irish turnover increased by 16 per cent to €1.20 billion (2005: €1.03 billion) and operating profit increased by 21 per cent to €130.4 million (2005: €107.7 million). The Irish business accounted for 41 per cent (2005: 39 per cent) of Group sales and 53 per cent (2005: 50 per cent) of Group operating profit.

The UK RMI market progressively weakened during 2005 and this trend continued into the first half of 2006 before the market staged a gradual recovery in the second half. The results of the UK business moved generally in line with market conditions with operating profit increasing strongly in the second half as trading in the RMI market gathered momentum. UK turnover increased by 9 per cent to €1.73 billion (2005: €1.60 billion) and UK operating profit increased by 6 per cent to €114.6 million (2005: €108.2 million).

Development

The Group continued to actively pursue its long term development strategy based on growth through acquisitions and branch development. The spend on acquisitions was €87.1 million including deferred acquisition consideration relating to prior year transactions of €11.9 million. This was lower than the record expenditure of €477.7 million in 2005 which included €359 million to acquire the remaining 71 per cent of the shares in Heiton Group plc. Capital expenditure on development projects increased to €72.8 million (2005: €56.3 million) and the total spend on acquisitions and development capital expenditure was €159.9 million.

Sixteen bolt-on merchanting acquisitions were completed in the UK continuing the steady flow of transactions which has over time enabled the Group to build a strong position in the merchanting market. These businesses trade from 27 locations with annual sales of over €120 million. The businesses acquired were well established operations trading from locations which expand and compliment coverage of the UK merchanting market.

Organic growth initiatives have traditionally been an important element of the Group's development strategy and the pace of activity in 2006 was similar to 2005 with the completion of 18 projects. In the UK, twelve merchanting branches were opened and one new dry mortar plant. In Ireland, three Woodie's DIY stores, one builders merchanting branch and one In House at the Panelling Centre store were opened.

The addition of the 45 locations, referred to above, to the existing branch network increases the scale and market presence of the Group as well as providing a good basis for further sales and profit improvement in 2007 and beyond.

Once again in 2006, the trading operations were highly cash generative and the Group ended the year in an exceptionally strong financial position with shareholders' funds exceeding €1 billion for the first time. Group gearing of 54 per cent at the year end was at its lowest level since 1998. This leaves the Group with the financial strength to take advantage of suitable acquisition and organic development opportunities which present a good strategic fit and are based on the achievement of acceptable long term returns for shareholders.

Share Purchase

The Company purchased one 'A' Ordinary share per Grafton Unit for a cash consideration of 8.25 cent which was paid on 18 October 2006. The board approved the purchase of a further 'A' Ordinary share per Grafton Unit for a cash consideration of 10.50 cent (2006: 8.50 cent) payable on 28 March 2007.

The total share purchase payments to shareholders for 2006 amount to 18.75 cent per Grafton Unit. This is an increase of 19 per cent on total share purchase payments for 2005 of 15.75 cent per Grafton Unit. This is the twentieth consecutive year for the Group to increase its share purchase/dividend payment to shareholders and is achieved while maintaining a high level of cover. The increase over last year reflects the strong financial position of the Group and the Board's confidence in its future prospects.

Board

As previously announced, the Board appointed Mr. Leo J. Martin as Chief Operating Officer with overall responsibility for the Group's Irish and UK builders and plumbers merchanting operations with effect from 12 September 2006. The Board also appointed Mr. Roderick Ryan and Mr. Peter S. Wood as non-executive Directors with effect from 15 March 2006 and 1 July 2006 respectively.

Chairman's Statement

Operations Review – Republic of Ireland

Irish turnover increased by 16 per cent to €1.20 billion (2005: €1.03 billion). Operating profit increased by 21 per cent to €130.4 million (2005: €107.7 million). The operating profit margin increased to 10.9 per cent (2005: 10.4 per cent).

The Irish businesses traded at record levels of activity against a positive economic background. The economy grew broadly in line with its long run potential growth rate continuing a period of expansion dating back to the mid 1990's which has been exceptional by European standards. Consumer spending was a key contributor to growth sustained by rising real incomes, lower taxes, employment growth and significant immigration.

Activity in the construction sector was strong throughout 2006. Investment in the housing market continued at a high level with completions reaching 88,200 units. The rate of growth in house prices eased in the second half in response to rising interest rates and increased supply.

Non-residential construction also enjoyed very good demand during 2006. In particular, the housing repair, maintenance and improvement sector was very busy. Private and public sector non-residential construction including civil and infrastructural engineering projects also delivered strong volume growth.

Irish Merchanting

Sales increased by 18 per cent to €816.6 million (2005: €690.5 million). The Irish merchanting business delivered another year of good growth in sales and operating profit with the benefit of a strongly performing economy driving demand in the residential, new build and RMI markets. These conditions supported continued high levels of demand in the merchanting sector.

The performance of Heitons since acquisition in January 2005 has exceeded expectations and the Group achieved its hurdle rate of return on this investment in 2006.

The overall increase in sales and profitability of the division resulted from good organic growth, acquisition contributions and improved underlying operating profit due to purchasing benefits and tight control of overheads.

The sixty branch national merchanting chain trading primarily under the Chadwicks and Heiton Buckley brands had healthy volume growth in the housing, RMI and civils sectors. Like for like merchanting sales increased by 8 per cent although the pricing and trading environment remained competitive.

Chadwicks had an excellent year creating new records for sales and profits. The business benefited from an increased focus on sales growth in the plumbing and heating product category in its specialist Plumb Centre and general merchanting branches. Trading in the Naas, Co. Kildare branch benefited from a major refurbishment and expansion programme.

The Heiton Buckley business out-performed expectations due to positive market conditions and increased profitability derived from purchasing synergies, a rigorous focus on cost efficiencies, changes in product mix and greater focus on growth in attractive product segments. The business also made progress on the development front relocating the Tralee, Co. Kerry branch to an out of town purpose built facility and opening a new branch in Mullingar, Co. Westmeath. Trading indications to date have been very encouraging at both locations.

Cork Builders Providers had a very good year of sales and profit growth with the benefit of a buoyant new build and RMI market in Cork City and also due to expansion of its civils and drainage division. Telfords increased sales and profits in a favourable Midlands market supported by significant investment in the Portlaoise branch.

The Davies and Garveys businesses, acquired in December 2005, traded ahead of pre-acquisition expectations. Davies, a specialist plumbing, heating and drainage merchant benefited from its exposure to growth in the non-residential and infrastructure markets. The Garvey's general merchanting business reported solid sales growth in its Midlands based RMI market and also benefited from Group purchasing synergies.

The Heiton Steel stockholding business performed satisfactorily despite a difficult pricing environment. The benefit of good volume growth in a positive market was offset by lower prices and greater competition in the cutting and bending market.

Sam Hire, the leading player in the small plant and tool hire market, improved market coverage with the opening of branches in Dublin and Mullingar.

Irish Retailing

Sales increased by 14 per cent to €311.7 million (2005: €272.6 million). The Irish retailing business, trading under the Woodie's DIY, Atlantic Homecare and In House at the Panelling Centre brands, had a very good year reporting increased sales and operating profit and an improvement in the operating margin. This very positive outcome was achieved despite tougher competition due to a doubling of capacity in the sector over the past three years and higher property costs.

The business traded against a background of strong volume growth in consumer spending continuing the trend established in 2005. This was sustained by growth in employment and earnings and the impact of maturing SSIA accounts. Consumer spending in the DIY sector was also supported by an increase in the housing stock, rising house prices and equity releases.

Increased profitability came from a good performance in the established stores and contributions from Woodie's store openings in 2005 and 2006. Like for like sales in the DIY stores were on an improving trend as the year developed and showed low single digit gains for the year. Like for like sales compared even more favourably with the 2005 performance when account is taken of the movement of some business to new Woodie's stores where catchment areas overlap.

The Woodie's DIY brand has a clear leadership position in the Irish DIY market where it currently trades from 25 stores. The store network was expanded further during 2006 with the opening of new stores in Castlebar, Co. Mayo and Navan, Co. Meath in the first half and in Nenagh, Co. Tipperary in the second half. Store openings in 2005 in Naas, Co. Kildare, Carrickmines, South Dublin and Drogheda, Co. Louth together with the relocated Cork City and Bray, Co. Wicklow stores contributed increased profitability in 2006. The 2005 and 2006 store openings and relocations exceeded trading expectations.

The sixteen store Atlantic Homecare DIY business successfully increased profit through improved trading from its enhanced ranges and targeted promotions.

The five store In House at the Panelling Centre business which markets a range of high quality kitchen and bedroom panelling products to trade and retail customers, achieved excellent sales and profit growth due to good market demand in its four established stores boosted by strong consumer spending, significant top up and house mover mortgage activity and the impact of maturing SSIA accounts. A fifth branch was successfully opened in Galway and further expansion of the format is planned.

Chairman's Statement

Irish Manufacturing

CPI's EuroMix division increased mortar volumes supplied into a strong residential and commercial construction market in the greater Dublin area and also expanded sales volumes of its value added product range.

Wrights, a manufacturer of windows and external doors, commissioned a new timber window manufacturing plant prior to the year end to meet a significant increase in demand.

Operations Review United Kingdom

UK sales increased by 9 per cent to €1.73 billion (2005: €1.60 billion) and operating profit increased by 6 per cent to €114.6 million (2005: €108.2 million). The UK operating margin declined to 6.6 per cent from the 6.8 per cent recorded in 2005.

The UK economy continued to provide a favourable background for development of the Group's merchanting and mortar businesses. Growth slowed to below trend in 2005 against the backdrop of interest rate increases. The economy strengthened in 2006 and growth returned to its long term trend rate. UK GDP has now expanded in 58 consecutive quarters, the longest ongoing expansion amongst all OECD countries. So far this decade, the UK has successfully achieved lower inflation and higher growth than most of its major competitors.

The UK housing market showed a sustained recovery during 2006 with rising property transactions and mortgage approvals and strong growth in house price inflation. The weaker housing market and slow down in consumer spending that occurred in 2005 caused the RMI market to progressively weaken. This weakness continued into the first half of 2006, although market conditions improved in the second quarter and the pick up in activity was sustained over the second half. Against this background, like for like sales were down 1.7 per cent in the first half but grew at a similar rate in the second and were marginally ahead for the year.

Operating profit declined by 8 per cent in the first half due to the combined effect of a weaker market and a demanding comparative result but increased by 20 per cent in the second half in a recovering market. The stronger trading performance in the second half enabled the business to achieve operating profit growth of 6 per cent for the year. The operating profit margin was 7.2 per cent in the second half, up from 6.7 per cent in the comparative half year.

UK Builders Merchanting

Buildbase had a satisfactory year reporting similar profits. Sales increased due to acquisitions and new branch openings in 2005 and 2006.

Heitons UK business and the Group's heavyside merchanting branches were successfully integrated into a newly formed Buildbase Civils and Lintels division which was established to more effectively focus on the civil engineering and ground works contracting market. Five bolt-on acquisitions completed in 2005 were integrated into the Buildbase branch network. Four branches at Erith, Greater London; Gloucester, Gloucestershire; Stevenage, Hertfordshire and Haverhill, Suffolk were relocated to modern purpose built facilities and major refurbishment was undertaken at the Rotherham, South Yorkshire and Sandy, Bedfordshire branches. A number of smaller branch redevelopment projects were also completed.

Buildbase acquired four businesses trading from eleven branches including Fleming Holdings, the leading independent builders and timber merchant trading from eight branches in Scotland. A second Buildbase branch was opened in Oxford and since the year end two new branches were opened at Melksham, Wiltshire and Stowmarket, Suffolk.

Jacksons, a long established regional merchanting business with a leadership position in the East Midlands market, grew profits despite subdued trading conditions in an increasingly competitive market. Profit growth was attributed to improved sourcing arrangements and tight control of costs in all areas. The business also expanded its position in the East Midlands market completing three bolt-on acquisitions trading from five locations.

Macnaughton Blair, Northern Ireland's leading merchanting business, achieved another year of strong sales and profit growth due to an improvement in the underlying business and the impact of acquisitions. The business was well placed to benefit from an improving local economy and exposure to a housing market which outperformed all other regions of the UK in 2006. The Houtman and MFBP acquisitions completed in 2005 achieved early success reporting profits well ahead of pre-acquisition levels. Two small acquisitions undertaken in the second half had a very limited impact on the results but give the business an initial presence and platform for future growth in Larne and Lisburn, Co. Antrim. Macnaughton Blair traded from sixteen branches at the year end.

Selco, a trade-only warehouse formula combining traditional merchanting with a modern self-service environment, is focused on supplying trades people involved in small RMI projects. Five new stores were opened in 2006 increasing the network to seventeen. The new stores are located in London, Manchester and Reading.

UK Plumbers Merchanting

Plumbase is the UK's fourth largest plumbers merchanting chain with a network of 179 branches concentrated in the South East, West Country; Midlands, East Anglia and Scotland.

Good sales and operating profit growth was achieved through a significant contribution from the seven businesses acquired during 2005 and organic growth. Underlying profit increased against an improving trading background as the year developed and due to measures taken to reduce overheads.

Market coverage by Plumbase improved with the acquisition of four businesses trading from six branches and the opening of six new branches.

UK Mortar

EuroMix manufactures a range of mortars for use in block and brick laying. The business supplies key residential, commercial and public sector construction projects from its network of nine plants in England and Scotland. EuroMix has a clear leadership position in the UK dry mortar market and has established a significant reputation as a preferred supplier due to the quality of its range of mortars and customer support.

EuroMix strengthened its market position with good sales and volume growth. Operating profit was lower as the business was unable to recover energy related raw materials and distribution price increases due to more intense competition in the sector. Significant capacity has come on stream since Grafton pioneered the use of on-site dry mortar technology in the late 1990's and the market is now moving towards a more mature stage in its development. The Bristol plant which opened in mid 2005 traded in line with expectations and full coverage of the market in England was achieved in July with the opening of the ninth plant near Leeds.

Management and Staff

A key strength of the Group is the quality, commitment and loyalty of the management and staff throughout the Group's businesses in the UK and Ireland. On behalf of the Board, I wish to thank all staff for their dedication and support and warmly welcome all of those who have joined the Group during 2006.

Chairman's Statement

Outlook

Trading since the start of the year in the seasonally quieter winter months has been satisfactory.

In Ireland, growth in the economy is forecast to remain strong in 2007. Expansion should be underpinned by increased consumer spending supported by continued growth in employment and earnings. Disposable incomes will also be boosted by the impact of maturing SSIA accounts and lower taxes.

Some softening from current record levels of house building is generally expected in 2007 as activity in the sector moderates over time to more sustainable long term levels. A healthy economy, favourable demographics and a more modest pace of growth in house prices should continue to support good underlying demand.

The repair, maintenance and home improvement market in Ireland is expected to remain buoyant against a background of strong consumer spending. The strong economy has boosted activity in the commercial and industrial new build sector where investment is expected to remain robust. The National Development Plan should continue to underpin a high level of capital investment in infrastructure and other public sector projects.

Against this very positive economic background, the Heiton Buckley and Chadwicks merchanting businesses should continue to benefit from anticipated stable demand in the residential construction market and growth in the RMI market. High levels of consumer spending and a slowdown in new capacity in the Irish DIY market should enable the Woodie's DIY and Atlantic Homecare businesses to make further progress and also to benefit from last years store openings in Castlebar, Navan and Nenagh.

In the UK, the economy is forecast to grow at around trend rate in 2007. The improvement in the RMI market over the second half of 2006 is expected to continue with the benefit of a strong housing market. The level of mortgage approvals and housing transactions, lead indicators of RMI demand, is also encouraging. The fundamentals of the RMI market are firm, supported by a stable economy, solid underlying demand, consumer confidence and employment growth. These factors should sustain good levels of RMI activity although the recent round of interest rate increases may lead to some moderation in demand.

The focus of the UK merchanting business will be on the continued integration of acquisitions made in 2006 and on achieving scale related synergies in the overall business. The Group also expects to benefit from its relatively healthy pipeline of potential acquisition and organic growth opportunities. Competitive conditions in the UK mortar market are expected to continue in a growing market as new mortar plants mature.

The Group is confident about its future prospects and continues to pursue a consistent strategy, based on the achievement of above average long-term returns, which has rewarded shareholders over the past two decades.

On behalf of the Board

Michael Chadwick
Chairman

Group Finance Review

Results

The merchanting, DIY and manufacturing businesses yet again produced strong profits and cash flow and the Group ended 2006 in a very healthy financial position.

Components of Operating Profit Growth

Operating profit before intangible amortisation increased by €29.0 million (13 per cent) to €244.9 million from €215.9 million in 2005.

Like for like operating profit in the Irish business increased by €15.0 million (14 per cent) while operating profit in the like for like UK business increased by €1.0 million reflecting a resumption of growth in second half following a decline in first half operating profit.

Incremental operating profit from 14 bolt-on UK acquisitions completed during 2005 amounted to €5.2 million. Incremental profit from two acquisitions in Ireland completed at the end of 2005 was €6.2 million. The operating profit contribution from 16 bolt-on acquisitions in the UK completed during 2006 amounted to €2.7 million. Acquisitions contributed €14.1 million in total to operating profit growth in 2006.

The Group completed 18 greenfield projects during 2006 which together with the incremental result from the 19 greenfield developments completed in 2005 reduced operating profit by €1.4 million.

The results of the UK business are translated at the average euro/sterling exchange rate for the year. Sterling was marginally stronger during 2006 leading to a currency translation related increase in operating profit of €0.3 million.

Cash Flow

The Group's businesses have traditionally been very cash generative. Cash flow from operations and asset disposals amounted to €329.5 million in 2006 (2005: €257.3 million) substantially outperforming the previous year. Cash flow from operations is after taking account of an investment of €26.1 million (2005: €28.5 million) in working capital required to support the organic branch development programme and increased like for like sales.

Free cash flow increased to €252.6 million (2005: €177.2 million). This has been the key source of finance used to fund the Group's significant ongoing acquisition and development programme.

Group Financing

The Group had gross debt of €782.4 million at the year end (31 December 2005: €918.2 million). The Group historically holds significant short term cash deposits and these amounted to €231.5 million at 31 December 2006 (31 December 2005: €334.0 million) giving net debt of €550.9 million (31 December 2005: €584.2 million). Over half of net debt is repayable after more than two years from the end of 2006 including a significant proportion of which is repayable after more than 5 years.

Shareholders' Funds

Shareholders' funds increased by €200.5 million (25 per cent), exceeding €1 billion for the first time. The increase arose from the retention of after tax profit of €216.9 million (2005: €166.1 million) net of the €39.9 million (2005: €33.7) returned to shareholders through the purchase of two 'A' Ordinary shares per Grafton Unit.

Group Finance Review

Sterling strength in 2006 increased the euro equivalent translation of sterling net assets in the UK business by €8.2 million (2005: €7.2 million). The actuarial gain on the Group's defined benefit pension schemes credited to the Group Statement of Recognised Income and Expense amounted to €4.9 million (2005: actuarial loss of €8.9 million). The issue of 1.8 million Grafton Units during the year under the Group's executive share schemes increased shareholders' funds by €4.0 million.

Acquisitions and Capital Expenditure

The total cash outflow on acquisitions made during the year and capital expenditure was €199.6 million (2005: €571.5 million).

Sixteen bolt-on acquisitions involved an investment of €75.2 million (2005: €470.9 million) in the UK merchanting business.

Capital expenditure increased to €124.4 million (2005: €100.6 million) reflecting routine replacement expenditure of €51.6 million and investment of €72.8 million in the branch network across the Group including the opening of 17 new branch locations and a mortar plant together with initiatives intended to meet customer demand and support the continued profitable development of Group locations in the UK and Ireland.

Deferred acquisition expenditure of €12.0 million was paid during the year in respect of prior year transactions.

Pensions

Pension administration was streamlined with the merger of eight defined benefit schemes in both Ireland and the UK. In association with these mergers, a special contribution of €17.5 million (€14.1 million net of tax) was made to the Group's defined benefit schemes. The deficit (after deferred tax) on the Group's defined benefit pension schemes reduced to €27.3 million (31 December 2005: €48.4 million). On an ongoing IFRS basis, the overall assets in the Group's defined benefit pension schemes represent 87 per cent of accrued liabilities (31 December 2005: 75 per cent). This improvement is a result of the special contribution, good investment returns achieved during the year and an increase in the discount rates used to value liabilities which are based on very volatile AA Corporate Bond Rates. The positive impact of these factors was partially offset by an allowance for increased life expectancy.

Property Disposals

This was the Group's sixth consecutive year to report property profits. Significant value and cash flow was realised from the disposal of four properties in Ireland and four in the UK. These included three properties acquired with Heiton Group including the Atlantic Homecare property in Stillorgan, Co. Dublin. The Group also realised part of its joint venture development of Blackwater Retail Park in Navan, Co. Meath where Woodie's DIY is anchor tenant. The profit on disposal of properties was €38.0 million. Total proceeds receivable from all asset disposals amounted to €77.7 million.

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 9.0 times (2005: 7.2 times).

Net borrowings at 31 December 2006 were €550.9 million (31 December 2005: €584.2 million) equivalent to a gearing ratio of 54 per cent (31 December 2005: 72 per cent), its lowest level since 1998.

Return on average capital employed in 2006, a key measure in the assessment of acquisition and development opportunities, was 16.5 per cent (2005: 16.5 per cent). Return on equity was also unchanged at 21 per cent.

Control of working capital continued to be a high priority across the Group and the related investment moved in line with the increasing scale of the Group's operations leaving the average working capital intensity throughout the year unchanged on 2005 at 12.2 per cent.

Shareholder Returns

Total shareholder returns during 2006 from appreciation in the price of a Grafton Unit and the return of capital though the purchase of two 'A' Ordinary shares was 40 per cent. This follows total returns of 17 per cent in 2005 and 49 per cent in 2004. This is equivalent to compound annual growth of 34 per cent over the three years. Total annual compound shareholder returns over the five years to the end of 2006 was 34 per cent.

Summary

The Group's very strong financial position at the year end, high interest cover and cash generative operations leave it well placed to finance acquisition and organic development opportunities which have the potential to deliver good long term growth in shareholder returns.

On behalf of the Board

Colm Ó Nualláin
Finance Director

Principal Brands

Irish Builders Merchanting

In the Republic of Ireland, the Group operates the largest builders and plumbers merchanting business trading from 31 branches nationally under the Chadwicks brand and from 29 branches nationally mainly under the Heiton Buckley brand.

UK Builders Merchanting

The UK builders merchants division trades from 205 branches, principally under the Buildbase brand, and has a strong presence in the South East, Midlands and North of England.

Jacksons trades from 24 branches in the East Midlands where it is the largest builders merchant in the region.

UK Plumbers Merchanting

The UK plumbers merchanting division, trading under the Plumbase brand from 179 branches, has a strong presence in the South East, Midlands, East Anglia, West Country and Scotland.

Mortar Manufacturing

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

DIY Retailing

In the Republic of Ireland, the Group is the largest DIY retailer trading from 25 stores nationally under the Woodie's DIY brand and from 16 stores nationally under the Atlantic Homecare brand.

Board of Directors

Michael Chadwick
BA, MSc

EXECUTIVE CHAIRMAN

Michael Chadwick (55) 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.

Anthony E. Collins
MA, B Comm, Solicitor

DEPUTY CHAIRMAN - NON-EXECUTIVE

Anthony Collins (67) became a non-executive Director in 1988 and was appointed Deputy Chairman in 1995. A former President of the Law Society of Ireland, he is Senior Partner of Eugene F. Collins, Solicitors and a Director of the Institute of Directors in Ireland Ltd. He was formerly Chairman of the Automobile Association Ireland and Deputy Chairman of the Leinster Leader Ltd.

Colm Ó Nualláin
B Comm, FCA

FINANCE DIRECTOR

Colm Ó Nualláin (53) joined the Group as Financial Controller in 1989 and was appointed Finance Director in 1990. He previously held senior financial positions in a number of public and semi-state companies.

Leo J. Martin
BBS, MA, FCA

CHIEF OPERATING OFFICER

Leo Martin (55) was appointed to the Board in January 2005 following the acquisition of Heiton Group plc and was appointed Chief Operating Officer with overall responsibility for Irish and UK merchanting in September 2006. He was Chief Executive of Heiton Group plc, having joined Heiton and the Board of Heiton as Finance Director in 1986. He is a Director of Buy4Now and is a member of the Chartered Accountants Regulatory Board.

Fergus Malone
BE, MBA

EXECUTIVE DIRECTOR

Fergus Malone (64) joined the Group's plastics division in 1972 having previously worked as an engineer in various industries. He was appointed to the Board in 1978 and is responsible for the Group's manufacturing businesses in the UK and Ireland.

Gillian Bowler
(UK)

NON-EXECUTIVE DIRECTOR

Gillian Bowler (54) 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 and is a member of the Advisory Board of the Smurfit Business School. 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.

Richard W. Jewson
(UK) MA

NON-EXECUTIVE DIRECTOR

Richard Jewson (62) joined the Board in 1995. He is non-executive Chairman of Archant Ltd and PFI Infrastructure plc and a Director of Temple Bar Investment Trust plc and Clean Energy Brazil plc. He was previously Chairman of Savills plc, Queens Moat House plc and Meyer International plc.

Roderick Ryan
B.Comm, FCA, AITI

NON-EXECUTIVE DIRECTOR

Roderick Ryan (50) joined the Board in 2006. He is a non-executive Director of Glen Dimplex. He was Managing Partner of Arthur Andersen in Ireland from 1995 to 2002 and a member of Andersen's European Executive Committee from 1998 to 2002. He was formerly a member of the Government appointed IFSC Banking and Treasury Committee, the Executive Committee of the Financial Services Industry Association, the Revenue Powers Group and previously served as Chairman of the Foundation for Fiscal Studies.

Peter S. Wood
(UK) FCA

NON-EXECUTIVE DIRECTOR

Peter Wood (59) joined the Board in 2006. He is non-executive Chairman of White Young Green Plc and non-executive Director of RPC Group Plc and Yule Catto Plc. He was formerly Chief Executive of BSS Group Plc and Ellis & Everard Plc.

Charles Rinn
MBA FCCA

GROUP FINANCIAL CONTROLLER AND SECRETARY

Board Committees

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

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

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

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

Financial Review

Group income statements	2006 €'m	2005 €'m	2004 €'m	2003 €'m	2002 €'m	2001 €'m	2000 €'m	1999 €'m	1998 €'m
	IFRS			Under Irish GAAP					
Revenue	**2,933.9**	2,629.5	1,872.3	1,496.0	1,152.4	988.8	830.5	620.2	427.6
Operating profit*	**242.7**	213.8	161.1	115.8	89.7	77.3	64.6	46.3	33.1
Property profit	**38.0**	9.6	7.5	3.4	3.7	2.3	-	-	-
Finance cost (net)	**(31.4)**	(31.2)	(22.8)	(17.2)	(13.2)	(12.4)	(11.8)	(8.1)	(4.9)
Profit before taxation	**249.3**	192.2	145.8	102.0	80.2	67.2	52.8	38.2	28.2
Taxation	**(32.4)**	(26.1)	(19.9)	(15.3)	(12.0)	(8.7)	(6.9)	(4.6)	(4.0)
Profit after taxation	**216.9**	166.1	125.9	86.7	68.2	58.5	45.9	33.6	24.2

Balance Sheets	2006 €'m	2005 €'m	2004 €'m	2003 €'m	2002 €'m	2001 €'m	2000 €'m	1999 €'m	1998 €'m
Capital employed									
Goodwill and intangibles	**596.2**	547.8	247.1	210.8	100.4	62.5	51.7	31.7	9.8
Property, plant and equipment	**686.2**	623.2	406.2	346.8	302.3	251.5	209.6	175.9	140.7
Financial assets	**0.4**	0.3	47.0	33.7	33.6	33.6	18.9	19.0	0.2
Net current assets#	**335.6**	303.2	195.2	198.5	144.3	129.5	106.5	76.2	60.2
Other net non-current liabilities	**(53.2)**	(76.5)	(50.8)	(28.3)	(18.0)	(17.7)	(16.1)	(14.1)	(12.4)
	1,565.2	1,398.0	844.7	761.5	562.6	459.4	370.6	288.7	198.5
Financed as follows:									
Shareholders' funds equity	**1,014.3**	813.8	495.5	449.8	322.0	264.5	216.5	181.3	139.8
Net debt/(cash)	**550.9**	584.2	349.2	311.7	240.6	194.9	154.1	107.4	58.7
	1,565.2	1,398.0	844.7	761.5	562.6	459.4	370.6	288.7	198.5
Other Information									
Acquisition & investment expenditure	**87.1**	477.7	88.7	220.1	88.8	61.8	56.6	63.6	53.4
Purchase of property, plant and equipment	**124.4**	100.6	88.9	69.3	68.0	42.0	43.2	29.5	20.6
	211.5	578.3	177.6	289.4	156.8	103.8	99.8	93.1	74.0
Depreciation and intangible amortisation	**55.4**	50.4	34.6	37.6	26.6	21.9	16.5	12.6	7.2

Financial Highlights	2006	2005	2004	2003	2002	2001	2000	1999	1998
Earnings per share before amortisation & exceptional profit (cent)	**78.0**	67.8	56.1	45.1	37.0	32.1	25.9	19.5	14.2
Share purchase/dividend per share (cent)	**18.75**	15.75	13.0	10.5	8.5	7.5	6.1	4.5	3.3
Cashflow per share (cent)	**114.3**	91.6	75.4	60.1	53.9	46.2	36.2	27.5	19.4
Net assets per share (cent)	**424.0**	342.8	232.2	211.5	181.6	150.2	124.3	104.9	84.9
Net finance cost cover (times)	**9.0**	7.2	7.4	7.5	7.4	6.7	5.7	5.8	6.8
Share purchase/dividend cover (times)	**4.2**	4.3	4.3	4.3	4.4	4.3	4.3	4.3	4.3
Net debt to shareholders' funds	**54%**	72%	70%	69%	75%	74%	71%	59%	42%

The summary financial information is stated under IFRS for 2004 to 2006 and under Irish GAAP for all years from 1987 to 2003.

* Including income from financial assets and after charging intangible amortisation
# Excluding net debt/(cash)

Under Irish GAAP

1997 €'m	1996 €'m	1995 €'m	1994 €'m	1993 €'m	1992 €'m	1991 €'m	1990 €'m	1989 €'m	1988 €'m	1987 €'m
327.6	244.0	195.7	169.0	133.2	122.4	119.9	109.5	87.8	67.6	62.8
25.6	19.1	14.2	11.3	6.1	6.5	6.1	7.3	5.7	3.3	2.2
-	1.8	0.8	-	-	-	-	-	-	-	-
(2.4)	(1.3)	(1.1)	(1.2)	(0.9)	(1.6)	(1.6)	(0.7)	(0.8)	(0.5)	(0.6)
23.2	19.6	13.9	10.1	5.2	4.9	4.5	6.6	4.9	2.8	1.6
(3.5)	(2.9)	(2.5)	(2.1)	(1.1)	(1.2)	(1.1)	(2.1)	(1.8)	(0.7)	(0.4)
19.7	16.7	11.4	8.0	4.1	3.7	3.4	4.5	3.1	2.1	1.2

1997 €'m	1996 €'m	1995 €'m	1994 €'m	1993 €'m	1992 €'m	1991 €'m	1990 €'m	1989 €'m	1988 €'m	1987 €'m
-	-	-	-	-	-	-	-	-	-	-
61.8	48.5	43.2	40.1	35.9	33.0	33.7	30.6	21.2	19.4	18.1
12.5	0.1	-	1.2	3.4	1.0	1.9	1.3	-	-	0.4
29.4	21.4	21.5	18.2	17.9	18.4	18.6	18.7	16.1	11.1	9.3
(1.2)	(1.1)	(1.1)	(1.1)	(1.1)	(1.0)	(1.0)	(1.0)	(0.6)	(0.5)	(0.2)
102.5	68.9	63.6	58.4	56.1	51.4	53.2	49.6	36.7	30.0	27.6

78.6	70.6	57.7	49.9	45.7	42.2	40.7	38.7	36.0	25.1	23.9
23.9	(1.7)	5.9	8.5	10.4	9.2	12.5	10.9	0.7	4.9	3.7
102.5	68.9	63.6	58.4	56.1	51.4	53.2	49.6	36.7	30.0	27.6

29.7	8.0	1.4	5.8	2.7	-	1.2	7.8	0.1	1.6	-
14.6	7.6	7.7	5.7	5.2	2.4	5.9	7.8	3.5	2.7	1.3
44.3	15.6	9.1	11.5	7.9	2.4	7.1	15.6	3.6	4.3	1.3
5.4	4.2	3.6	3.0	2.6	2.1	2.1	1.4	1.0	0.9	1.1

1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987
11.6	9.0	6.5	4.8	2.5	2.2	2.0	2.7	2.3	1.6	0.9
2.7	2.1	1.5	1.0	0.9	0.8	0.7	0.7	0.6	0.5	0.4
15.7	13.1	9.5	7.0	4.3	3.7	3.5	3.8	3.3	2.4	1.8
48.8	44.2	36.6	31.7	29.3	27.0	26.2	24.9	23.1	20.2	19.4
10.6	15.4	13.1	9.8	7.0	4.1	3.8	10.2	6.9	6.7	3.8
4.3	4.3	4.3	4.7	2.9	2.9	2.7	3.8	3.8	3.3	2.4
30%	-	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 2006.

Group Results

Group revenue of €2.93 billion was 12 per cent higher than Group revenue of €2.63 billion in 2005. Group profit before taxation amounted to €249.4 million compared with €192.2 million in the previous year, an increase of 30 per cent. Basic earnings per share amounted to 91.0 cent compared with 70.3 cent in the previous year, an increase of 29 per cent. Adjusted earnings per share (before intangible amortisation and profit on disposal of property) increased by 15 per cent to 78.0 cent compared to 67.8 cent in 2005. After deducting taxation of €32.4 million, retained profit of €216.9 million was transferred to reserves.

The cost of purchasing two 'A' Ordinary shares per Grafton Unit on 31 March 2006 and 18 October 2006 amounted to €39.9 million. The financial statements for the year ended 31 December 2006 are set out in detail on pages 49 to 104.

Share Purchase

Following the purchase of one 'A' Ordinary Share per Grafton Unit for a cash consideration of 8.25 cent paid on 18 October 2006, the Board approved the purchase of one 'A' Ordinary Share per Grafton Unit for a cash consideration of 10.50 cent payable on 28 March 2007, giving total payments for the year of 18.75 cent. This represents an increase of 19 per cent on share purchase payments of 15.75 cent paid in respect of 2005.

Review of the Business

Shareholders are referred to the Chairman's Statement and Group Finance Review which contain a review of operations and the financial performance of the Group for 2006 and the outlook for 2007.

Principal Risks and Uncertainties

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

Trading in the Group's businesses is influenced by the macro economic environment in both Ireland and the UK. The level of activity in the residential and non-residential construction and in the residential repair, maintenance and improvement markets in particular influence demand in the Group's UK and Irish builders merchanting, mortar and DIY businesses. Demand in these markets is sensitive to economic conditions generally including economic growth, interest rate movements, inflation, unemployment and demographic trends.

In the Republic of Ireland, the results of the merchanting and DIY businesses for 2006 were influenced by the strongly performing economy, record levels of house construction and RMI activity and increased consumer spending.

In the UK, the merchanting business traded in a weaker RMI market in the first half of 2006 before the market staged a gradual recovery in the second half of the year.

An important element of the Group's strategy over the past twelve 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 UK and Irish merchanting markets and the pace of acquisition activity going forward is not predictable although the Group continues to have a relatively healthy pipeline of potential acquisition opportunities.

The Group's objective is to maintain or develop strong market positions in the markets in which Group companies operate. The Group faces strong ongoing competition in its Irish merchanting, DIY and manufacturing businesses and in its UK merchanting and mortar businesses. The Group has traditionally grown a number of its businesses primarily or mainly through organic and greenfield development. The Group is committed to this development process as long as suitable opportunities can be identified and capitalised upon.

Report of the Directors

Adverse changes in the sterling/euro exchange rate could adversely affect the results and cash flow of the Group on translation into euro.

Board of Directors

Mr. A.E. Collins, Ms. G. Bowler and Mr. R.W. Jewson have served on the Board for more than nine years and, in accordance with Board Policy, they resign and, being eligible, offer themselves for re-election. Ms. G. Bowler and Mr. R.W. Jewson also retire from the Board by rotation. Mr. L.J. Martin retires by rotation and, being eligible, offers himself for re-election.

Mr. P.S. Wood was appointed to the Board on 1 July 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 2006, a Grafton Unit comprised one Ordinary Share of 5c and five '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 18,839,100 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 28 February 2007:

Name	Note	Holding	%
Bank of Ireland Asset Management Limited	1	25,963,446	10.8
Bank of Ireland Nominees Ltd NRI Account	2	17,821,127	7.5
Bank of Ireland Nominees Ltd NRS Account		14,574,853	6.1
Goodbody Stockbrokers Nominees Ltd. GSCLT Account		12,605,474	5.3
Bank of Ireland Nominees Ltd FBH Account		7,856,254	3.3
State Street Nominees Ltd HG06 Account		7,500,000	3.1

Notes
1. This nominee shareholder has informed the company that this shareholding relates to 135 different holdings.
2. This nominee shareholder has informed the company that this shareholding relates to 87 different holdings.

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 2006 and 2005 have been prepared in accordance with the Group's policies under International Financial Reporting Standards (IFRS).

Report of the Directors

Subsidiaries

The Group's principal operating subsidiary undertakings are set out on pages 103 and 104.

Auditor

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

Annual General Meeting

The Annual General Meeting of the Company will be held at the IMI Conference Centre, Sandyford Road, Dublin 16 on Friday 11 May at 10.30 am and your attention is drawn to the Notice of Annual General Meeting which is set out on pages 106 and 107 of the Annual Report.

In addition to the ordinary business to be transacted at the Annual General Meeting, there are a number of items of special business.

Power to Allot Shares for Cash

At the Annual General Meeting held in 2006 shareholders gave the Directors power to allot shares for cash otherwise than in accordance with statutory pre-emption rights. That power will expire at the close of business on the date of the forthcoming Annual General Meeting.

The Directors will, at the forthcoming Annual General Meeting, seek power to allot shares for cash, otherwise than in accordance with statutory pre-emption rights, by way of rights issues up to the amount of the unissued share capital of the Company, or otherwise up to an aggregate nominal value of €606,000, which is approximately 5 per cent of the nominal value of the issued share capital of the Company (**Resolution No. 4**). The power under Resolution No. 4 will expire (under the Articles of Association) at next year's Annual General Meeting or 15 months after the forthcoming Annual General Meeting, whichever is the earlier. There is no present intention of making such an issue of shares.

Authority to Make Market Purchases of the Company's Own Shares

Shareholders are being asked to renew the authority to make market purchases of up to 10% of the Company's own shares. The Directors have no current intention of exercising this power to make market purchases of the Company's own shares and would only do so at price levels which they considered to be in the best interests of the shareholders generally, after taking account of the Company's overall financial position. The minimum price which may be paid for any market purchase of the Company's own shares will be the nominal value of the shares and the maximum price which may be paid will be 105% of the then average market price of the shares.

Authority to Re-issue Treasury Shares

Shareholders are being asked to sanction the price range at which any treasury share (that is a share of the Company purchased and held by the Company rather than being cancelled) may be reissued other than on the Stock Exchange. The maximum and minimum prices at which such a share may be re-issued are 120% and 95%, respectively of the average market price of a share calculated over the 10 business days immediately preceding the date of such re-issue.

Report of the Directors

Authority to Purchase 'A' Ordinary shares

The Board's existing authority to make purchases of 'A' Ordinary shares (which was given at the Annual General Meeting in 2006) will expire at the close of business on the date of the forthcoming Annual General Meeting. Resolution Number 7 to be proposed at the Annual General Meeting seeks shareholders' approval to renew the relevant authority under section 213 of the Companies Act, 1990. The Directors' intention would be to exercise this power to purchase 'A' Ordinary shares only at price levels which they consider to be in the best interests of the shareholders generally, after taking account of the Company's overall financial position. If such purchases take place, it is unlikely that a dividend would also be paid, and vice versa.

Your Board considers that the proposals set out above are in the best interests of Grafton Group plc and its shareholders and, accordingly, your Board recommends that you vote in favour of the resolutions at the Annual General Meeting.

On behalf of the Board

M. Chadwick
C. Ó Nualláin

Directors

28 February 2007

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 in which we do business. The Group considers that corporate social responsibility is an integral element of good business management.

The Environment

Group companies are committed to reducing the amount of waste they produce and to limiting the impact which our businesses have on the environment. The Group's Irish Businesses are members of Repak and our UK businesses are members of Biffpack. Continued improvement in environmental performance is sought through various initiatives including reducing waste going to landfill through the use of bailers for recycling packaging. The Woodie's DIY business stocks a range of environmentally friendly products including energy-saving lamps, solar garden lights and composters for recycling garden and household waste. Buildbase works closely with its timber suppliers and the Forest Stewardship Council ("FSC") and stocks FSC certified timber at its branches. Jacksons joined the Carbon Trust during 2006 with a view to the business minimising carbon emissions.

Health and Safety

The Group is committed to achieving the best practicable standard of health and safety for our employees, customers and visitors to our trading locations. We consider health and safety to be an important element in the overall management of our businesses. Group companies actively work to identify and minimise health and safety risks. They aim to ensure that all reasonable precautions are taken to provide and maintain conditions for employees, customers and visitors alike which are safe and healthy and in compliance with statutory requirements. Accidents are monitored so that corrective action may be taken where considered necessary and in order to reduce the number of incidents and the 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 is recognised as a good employer in both the UK and Ireland. The Group aims to reward management and staff fairly by reference to skills, performance, peers and local market conditions. The Group provides incentives to management and staff through remuneration policies 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 programmes are important to the growth and prosperity of our business. Significant attention and resources are devoted to this area. Training programmes 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 programmes help to ensure that we develop, retain and attract the best individuals 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 enables them to benefit from acquiring shares in the Group tax efficiently. Following a highly successful first offer under the Group's UK Save As You Earn Scheme which matured in 2005, the Group invited almost 5,000 eligible UK employees to acquire attractively discounted shares at the end of a three year savings period.

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. The Group also supports a range of charitable causes, mainly at local level, by giving donations.

The Group supports the Irish Landmark Trust, a charitable trust established to save heritage and architecturally interesting buildings in Ireland that are abandoned or at risk. The Trust undertakes their conservation and converts them to domestic use suitable for short-term holiday letting. Group companies in Ireland and the UK support the Lighthouse Club, a charity dedicated to giving aid and assistance to construction workers and their families who suffer accident or ill health. Woodie's DIY sponsors the senior track and field championships, an important event in the Irish sporting calendar featuring the top athletes in Ireland across almost thirty disciplines of athletics. Oxford, the location of the first Buildbase branch acquired in 1996, is also home to Oxford United Football Club which is sponsored by Buildbase. The Gloucester Rugby Football Club is also sponsored by Buildbase. Jacksons was the main sponsor of the Lincoln 10 kilometre road race, an event organised in 2006 to raise funds for the British Heart Foundation. Employees across the Group also took part in a variety of fundraising activities. Staff at the Heiton Buckley's Administration Office together with the business provided financial, practical and voluntary support to enable conditions at a number of educational and social facilities in West Dublin to be improved.

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 and this statement describes how the Board applies the principles of good governance set out in the 2006 FRC Combined Code on Corporate Governance which is appended to the Listing Rules of the Irish and London Stock Exchanges.

The Board

As at 31 December 2006, the Board of Directors was made up of nine members comprising the Executive Chairman, three other executive Directors and five non-executive Directors. Mr. Anthony Collins, Deputy Chairman, is Senior Independent Director. Directors biographical details are set out on page 27. The Board believes that the overall Board has the skills, knowledge and experience required by the scale, geographic spread and complexity of the operations of the Group.

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

The Directors have access to the advice and services of the Company Secretary who is responsible for advising the Board through the Chairman on 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 Directors 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 five independent non-executive Directors on the Board and the Board's committee structure.

Directors' Independence and Board Balance

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

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

Corporate Governance

Mr. Collins was appointed to the Board in 1988 and both Ms. Bowler and Mr Jewson were appointed to the Board in 1995. The length of their service on the Board exceeds nine years and the 2006 FRC Combined Code provides that an explanation be made to shareholders concerning their continued independence. The Board considers that the integrity and independence of these Directors is beyond doubt. All three directors are financially independent of the company and have other significant commercial and professional commitments. Over the past thirteen years Grafton Group plc has grown from its small mainly Irish base to being the market leader in the Irish merchanting and DIY markets and the fourth largest builders merchanting business in the UK market. Mr. Collins, Ms. Bowler and Mr. Jewson have made a valuable and unique contribution to the Board during this period of growth. Each of these non-executive Directors brings her/his own senior level experience gained in their own field of international business and professional practice. Their experience and long-term perspective on the Group's business 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. New Directors are subject to election by shareholders at the next Annual General Meeting following their appointment. It is Board Policy that non-executive Directors are normally appointed for an initial period of three years, which is then reviewed. It is also Board Policy that a non-executive Director who has served on the Board for more than nine years will retire annually and will offer himself/herself for re-election in any case where it is proposed to exceed nine years.

Mr. Collins, Ms. Bowler and Mr. Jewson retire from the Board and offer themselves for re-election at the AGM on 11 May 2007 in accordance with Board Policy and rules governing retirement by rotation as applicable.

The overall balance of the Board is kept under ongoing review. Two additional non-executive directors were appointed during the year. Mr. Roderick Ryan and Mr. Peter S. Wood were appointed to the Board on 15 March 2006 and 1 July 2006 respectively.

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

Induction and Training

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

Evaluation of Board

The Board has put in place procedures which involve the conduct of an annual evaluation process to periodically assess its performance, the performance of Board committees and the performance of individual Directors 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 issues identified.

Succession Planning

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

Corporate Governance

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 is issued 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 announcements. The Chairman and Finance Director give feedback to the Board on issues raised by investors during the course of presentations following the annual and interim results and Analysts' reports on the Group are circulated to all Directors. Non-executive Directors are offered an opportunity to attend meetings with major shareholders. The Annual General Meeting is normally attended by all Directors and shareholders are invited to ask questions during the meeting and to meet with Directors after the formal proceedings have ended. The Senior Independent Director is available to meet with shareholders if they have concerns which have not been resolved through the normal channels of Chairman or Finance Director or where such contacts are not appropriate.

Board Committees

The number of Board meetings and committee meetings attended by each Director was as follows:

	Board		Audit Committee		Finance Committee		Remuneration Committee		Nomination Committee	
Number of Meetings	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**
M. Chadwick	8	8	-	-	43	43	-	-	3	3
A. E. Collins	8	8	3	3	-	-	4	4	3	3
C. Ó Nualláin	8	8	-	-	43	38	-	-	-	-
L. J. Martin	8	8	-	-	43	35	-	-	-	-
J. F. Malone	8	8	-	-	-	-	-	-	-	-
G. Bowler	8	8	3	3	-	-	4	4	3	3
R. W. Jewson	8	8	3	3	-	-	4	4	3	2
R. Ryan	6	6	1	1	-	-	-	-	-	-
P. S. Wood	3	1	-	-	-	-	-	-	-	-

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

Mr. R. Ryan was appointed to the Board with effect from 15 March 2006 and to the Audit Committee with effect from 12 September 2006. Mr. P.S. Wood was appointed to the Board with effect from 1 July 2006.

Mr. C. Rinn, Secretary and Group Financial Controller attended 42 meetings of the Finance Committee during the year.

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 2006 FRC Combined Code and are available from the Company and can also be found on the Group's website at www.graftonplc.com. Membership of the various committees is shown on page 27. The Company Secretary is secretary of the Audit, Remuneration and Nomination Committees.

Corporate Governance

Audit Committee

During the year the Audit Committee comprised Mr. Richard W. Jewson, who chairs the committee, Ms. Gillian Bowler, Mr. Anthony E. Collins and Mr. Roderick Ryan who was appointed to the Committee with effect from 12 September 2006. All members of the Committee are determined by the Board to be Independent non-executive Directors. The Audit Committee met three times during the year.

The Board believes that Mr. Richard W. Jewson brings to the Committee recent and relevant financial experience. It will be seen from the Directors biographical details appearing on page 27 that members of the Committee bring a wide range of financial, taxation, legal, commercial and business experience to the Committee.

Under its terms of reference, the Audit Committee monitors the integrity of the Group's financial statements and announcements relating to the Group's performance. The Committee is responsible for monitoring the effectiveness of the external audit process and making recommendations to the Board in relation to the appointment, reappointment and remuneration of the external auditor. It is responsible for ensuring that an appropriate relationship between the Group and the external auditor is maintained, including reviewing non-audit services and fees. A new Group Audit Partner is appointed every five years and senior audit staff are rotated on an ongoing basis. Non-audit tax and secretarial services were provided by KPMG during 2006. The Committee believes that the provision of these services by KPMG does not conflict with its independence as auditor.

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

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

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

In 2006 the Audit Committee discharged its responsibilities by:

- Reviewing the Group's draft Financial Statements and draft Interim Results before recommending their approval to the Board. The Committee discussed with the Finance Director and KPMG Audit Partner any 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 was satisfied on the basis of these reports and discussions with the KPMG Audit Partner, the KPMG Tax Partners and the Finance Director that adequate provisions for such liabilities were reflected in the financial statements;
- Reviewing the Group's development and trading updates prior to release;
- Reviewing the Internal Audit work programme and reports prepared by the Group Internal Audit Manager and the Group Internal Audit function during the year including consideration of the effectiveness of internal control;
- The Committee received monthly reports prepared by the Group Internal Audit Manager which summarised the findings of 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, findings made, actions recommended and the response of executive management of the Group's businesses to recommendations;
- Reviewing the External Auditor's plan for the 2006 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 External Auditor as part of the Group's audit process;

- Reviewing risks associated with the business;
- The Committee continued to monitor compliance with the Group's Whistleblowing Policy ensuring that appropriate arrangements were maintained for employees to 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 E. Collins and Mr. Richard W. Jewson all of whom are determined by the Board to be independent. The Committee met four times during the year. The Committee's responsibilities include making recommendations on the terms of engagement and remuneration of the executive directors. The terms of reference of the Committee are available from the Company and can also be found on the Group's website at www.graftonplc.com . The Chairman of the Remuneration Committee is available at the Annual General Meeting to respond to any shareholder questions concerning the Committee's activities. The Committee receives independent advice concerning matters within its remit when considered necessary.

The Committee's principal responsibilities are:

- Setting, reviewing and recommending to the Board for approval the Group's overall remuneration policy and strategy;
- Setting, reviewing and approving individual remuneration packages including salary, bonus, pension and other benefits for Executive Directors, the Executive Chairman and Company Secretary including terms and conditions of employment and any changes to their packages;
- Reviewing the salary structure and terms, conditions and benefits of employment of any other members of the executive management it is designated to consider;
- Approving the rules of any Group share, share option or other share incentive scheme and approving the grant, award, allocation or issue of shares, share options or other benefits conferred by such schemes;
- Further details of the Committee's remit and work are set out in the Report on Directors' Remuneration on pages 42 to 45.

Nomination Committee

The Nomination Committee comprises Mr. Anthony E. Collins, Chairman of the Committee, Mr. Michael Chadwick, Ms. Gillian Bowler, and Mr. Richard W. Jewson. The Nomination Committee met three 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 the appointment of two non-executive Directors to the Board.

During the year the Committee completed its 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 and Mr. Peter S. Wood to the Board.

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

Finance Committee

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

Corporate Governance

Internal Control

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

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

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

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

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

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

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

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

Going Concern

The Directors, having made enquiries, believe that the Group has adequate resources to continue in operational existence for the foreseeable future and, 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 2006 FRC Combined Code to the extent applicable for the year under review and has complied with the provisions of the 2006 FRC Combined Code except that the roles of Chairman and Chief Executive are held by the same individual. More than half the Board comprises non-executive Directors, determined by the Board to be independent, following the appointment of two additional non-executive directors during the year.

Report on Directors' Remuneration

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

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

Remuneration Policy

In making its recommendations the Remuneration Committee has given consideration to the provisions of the 2006 FRC Combined Code and the Irish Stock Exchange's requirements on Directors' remuneration. The remuneration policy adopted by the Group is to reward its executive Directors competitively having regard to comparable companies and the need to attract, retain and motivate executives of appropriate calibre. The Executive Chairman is fully consulted about remuneration proposals and outside advice is sought by the Remuneration Committee when necessary. The elements of the remuneration package for executive Directors are basic salary and benefits, performance related 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 or maximum percentage of bonus. The calculation of pensions under the defined benefit scheme is consistent with the principles adopted in the calculation of pension benefits for a number of senior executives in the Group.

Share Schemes

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

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

(ii) Second tier shares which cannot be converted before the expiration of five years and 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 presents the remuneration of the Directors in accordance with the Irish Stock Exchange Listing Rules.

	Basic salary 2006 €'000	**Performance related bonus 2006 €'000**	**Share based payments 2006 €'000**	**Other benefits 2006 €'000**	**Total 2006 €'000**	Total 2005 €'000
Remuneration for 2006						
Executive Directors						
M. Chadwick	552	377	-	36	**965**	871
C.Ó Nualláin	437	299	173	33	**942**	795
L. J. Martin	405	292	80	33	**810**	718
J.F. Malone	240	137	-	27	**404**	405
	1,634	1,105	253	129	**3,121**	2,789

	Fees 2006 €'000	**Total 2006 €'000**	Total 2005 €'000
Non-executive Directors			
A.E. Collins	70	**70**	70
G. Bowler	70	**70**	70
R.W. Jewson	70	**70**	70
R. Ryan	55	**55**	-
P.S. Wood	35	**35**	-
N.D. Kilroy	-	**-**	27
	300	**300**	237
Sub-total		**3,421**	3,026
Pension charge to Income Statement under IAS 19 for Executive Directors		**467**	631
Total Directors' Remuneration charged to Income Statement		**3,888**	3,657

Report on Directors' Remuneration

Mr. R. Ryan was appointed to the Board with effect from 15 March 2006 and Mr. P.S. Wood was appointed to the Board with effect from 1 July 2006.

Mr. N.D. Kilroy retired from the Board on 31 August 2005.

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 €'000	Accumulated total accrued pension at year end €'000	Transfer value of the increase in accumulated accrued benefits at year end €'000
M. Chadwick	41	462	792
C. Ó Nualláin	33	271	459
L. J. Martin	43	288	702

Directors' and Secretary's Interests

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

Director	**31 December 2006 Grafton Units***	31 December 2005 Grafton Units
M. Chadwick	**18,839,100**	18,837,849
A.E. Collins	**420,000**	420,000
C. Ó Nualláin	**1,001,584**	856,949
L. J. Martin	**184,359**	184,235
J.F. Malone	**529,950**	528,476
G. Bowler	**132,000**	132,000
R.W. Jewson	**42,204**	42,204
R. Ryan	**25,000**	-

Mr. M. Chadwick also holds a non-beneficial interest in 2,986,560 (2005: 2,986,560) Grafton Units in his capacity as a Trustee of a family trust. He also holds a non-beneficial interest as nominee in 178,640 Grafton Units. Mr. M. Chadwick and Mr. C. Ó Nualláin have a non-beneficial interest in 704,625 (2005: 825,788) 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 2006 and the date of this report.

Mr. C. Rinn, Secretary, had a beneficial interest in 258,575 Grafton Units at 31 December 2006 (2005: 177,728).

Mr. Fergus Malone had a beneficial interest in 80 ordinary shares in Tribiani Limited, a subsidiary undertaking at 31 December 2006 (31 December 2005: 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 2006 a Grafton Unit comprised one ordinary share of 5 cent each and five '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.

Report on Directors' 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						
	1 January 2006	31 December 2006	Basic	Second Tier	Price €	Period over which Grafton Units may be acquired	
L. J. Martin	120,000	120,000	60,000	60,000	8.11	Oct 2010	Oct 2015
	-	120,000#	60,000	60,000	11.50	Oct 2011	Oct 2016
	120,000	240,000	120,000	120,000			
C. Ó Nualláin	74,192	-	-	-	2.21	June 2003	May 2008
	159,192	-	-	-	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	120,000	60,000	60,000	8.11	Oct 2010	Oct 2015
	-	120,000#	60,000	60,000	11.50	Oct 2011	Oct 2016
	800,738	687,354	311,839	375,515			
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
	477,576	477,576	334,303	143,273			

Mr. C. Ó Nualláin acquired 159,192 Grafton Units at €2.83 per Unit and 74,192 Grafton Units at €2.21 per Unit on 2 October 2006 in accordance with the rules of the 1999 Grafton Share Scheme. The market value of a Grafton Unit on 2 October 2006 was €10.50.

Mr. C. Rinn had an interest to acquire 340,177 Grafton Units at 31 December 2006 (31 December 2005: 383,273) in accordance with the 1999 Grafton Group Share Scheme including an interest to acquire 36,500 Grafton Units granted on 25 October 2006 at €11.50 per unit. Mr. Rinn acquired 79,596 Grafton Units on 13 September 2006 at a price of €2.83 per Unit in accordance with the rules of the 1999 Grafton Group Share Scheme. The market price of a Grafton Unit on 13 September 2006 was €10.41.

The closing price of a Grafton Unit on 31 December 2006 was €12.66 and the price range during the year was between €9.03 and €12.75.

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 25 October 2006.

Statement of Directors' Responsibilities

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

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; 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 2006. 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 on 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 parent Company financial statements (the ''financial statements'') of Grafton Group plc for the year ended 31 December 2006 which comprise the Group Income Statement, the Group and Company Balance Sheets, the Group and Company Cash Flow Statements, the Group and Company Statement of Recognised Income and Expense and the related notes on pages 49 to 104. 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 46.

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 2006, and have been properly prepared in accordance with the Companies Acts 1963 to 2006 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 2006 FRC Combined Code specified for our review by the Listing Rules of the Irish Stock Exchange, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the 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.

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.

Independent Auditor's Report

To the Members of Grafton Group plc

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 2006 and of its profit for the year then ended;
- the Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Acts 1963 to 2006, of the state of the company's affairs as at 31 December 2006; and
- the financial statements have been properly prepared in accordance with the Companies Acts 1963 to 2006 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 2006 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

28 February 2007

Group Income Statement

For the year ended 31 December 2006

	Notes	2006 €'000	2005 €'000
Revenue	1	**2,933,937**	2,629,464
Other income (property profit)	2	**37,989**	9,640
Operating costs	3	**(2,691,206)**	(2,415,694)
Operating profit		**280,720**	223,410
Finance expense	6	**(52,886)**	(48,803)
Finance income	6	**21,522**	17,574
Profit before tax		**249,356**	192,181
Income tax expense	8	**(32,418)**	(26,102)
Profit after tax for the financial year		**216,938**	166,079
Profit attributable to equity holders of the company		**216,938**	166,079
Earning per ordinary share - basic	10	**91.03c**	70.26c
Diluted earnings per share	10	**89.34c**	68.80c

On behalf of the Board

M Chadwick
C Ó Nualláin
Directors

28 February 2007

Group Statement of Recognised Income and Expense

For the year ended 31 December 2006

	Notes	2006 €'000	2005 €'000
Items of income and expense recognised directly within equity:			
Currency translation effects			
- on foreign currency net investments	22	**8,584**	7,999
- on foreign currency borrowings	22	**(396)**	(811)
Actuarial gain/(loss) on Group defined benefit pension schemes	37	**4,939**	(8,946)
Deferred tax liability/(asset) on Group defined benefit pension schemes	29	**(44)**	1,944
Fair value movement on cash flow hedges:			
- Fair value gains/(losses)	23	**1,875**	(761)
- Included in finance costs	23	**(353)**	(571)
Deferred tax on cash flow hedge	23	**(191)**	167
Net income/(expense) recognised directly in equity		**14,414**	(979)
Profit after tax for the financial year		**216,938**	166,079
Total recognised income and expense for the financial year		**231,352**	165,100
Attributable to:			
Equity holders of the company		**231,352**	165,100

Movement on Group Retained Earnings

	Notes	2006 €'000	2005 €'000
At 1 January		**475,380**	347,044
Profit for the financial year		**216,938**	166,079
Purchase of 'A' ordinary shares	9	**(39,920)**	(33,751)
Actuarial gain/(loss) on pensions (net of tax)		**4,895**	(7,002)
Deferred tax on share based payments	29	**1,832**	157
Transfer from revaluation reserve	20	**3,601**	2,853
At 31 December		**662,726**	475,380
The retained earnings is analysed as follows:			
Parent company		**343,992**	84,816
Subsidiary undertakings		**318,734**	390,564
		662,726	475,380

Group Balance Sheet

as at 31 December 2006

	Notes	2006 €'000	2005 €'000
ASSETS			
Non-current assets			
Goodwill	11	**582,861**	532,323
Intangible assets	11	**13,307**	15,519
Property, plant and equipment	12	**686,165**	623,228
Deferred tax assets	29	**34,865**	25,980
Financial assets	13	**414**	256
Total non-current assets		**1,317,612**	1,197,306
Current assets			
Inventories	14	**390,400**	356,647
Trade and other receivables	15	**542,110**	499,308
Derivative and other financial instruments	25	**1,847**	5,708
Cash and cash equivalents	33	**231,519**	334,023
Total current assets		**1,165,876**	1,195,686
Total assets		**2,483,488**	2,392,992
EQUITY			
Capital and reserves attributable to the equity holders			
Equity share capital	17	**12,082**	12,037
Share premium account	18	**284,945**	281,038
Capital redemption reserve	19	**322**	274
Revaluation reserve	20	**32,973**	36,574
Other reserves	21	**6,455**	3,191
Cash flow hedge reserve	23	**1,616**	285
Foreign currency translation reserve	22	**13,220**	5,032
Retained earnings		**662,726**	475,380
Total equity		**1,014,339**	813,811
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	24	**671,617**	713,712
Provisions	26	**4,468**	500
Retirement benefit obligations	37	**34,163**	59,032
Derivative financial instruments	25	**22,126**	-
Deferred tax liabilities	29	**49,408**	42,932
Total non-current liabilities		**781,782**	816,176
Current liabilities			
Interest-bearing loans and borrowings	24	**88,585**	209,278
Trade and other payables	27	**521,265**	487,027
Current income tax liabilities		**52,393**	50,610
Derivative financial instruments	25	**1,898**	923
Provisions	26	**23,226**	15,167
Total current liabilities		**687,367**	763,005
Total liabilities		**1,469,149**	1,579,181
Total equity and liabilities		**2,483,488**	2,392,992

On behalf of the Board

M Chadwick
C Ó Nualláin
Directors

28 February 2007

Group Cash Flow Statement

For the year ended 31 December 2006

	Notes	2006 €'000	2005 €'000
Profit before taxation		**249,356**	192,181
Finance income		**(21,522)**	(17,574)
Finance expense		**52,886**	48,803
Operating profit		**280,720**	223,410
Depreciation		**53,163**	48,248
Intangible amortisation		**2,212**	2,176
Goodwill write-off on termination		**243**	-
Share based payments charge		**3,264**	2,220
Other income – property profit		**(37,989)**	(9,640)
Profit on sale of plant and equipment		**(3,401)**	(2,564)
Contributions to pension schemes in excess of IAS 19 charge		**(20,249)**	(10,888)
Increase in working capital	31	**(26,111)**	(28,485)
Cash generated from operations		**251,852**	224,477
Interest paid		**(43,224)**	(39,233)
Income taxes paid		**(14,594)**	(15,226)
Cash flows from operating activities		**194,034**	170,018
Investing activities			
Inflows			
Proceeds from sale of property, plant and equipment		**77,664**	32,793
Interest received		**12,216**	7,738
		89,880	40,531
Outflows			
Acquisition of subsidiary undertakings and businesses	32	**(70,621)**	(395,451)
Net cash acquired with subsidiary undertakings	32	**777**	22,897
Deferred acquisition consideration		**(11,958)**	(6,844)
Purchase of property, plant and equipment		**(124,401)**	(100,559)
Purchase of financial assets		**(90)**	-
		(206,293)	(479,957)
Cash flows from investing activities		**(116,413)**	(439,426)
Financing activities			
Inflows			
Proceeds from the issue of share capital		**4,000**	178,658
Proceeds from long term borrowings		**-**	373,078
		4,000	551,736
Outflows			
Repayments of long term borrowings		**(117,170)**	(35,673)
Purchase of 'A' Ordinary shares	9	**(39,920)**	(33,751)
Payment of finance lease liabilities		**(1,850)**	(2,061)
Redemption of loan notes payable		**(18,087)**	(25,237)
		(177,027)	(96,722)
Cash flows from financing activities		**(173,027)**	455,014
Net (decrease) / increase in cash and cash equivalents		**(95,406)**	185,606
Cash and cash equivalents at 1 January		**291,844**	105,822
Effect of exchange rate fluctuations on cash held		**5,326**	416
Cash and cash equivalents at 31 December		**201,764**	291,844
Cash and cash equivalents are broken down as follows:			
Cash at bank and short term deposits		**231,519**	334,023
Overdrafts		**(29,755)**	(42,179)
		201,764	291,844

Company Balance Sheet

as at 31 December 2006

	Notes	2006 €'000	2005 €'000
ASSETS			
Non-current assets			
Property, plant and equipment	12	**353**	350
Deferred tax assets	29	**193**	280
Investments in subsidiary undertakings	13	**349,705**	343,706
Financial assets	13	**13**	13
Total non-current assets		**350,264**	344,349
Current assets			
Receivables from group companies	15	**668,056**	502,419
Other receivables	15	**7,665**	4,141
Cash and cash equivalents		**13,616**	4,694
Corporation tax		**277**	-
Total current assets		**689,614**	511,254
Total assets		**1,039,878**	855,603
EQUITY			
Capital and reserves attributable to the equity holders			
Equity share capital	17	**12,082**	12,037
Share premium account	18	**284,945**	281,038
Capital redemption reserve	19	**322**	274
Other reserve	21	**6,455**	3,191
Retained earnings		**343,992**	84,816
Total equity		**647,796**	381,356
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	24	**9,829**	19,262
Deferred tax liabilities	29	**13**	69
Retirement benefit obligations	37	**1,540**	1,972
Total non-current liabilities		**11,382**	21,303
Current liabilities			
Interest-bearing loans and borrowings	24	**10,223**	10,017
Payables to Group companies	27	**357,108**	433,470
Other payables	27	**13,369**	9,444
Current income tax liabilities		**-**	13
Total current liabilities		**380,700**	452,944
Total liabilities		**392,082**	474,247
Total equity and liabilities		**1,039,878**	855,603

On behalf of the Board

M Chadwick
C Ó Nualláin
Directors
28 February 2007

Company Cash Flow Statement

For the year ended 31 December 2006

	Notes	2006 €'000	2005 €'000
Profit before tax		**299,754**	63,854
Finance income		**(1,546)**	(1,401)
Finance expense		**2,049**	2,543
Dividends received		**(293,922)**	(50,600)
Operating profit		**6,335**	14,396
Depreciation		**172**	127
Share based payments charge		**396**	249
Contributions to pension schemes in excess of IAS 19 charge		**(1,043)**	(3,819)
Increase in working capital and financing	31	**480**	1,875
Cash generated from operations		**6,340**	12,828
Interest paid		**(581)**	(1,209)
Income taxes paid		**(306)**	(5)
Cash flows from operating activities		**5,453**	11,614
Investing activities			
Inflows			
Dividends received		**293,922**	50,600
Outflows			
Additional investment in subsidiary undertakings		**(3,131)**	(1,949)
Purchase of property, plant and equipment		**(175)**	(143)
Acquisition of subsidiary undertakings		**-**	(319,551)
		(3,306)	(321,643)
Cash flows from investing activities		**290,616**	(271,043)
Financing activities			
Inflows			
Proceeds from the issue of share capital		**4,000**	178,658
Movement on Group receivables		**(165,637)**	(213,051)
		(161,637)	(34,393)
Outflows			
Repayment of long term borrowings		**-**	(9,184)
Purchase of 'A' Ordinary shares	9	**(39,920)**	(33,751)
Redemption of loan notes payable		**(9,829)**	(9,637)
Movement on Group payables		**(76,362)**	348,358
		(126,111)	295,786
Cash flows from financing activities		**(287,748)**	261,393
Net increase in cash and cash equivalents		**8,321**	1,964
Cash and cash equivalents at 1 January		**4,690**	2,083
Effect of exchange rate fluctuations on cash held		**601**	643
Cash and cash equivalents at 31 December		**13,612**	4,690
Cash and cash equivalents are broken down as follows:			
Cash at bank and short term deposits		**13,616**	4,694
Overdrafts		**(4)**	(4)
		13,612	4,690

Company Statement of Recognised Income and Expense

For the year ended 31 December 2006

	Notes	2006 €'000	2005 €'000
Items of income and expense recognised directly within equity:			
Net actuarial loss/transfer on Company defined benefit pension schemes	37	**(611)**	(1,404)
Deferred tax asset on Company defined benefit pension schemes	29	**76**	176
Net income/(expense) recognised directly in equity		**(535)**	(1,228)
Profit after tax for the financial year		**299,631**	63,388
Total recognised income and expense for the financial year		**299,096**	62,160
Attributable to:			
Equity holders of the Company		**299,096**	62,160

Accounting Policies

Statement of Compliance

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

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

The Group has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

- IFRS 7 *Financial Instruments: Disclosure;*
- IFRIC 8 *Scope of IFRS 2;*
- IFRIC 9 *Reassessment of Embedded Derivatives;*
- IFRIC 10 *Interim Financial Reporting and Impairment; and*
- IFRIC 11 *IFRS 2: Group and Treasury Share Transactions*.

Basis of Preparation

The consolidated and Company financial statements, which are presented in euro rounded to the nearest thousand, have been prepared under the historical cost convention, as modified by the revaluation of land and buildings and the measurement at fair value of share options and derivative financial instruments. The carrying values of recognised assets and liabilities that are hedged are adjusted to record changes in the fair values attributable to the risks that are being hedged.

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

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

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

Basis of consolidation

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

Subsidiaries

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

Accounting Policies

Joint ventures

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

Loans to joint ventures are classified as loans and receivables within financial assets.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains and losses arising from such transactions, are eliminated in preparing the consolidated financial statements.

Revenue Recognition

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

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

Segment Reporting

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

Foreign Currency Translation

Functional and presentation currency

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

Transaction and balances

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

Group companies

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

Accounting Policies

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

Exceptional Items

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

Goodwill

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

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

Goodwill arising on acquisitions between 1 January 1998 and 1 January 2004 was capitalised and the related amortisation, which was based on a presumed maximum useful life of 20 years, was charged against operating income in the income statement on a straight-line basis from the date of initial recognition. Goodwill was stated at cost less accumulated amortisation and any impairment in value. Goodwill arising on acquisitions made prior to 1 January 1998 was written-off immediately against reserves and was not reinstated on implementation of Financial Reporting Standard 10 *Goodwill and Intangible Assets*. In accordance with IFRS 1, this goodwill was not recognised as goodwill in the IFRS transition Balance Sheet and remains eliminated against reserves.

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

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

Intangible Assets (Other than Goodwill)

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

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

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

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

Accounting Policies

Investments

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

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

Leases

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

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

Inventories

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

Trade and Other Receivables and Payables

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

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

Cash and Cash Equivalents

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

Accounting Policies

Interest Bearing Loans and Borrowings

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

Provisions

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

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 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.

Accounting Policies

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

Retirement Benefit Obligations

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

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

The net surplus or deficit arising in the Group's defined benefit pension schemes are shown within either non-current assets or liabilities on the face of the Group Balance Sheet. The deferred tax impact of pension scheme surpluses and deficits is disclosed separately within deferred tax assets or liabilities as appropriate. The Group 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.

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

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.

The finance cost on pension scheme liabilities is recognised in the income statement in accordance with IAS 19.

Finance Income

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

The expected return on plan assets is recognised in the income statement in accordance with IAS 19.

Income Tax

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

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

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

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

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

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

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

Share Capital

Repurchase of share capital

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

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.

Derivative Financial Instruments

The Group uses derivative financial instruments (principally interest rate and currency swaps and forward foreign exchange contracts) to hedge its exposure to foreign exchange and interest rate risks arising from its 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. Where derivatives do not fulfil the criteria for hedge accounting, changes in fair values are reported in the income statement. Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged as outlined in the accounting policy below on hedging.

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

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.

(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. For cash flow hedges, other than those covered by the preceding statements, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss. The ineffective part of any gain or loss is recognised immediately in the income statement.

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

Accounting Policies

(ii) Fair Value Hedge

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

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

(iii) Hedge of Net Investment in Foreign Operation

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

Notes to the Financial Statements

1. Segmental Analysis

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

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

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

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

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

Geographic Segment

	Ireland		UK		Group	
	2006 €'000	2005 €'000	**2006 €'000**	2005 €'000	**2006 €'000**	2005 €'000
Segment Revenue						
Sales to external customers	**1,200,639**	1,032,899	**1,733,298**	1,596,565	**2,933,937**	2,629,464
Operating profit before other income and intangible amortisation	**130,371**	107,702	**114,572**	108,244	**244,943**	215,946
Intangible amortisation	**(2,212)**	(2,176)	**-**	-	**(2,212)**	(2,176)
Operating profit before other income	**128,159**	105,526	**114,572**	108,244	**242,731**	213,770
Other income (property profit)	**30,056**	7,963	**7,933**	1,677	**37,989**	9,640
Operating profit	**158,215**	113,489	**122,505**	109,921	**280,720**	223,410
Finance expense					**(52,886)**	(48,803)
Finance income					**21,522**	17,574
Profit before tax					**249,356**	192,181
Income tax expense					**(32,418)**	(26,102)
Profit for the financial year					**216,938**	166,079

	Ireland		UK		Group	
	2006 €'000	2005 €'000	**2006 €'000**	2005 €'000	**2006 €'000**	2005 €'000
Segment assets	**944,758**	912,347	**1,270,085**	1,114,678	**2,214,843**	2,027,025
Unallocated assets	**-**	-	**-**	-	**268,645**	365,967
Total assets					**2,483,488**	2,392,992

Notes to the Financial Statements

1. Segmental Analysis (continued)

	Ireland		UK		Group	
	2006 €'000	2005 €'000	**2006 €'000**	2005 €'000	**2006 €'000**	2005 €'000
Segment liabilities	**(339,383)**	(326,863)	**(296,132)**	(285,473)	**(635,515)**	(612,336)
Unallocated liabilities		-		-	**(833,634)**	(966,845)
Total liabilities					**(1,469,149)**	(1,579,181)

	Ireland		UK		Group	
	2006 €'000	2005 €'000	**2006 €'000**	2005 €'000	**2006 €'000**	2005 €'000
Capital expenditure	**37,579**	41,870	**86,822**	58,689	**124,401**	100,559
Non-cash expenditure	**22,673**	21,659	**35,966**	30,985	**58,639**	52,644

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.

Non-cash expenditure comprises depreciation, intangible amortisation and share based payments.

Business Segment

	Segment Revenue		Segment Assets		Capital Expenditure	
	2006 €'000	2005 €'000	**2006 €'000**	2005 €'000	**2006 €'000**	2005 €'000
Irish merchanting	**816,602**	690,549	**768,352**	753,353	**27,168**	21,125
UK merchanting	**1,664,856**	1,533,700	**1,196,174**	1,048,079	**76,564**	45,080
Total merchanting	**2,481,458**	2,224,249	**1,964,526**	1,801,432	**103,732**	66,205
DIY	**311,680**	272,589	**132,507**	129,739	**7,525**	16,790
Manufacturing	**140,799**	132,626	**117,810**	95,854	**13,144**	17,564
	2,933,937	2,629,464	**2,214,843**	2,027,025	**124,401**	100,559
Deferred tax assets			**34,865**	25,980		
Financial assets			**414**	256		
Derivative and other financial instruments			**1,847**	5,708		
Cash and cash equivalents			**231,519**	334,023		
			2,483,488	2,392,992		

2. Other Income

Other income relates to profit on disposal of property. The Group realised a profit of €37,989,000 (2005: €9,640,000) on the sale of four properties in Ireland including the Atlantic Homecare property in Stillorgan, Co. Dublin and four in the United Kingdom. The estimated taxation payable on these profits amounts to €4,938,000 (2005: €1,909,000).

Notes to the Financial Statements

3. Operating Costs

The following have been charged/(credited) in arriving at operating profit:	**2006 €'000**	2005 €'000
Increase in stocks	**(21,638)**	(28,977)
Purchases and consumables	**2,006,315**	1,831,920
Staff costs (note 5)	**389,218**	351,077
Auditor's remuneration	**1,056**	908
Depreciation	**53,163**	48,248
Lease rentals and other hire charges	**28,369**	27,340
Intangible amortisation	**2,212**	2,176
(Profit) on sale of scaffolding	**(1,955)**	(2,047)
(Profit) on disposal of other plant and machinery	**(1,446)**	(517)
Other operating charges	**235,912**	185,566
	2,691,206	2,415,694

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

	Group		**Company**	
	2006 €'000	2005 €'000	**2006 €'000**	2005 €'000
Audit Services:				
Statutory audit	**1,056**	908	**72**	65
Further assurance services	**125**	125	**10**	10
Tax compliance and advisory services	**1,203**	900	**1,203**	900
	2,384	1,933	**1,285**	975

4. Directors' Remuneration, Pension Entitlements and Interests

Directors' remuneration, pension entitlements and interests in shares and share entitlements are presented in the Report on Directors' Remuneration on pages 42 to 45.

Notes to the Financial Statements

5. Employment

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

	Group		Company	
	2006	2005	**2006**	2005
Merchanting and DIY retailing	**10,169**	9,893	**-**	-
Manufacturing	**473**	399	**-**	-
Holding company	**22**	22	**22**	22
	10,664	10,314	**22**	22

The aggregate remuneration costs of employees were:	**€'000**	€'000	**€'000**	€'000
Wages and salaries	**338,265**	306,235	**4,114**	4,331
Social welfare	**34,540**	30,385	**387**	412
Share based payments expense	**3,264**	2,220	**396**	248
Defined benefit pension	**7,492**	5,972	**821**	425
Defined contribution and pension related costs	**5,657**	6,265	**298**	222
Charged to operating profit	**389,218**	351,077	**6,016**	5,638
Actuarial (gain) / loss on pension schemes	**(4,939)**	8,946	**(502)**	1,404
Finance cost on pension scheme liabilities	**10,270**	9,431	**718**	491
Expected return on pension scheme assets	**(12,170)**	(8,579)	**(1,033)**	(435)
Total employee benefit cost	**382,379**	360,875	**5,199**	7,098

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

	Group		Company	
	2006	2005	**2006**	2005
Number of Individuals	**13**	12	**10**	9

	2006 €'000	2005 €'000	**2006 €'000**	2005 €'000
Short-term employee benefits	**4,536**	4,187	**3,638**	3,306
Share based payment expense	**570**	268	**348**	166
IAS 19 pension charge	**860**	646	**743**	549
Charged to operating profit	**5,966**	5,101	**4,729**	4,021

6. Finance Expense and Finance Income

	2006 €'000	2005 €'000
Finance expense:		
Bank overdrafts and loans	**25,784**	27,684
Interest on finance leases	**1,026**	1,233
Finance cost on pension scheme liabilities	**10,270**	9,431
Interest on loan notes	**16,070**	10,530
Less: Interest capitalised on joint venture	**(264)**	(75)
	52,886	48,803
Finance income:		
Interest income on deposits	**(9,352)**	(8,995)
Expected return on pension scheme assets	**(12,170)**	(8,579)
	(21,522)	(17,574)

7. Foreign Currencies

The results and cash flows of the Group's United Kingdom subsidiaries have been translated into euro using the average exchange rate for the year. The related balance sheets of the Group's United Kingdom subsidiaries at 31 December 2006 and 31 December 2005 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 2006 was Stg68.17p (2005: Stg68.38p). The euro/sterling exchange rate at 31 December 2006 was Stg67.15p (2005: Stg68.53p).

8. Income tax expense

(a) Income tax expense recognised in the income statement	2006 €'000	2005 €'000
Current tax expense		
Irish corporation tax	**11,986**	11,736
UK corporation tax	**1,348**	1,934
	13,334	13,670
Deferred tax expense		
Irish	**2,212**	1,415
UK	**16,872**	11,017
Total Deferred Tax	**19,084**	12,432
Total income tax expense in income statement	**32,418**	26,102

Notes to the Financial Statements

8. Income tax expense (continued)

(b) Reconciliation of effective tax rate

	2006 €'000	2005 €'000
Profit before tax	**249,356**	192,181
Profit before tax multiplied by the standard rate of tax of 12.5% (2005: 12.5%)	**31,170**	24,023
Effects of:		
Expenses not deductible for tax purposes	**6,077**	6,196
Differences in effective tax rates on overseas earnings	**(3,964)**	(4,117)
Higher Irish tax rates on property disposals	**1,919**	230
Income at reduced Irish rates	**(1,990)**	(149)
Other differences	**(794)**	(81)
Total income tax expense in income statement	**32,418**	26,102

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

	2006 €000	2005 €000
Share based payments	**(1,832)**	(157)
Actuarial movement on pension schemes	**44**	(1,944)
Financing – cash flow hedge	**191**	40
	(1,597)	(2,061)

(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.

Notes to the Financial Statements

9. Purchase of 'A' Ordinary shares

	2006 €'000	2005 €'000
Group and Company		
Purchase of one 'A' Ordinary Share for 8.5 cent - paid 31 March 2006	**20,204**	-
Purchase of one 'A' Ordinary Share for 8.25 cent - paid 18 October 2006	**19,716**	-
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
	39,920	33,751

The Board resolved to purchase one 'A' Ordinary Share per Grafton Unit for a cash consideration of 10.5 cent payable on 28 March 2007. Accordingly, no final dividend will be declared in respect of the year ended 31 December 2006. This follows the purchase of one 'A' Ordinary Share per Grafton Unit for a cash consideration of 8.25 cent which was paid on 18 October 2006 to give total payments for the year of 18.75 cent. This represents an increase of 19 per cent on share purchase payments for 2005 of 15.75 cent per Grafton Unit. The share purchase payable on 28 March 2007 is chargeable to reserves in 2007.

10. Earnings per Share - Group

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

	2006 €'000	2005 €'000
Numerator for basic, adjusted and diluted earnings per share:		
Profit after tax for the financial year	**216,938**	166,079
Numerator for basic and diluted earnings per share	**216,938**	166,079
Other income (property profit) after tax	**(33,051)**	(7,731)
Intangible amortisation after tax	**1,935**	1,904
Numerator for adjusted earnings per share	**185,822**	160,252
Denominator for basic and adjusted earnings per share:		
Weighted average number of Grafton Units in issue	**238,324,290**	236,371,547
Effect of potential dilutive Grafton Units	**4,505,408**	5,023,349
Denominator for diluted earnings per share	**242,829,698**	241,394,896
Earnings per Share (cent)		
- Basic	**91.03**	70.26
- Diluted	**89.34**	68.80
Adjusted earnings per share (cent)		
- Basic	**77.97**	67.80

Weighted average share entitlements of 330,125 Grafton Units (2005:1,312,745) which are currently anti-dilutive are not included in the above calculations.

Notes to the Financial Statements

11. Goodwill - Group

	2006 €'000	2005 €'000
Cost		
At 1 January	**532,323**	247,155
Acquired during the year (note 32)	**44,649**	278,892
Goodwill written off	**(243)**	-
Translation adjustment	**6,132**	6,276
At 31 December	**582,861**	532,323

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

	2006 €'000	2005 €'000
UK	**312,885**	262,347
Ireland	**269,976**	269,976
	582,861	532,323

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 adjusted for management's assessment of 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 as adjusted for management's assessment of competitive factors within the industry and opportunities for margin improvement.

Notes to the Financial Statements

11. (a) Intangible Assets - Group

	Brands €'000	Customer Relationships €'000	Total €'000
Cost			
At 1 January 2006	5,658	12,037	17,695
At 31 December 2006	**5,658**	**12,037**	**17,695**
Amortisation			
At 1 January 2006	696	1,480	2,176
Amortised during the year	707	1,505	2,212
At 31 December 2006	**1,403**	**2,985**	**4,388**
Net book amount at 31 December 2006	**4,255**	**9,052**	**13,307**
Net book amount at 31 December 2005	4,962	10,557	15,519

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

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

Notes to the Financial Statements

12. Property, plant and equipment

	Freehold Land and Buildings €'000	Leasehold Buildings €'000	Plant Machinery and Motor Vehicles €'000	Total €'000
Group				
Cost				
At 1 January 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 1 January 2006	**393,759**	**73,593**	**298,206**	**765,558**
Additions	50,105	6,349	67,947	124,401
Acquisitions	21,252	348	3,326	24,926
Disposals	(28,106)	(3,867)	(31,852)	(63,825)
Exchange adjustment	5,004	1,009	5,165	11,178
At 31 December 2006	**442,014**	**77,432**	**342,792**	**862,238**
Depreciation				
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 1 January 2006	**14,577**	**10,463**	**117,290**	**142,330**
Charge for year	5,376	3,594	44,193	53,163
Disposals	(436)	(898)	(22,007)	(23,341)
Exchange adjustment	366	270	3,285	3,921
At 31 December 2006	**19,883**	**13,429**	**142,761**	**176,073**
Net book amount				
At 31 December 2006	**422,131**	**64,003**	**200,031**	**686,165**
At 31 December 2005	379,182	63,130	180,916	623,228
At 31 December 2004	224,931	56,261	125,015	406,207

Notes to the Financial Statements

12. Property, plant and equipment (continued)

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

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

	Plant, Machinery & Motor Vehicles		**Leasehold Properties**	
	2006 €'000	2005 €'000	**2006 €'000**	2005 €'000
Cost	**13,759**	13,483	**10,109**	13,936
Accumulated depreciation	**(5,163)**	(4,561)	**(1,167)**	(1,040)
Net book amount	**8,596**	8,922	**8,942**	12,896
Depreciation charge for year	**828**	1,073	**612**	611

During the year the Group repaid finance leases amounting to €1.9 million (2005: € 2.1 million)

Plant and equipment in the Company is stated as follows:

	Plant and Equipment	
	2006 €'000	2005 €'000
Cost		
At 1 January	**1,200**	1,057
Additions	**175**	143
At 31 December	**1,375**	1,200
Depreciation		
At 1 January	**850**	723
Charge for year	**172**	127
At 31 December	**1,022**	850
Net book amount		
At 31 December	**353**	350
At 31 December	**350**	334

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 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 - share based payments	-	-	1,971	1,971
Translation adjustment	6	-	-	-
Transferred to acquisitions	(100,782)	-	-	-
At 31 December 2005	**256**	**13**	**343,706**	**343,719**
Additions	90	-	-	-
Acquisitions	63	-	3,131	3,131
Capital contribution - share based payments	-	-	2,868	2,868
Translation adjustment	5	-	-	-
At 31 December 2006	**414**	**13**	**349,705**	**349,718**

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 park in Navan, Co. Meath. At 31 December 2006 the Group had advanced a net €2.7 million (31 December 2005: €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 €3.1 million (31 December 2005: €5.8 million); other net current assets of €0.9 million (31 December 2005: €0.3 million); interest bearing debt within current liabilities of €1.4 million (31 December 2005: €6.1 million) and reserves of €2.6 million (31 December 2005: Nil) which reflect the net profit the Group has recognised in the income statement in respect of this development.

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	
	2006 €'000	2005 €'000
Raw materials	**2,421**	2,311
Work in progress	**4,995**	5,836
Finished goods	**10,459**	8,925
Goods purchased for resale	**372,525**	339,575
	390,400	356,647

Notes to the Financial Statements

15. Trade and Other Receivables

	Group		Company	
	2006	2005	**2006**	2005
	€'000	€'000	**€'000**	€'000
Amounts falling due within one year:				
Trade debtors	**431,830**	394,032	**-**	-
Amounts owed by subsidiary undertakings	**-**	-	**668,056**	502,419
Prepayments	**108,930**	99,176	**7,665**	4,141
Amount owed by joint venture	**1,350**	6,100	**-**	-
	542,110	499,308	**675,721**	506,560

16. Reconciliation of Total Equity

Group	Notes	**2006**	2005
		€'000	€'000
At beginning of period		**813,811**	550,962
Elimination of fair value reserve arising on acquisition of Heiton Group plc	21	**-**	(49,535)
Issue of ordinary and 'A' Ordinary Share capital		**4,000**	178,658
Adjustment for share based payments expense		**3,264**	2,220
Deferred tax on share based payments expense		**1,832**	157
Purchase of 'A' Ordinary shares	9	**(39,920)**	(33,751)
Total recognised income and expense for the year		**231,352**	165,100
Closing shareholders' funds - equity		**1,014,339**	813,811

Company		**2006**	2005
		€'000	€'000
At beginning of period		**381,356**	172,069
Issue of ordinary and 'A' Ordinary Share capital		**4,000**	178,658
Adjustment for share based payments expense		**3,264**	2,220
Purchase of 'A' Ordinary shares	9	**(39,920)**	(33,751)
Total recognised income and expense for the year		**299,096**	62,160
At end of period		**647,796**	381,356

Notes to the Financial Statements

17. Share Capital

Group and Company	2006 €'000	2005 €'000
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 €	Number of Shares	2006 Nominal Value €'000	2005 Nominal Value €'000
Issued and fully paid:				
Ordinary shares				
At 1 January		**237,418,164**	**11,871**	10,672
Issued to Heitons Shareholders		**-**	**-**	1,069
Issued under UK SAYE scheme		**4,670**	**-**	61
Grafton Group Share Schemes				
Date options and entitlements to acquire shares granted				
April 1996	0.65	**46,166**	**2**	10
April 1997	1.07	**182,449**	**9**	4
June 1998	2.21	**313,289**	**16**	6
Sept 1998	1.65	**31,838**	**2**	-
July 1999	1.81	**194,952**	**10**	14
Sept 1999	1.93	**-**	**-**	3
May 2000	2.07	**268,392**	**13**	30
May 2001	2.83	**785,634**	**39**	1
April 2002	4.00	**-**	**-**	1
		1,822,720	**91**	69
At 31 December		**239,245,554**	**11,962**	11,871
'A' Ordinary shares				
At 1 January		**1,661,927,148**	**166**	192
'A' Ordinary shares issued in year		**10,970,383**	**2**	21
Purchase of 1 'A' Ordinary share per Grafton Unit		**(237,694,904)**	**(24)**	(23)
Purchase of 1 'A' Ordinary share per Grafton Unit		**(238,974,857)**	**(24)**	(24)
At 31 December		**1,196,227,770**	**120**	166
Total nominal share capital issued			**12,082**	12,037

17. Share Capital (continued)

Grafton Units Issued During 2006
The number of Grafton Units issued during the year under the Group's Executive Share Schemes was 1,822,720 and the total consideration received amounted to €4,102,000. UK employees were issued 4,670 Grafton Units under the Grafton Group (UK) plc Savings Related Share Option Scheme.

Grafton Units
At 31 December 2006 a Grafton Unit comprised one ordinary share of 5 cent and five '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 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.

'A' Ordinary shares
The authorised share capital of the Company was increased by the creation of 3 billion 'A' Ordinary shares on 11 May 2004. On 14 June 2004 the Company issued 10 'A' Ordinary shares per Grafton Unit. A special dividend of 0.125c paid on 14 June 2004 was used as subscription proceeds for the issue of the 10 'A' Ordinary shares. The Company purchased one of the 10 'A' Ordinary shares on 1 October 2004 for a cash consideration of 1 cent, to leave nine 'A' Ordinary shares attaching to a Grafton Unit at 31 December 2004. On 18 March 2005 the Company purchased one 'A' Ordinary share for a cash consideration of 7 cent each and on 14 October 2005 purchased one 'A' Ordinary share for a cash consideration of 7.25 cent each, leaving seven 'A' Ordinary shares per Grafton Unit at 31 December 2005. On 24 March 2006 the Company purchased one 'A' Ordinary share for a cash consideration of 8.5 cent each and on 6 October 2006 purchased one 'A' Ordinary share for a cash consideration of 8.25 cent each leaving five 'A' Ordinary shares per Grafton Unit at 31 December 2006. All 'A' Ordinary shares purchased were cancelled.

The 'A' Ordinary shares rank pari passu with ordinary shares regarding any dividends declared. On a return of capital on a winding up or otherwise (other than on conversion, redemption or purchase of shares), the holders of 'A' Ordinary shares are entitled, pari passu with the holders of the ordinary shares, to the repayment of their nominal value of 0.01 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

	2006 €'000	2005 €'000
Group and Company		
At 1 January	**281,038**	103,600
Premium on shares issued to Heiton shareholders	**-**	172,534
Premium on shares issued under share schemes	**4,046**	5,076
Costs of share issues	**(139)**	(172)
At 31 December	**284,945**	281,038

19. Capital Redemption Reserve

	2006 €'000	2005 €'000
Group and Company		
At 1 January	**274**	227
Purchase of 'A' Ordinary shares	**48**	47
At 31 December	**322**	274

This is a legal reserve which arises from the purchase of the 'A' Ordinary shares and the redemption of redeemable shares in prior years.

20. Revaluation Reserve

	2006 €'000	2005 €'000
Group and Company		
At 1 January	**36,574**	34,988
Transfer to retained earnings	**(3,601)**	(2,853)
Transfer from fair value reserve	**-**	4,439
At 31 December	**32,973**	36,574

Notes to the Financial Statements

21. Other Reserves

	2006 €'000	2005 €'000
Group and Company		
Shares to be Issued		
At 1 January	**3,191**	971
Provision for cost of share based payments	**3,264**	2,220
At 31 December	**6,455**	3,191

Fair Value Reserve

	2006 €'000	2005 €'000
Group		
At 1 January	**-**	53,974
Eliminated on acquisition of Heitons	**-**	(49,535)
Transfer to revaluation reserve	**-**	(4,439)
At 31 December	**-**	-

22. Foreign Currency Translation Reserve

	2006 €'000	2005 €'000
Group		
At 1 January	**5,032**	(2,156)
On foreign currency net investments	**8,584**	7,999
On foreign currency borrowings	**(396)**	(811)
At 31 December	**13,220**	5,032

23. Cash Flow Hedge Reserve

	2006 €'000	2005 €'000
Group		
At 1 January	**285**	1,657
Adjustment for deferred tax	**(191)**	(40)
Movement in year	**1,522**	(1,332)
At 31 December	**1,616**	285

24. Interest Bearing Loans and Borrowings

	Group		Company	
	2006	2005	**2006**	2005
	€'000	€'000	**€'000**	€'000
Non-Current Liabilities				
Sterling bank loans	**242,699**	273,798	**-**	-
Euro bank loans	**164,206**	134,706	**-**	-
2005 Unsecured Senior US Dollar loan notes	**245,585**	266,316	**-**	-
1998 Unsecured Senior US Dollar loan notes	**8,413**	18,769	**9,829**	19,262
1997 Unsecured Senior US Dollar loan notes	**-**	4,128	**-**	-
Finance leases	**10,714**	15,995	**-**	-
	671,617	713,712	**9,829**	19,262
Current Liabilities				
Bank overdrafts	**29,755**	42,179	**4**	4
Sterling bank loans	**37,230**	141,319	**-**	-
1998 Unsecured Senior US Dollar loan notes	**8,802**	9,384	**9,837**	9,631
1997 Unsecured Senior US Dollar loan notes	**3,738**	4,126	**-**	-
Vendor loan notes	**7,673**	10,239	**382**	382
Obligations under finance leases	**1,387**	2,031	**-**	-
	88,585	209,278	**10,223**	10,017

In 1998 the Group completed a US$55 million debt financing in the US Private Placement Market and issued unsecured senior loan notes maturing up to 2008. The US dollar proceeds were swapped into sterling and the interest rate payable on the loan notes is currently variable by reference to six month LIBOR rates.

On 23 June 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 rate payable on the loan notes is currently variable by reference to three month LIBOR rates.

On 31 October 1997, Heitons Group plc, which was acquired on 7 January 2005, completed a US$25 million debt financing in the US Private Placement Market and issued unsecured senior loan notes maturing in 2007. The US dollar proceeds were swapped into euro and the interest rate payable on the loan notes was fixed at 7.14%.

Loan notes were issued to vendors of businesses acquired and are redeemable at the option of the note holders on specified dates between January 2007 and December 2011. 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).

24. Interest Bearing Loans and Borrowings (continued)

Maturity of Financial Liabilities

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

	Bank Loans and Overdrafts 2006 €'000	Loan Notes 2006 €'000	Finance Leases 2006 €'000	Total 2006 €'000	Bank Loans and Overdrafts 2005 €'000	Loan Notes 2005 €'000	Finance Leases 2005 €'000	Total 2005 €'000
Due within one year	**66,985**	**20,213**	**1,387**	**88,585**	183,498	23,749	2,031	209,278
Between one and two years	**334,815**	**30,568**	**603**	**365,986**	162,557	13,511	576	176,644
Between two and three years	**17,870**	**59,270**	**80**	**77,220**	174,463	34,213	653	209,329
Between three and four years	**17,871**	**36,784**	**-**	**54,655**	17,731	62,927	107	80,765
Between four and five years	**17,871**	**38,768**	**-**	**56,639**	17,730	42,175	9	59,914
After five years	**18,478**	**88,608**	**10,031**	**117,117**	36,023	136,387	14,650	187,060
	473,890	**274,211**	**12,101**	**760,202**	592,002	312,962	18,026	922,990
Derivatives				**22,177**				(4,785)
Gross debt				**782,379**				918,205
Cash/deposits				**(231,519)**				(334,023)
Net debt				**550,860**				584,182
Shareholders' funds				**1,014,339**				813,811
Gearing				**54%**				72%

24. Interest Bearing Loans and Borrowings (continued)

In respect of income earning financial assets and interest bearing financial liabilities as at 31 December 2006, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice.

	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	5.20%	25,288	25,288	-	-	-	-
Euro deposits	3.60%	115,640	115,640	-	-	-	-
Cash at bank	4.17%	90,591	90,591	-	-	-	-
Cash and cash equivalents		231,519	231,519	-	-	-	-
Sterling bank overdrafts	6.00%	(29,755)	(29,755)	-	-	-	-
Deposits and cash less overdrafts		201,764	201,764	-	-	-	-
Floating rate debt:							
Euro loans	3.99%	(164,206)	(164,206)	-	-	-	-
Sterling loans	5.62%	(116,727)	(116,727)	-	-	-	-
Total floating rate debt		(280,933)	(280,933)	-	-	-	-
Fixed rate debt:							
Sterling loans	4.48%	(163,202)	-	(88,742)	(74,460)	-	-
Finance leases	6.00%	(12,101)	-	(1,387)	(603)	(80)	(10,031)
Total fixed rate debt		(175,303)	-	(90,129)	(75,063)	(80)	(10,031)
Loan notes:							
US dollar loan notes	5.99%	(266,538)	(266,538)	-	-	-	-
Vendor loan notes	4.32%	(7,673)	(7,673)	-	-	-	-
Total loan notes		(274,211)	(274,211)	-	-	-	-
Derivatives		(22,177)	(24,024)	923	924	-	-
Total Net Debt		(550,860)	(377,404)	(89,206)	(74,139)	(80)	(10,031)

*After adjusting for derivatives where applicable.

24. Interest Bearing Loans and Borrowings (continued)

In respect of income-earning financial assets and interest bearing financial liabilities as at 31 December 2005, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice.

	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	-	-	-	-
Floating rate debt:							
Euro loans	2.90%	(134,706)	(134,706)	-	-	-	-
Sterling loans	4.94%	(255,202)	(255,202)	-	-	-	-
Total floating rate debt		(389,908)	(389,908)	-	-	-	-
Fixed rate debt:							
Sterling loans	4.99%	(159,915)	-	-	(86,954)	(72,961)	-
Finance leases	6.00%	(18,026)	-	(2,031)	(576)	(769)	(14,650)
Total fixed rate debt		(177,941)	-	(2,031)	(87,530)	(73,730)	(14,650)
Loan notes:							
US dollar loan notes	5.19%	(302,723)	(302,723)	-	-	-	-
Vendor loan notes	3.32%	(10,239)	(10,239)	-	-	-	-
Total loan notes		(312,962)	(312,962)	-	-	-	-
Derivatives		4,785	4,460	-	325	-	-
Total Net Debt		(584,182)	(406,566)	(2,031)	(87,205)	(73,730)	(14,650)

*After adjusting for derivatives where applicable.

Borrowing Facilities
The Group had undrawn committed borrowing facilities at 31 December 2006 of €185.4 million (2005: €41.8 million) in respect of which all conditions precedent have been met and which expire within 12 months.

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.

Notes to the Financial Statements

24. Interest Bearing Loans and Borrowings (continued)

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.

The Group's current policy in relation to its UK operations has been to hedge the balance sheet exposure by means of matching sterling assets with sterling borrowings. Part of the Group's net worth is denominated in sterling reflecting ongoing profit after tax reserves retained in sterling in the UK business.

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

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

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 2006 was €24,024,000 and was included in current liabilities and non-current liabilities. At 31 December 2005, the comparative amount of €4,460,000 was included within current assets and current liabilities.

Hedging
The Group has exposure to changes in interest rates on certain debt instruments and took the decision to eliminate an element of this risk by entering into interest rate swaps. The swaps mature over the next two years following the maturity of the related loans and have fixed swap rates ranging from 3.89% to 4.99%. At 31 December 2006, 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 2006 was €1,847,000 (2005: €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.

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.

25. Derivatives

	Group 2006 €'000	Group 2005 €'000
Included in current assets:		
Fair value of cross currency swaps	-	5,383
Fair value of interest rate swaps	**1,847**	325
	1,847	5,708
Included in non current liabilities:		
Fair value of cross currency swaps	**(22,126)**	-
Included in current liabilities:		
Fair value of cross currency swaps	**(1,898)**	(923)
	(22,177)	4,785

Nature of Derivative Instruments as at 31 December 2006

	Hedge Period	**Underlying Hedge**	**Notional payable amount of contracts outstanding**	**Notional receivable amount of contracts outstanding**	**Fair value asset €'000**	**Fair value liability €'000**
Interest Rate Swap	August 2007 April 2008	Interest rate	Stg £109,590,000	Stg £109,590,000	1,847	-
Cross Currency Swap	June 2008 to June 2015	Interest rate & foreign currency	USD $250,000,000	Stg £137,665,251	-	20,710
Cross Currency Swaps	May 2007 to May 2008	Interest rate & foreign currency	USD $5,000,000 USD $22,000,000	Eur €4,218,397 Stg £13,200,000	- -	481 2,833

Nature of Derivative Instruments as at 31 December 2005

	Hedge Period	Underlying Hedge	Notional payable amount of contracts outstanding	Notional receivable amount of contracts outstanding	Fair value asset €'000	Fair value liability €'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 Swaps	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	- -	183 740

Notes to the Financial Statements

26. Provisions

	Group		Company	
	2006	2005	**2006**	2005
	€'000	€'000	**€'000**	€'000
Non-Current Liabilities				
Deferred acquisition consideration	**4,468**	500	**-**	-
Current liabilities:				
Deferred acquisition consideration	**23,051**	15,042	**-**	-
WEEE provision	**175**	125	**-**	-
	23,226	15,167	**-**	-

The deferred acquisition consideration is payable over the period from January 2007 to December 2009 subject to certain conditions.

27. Trade and Other Payables

	Group		Company	
	2006	2005	**2006**	2005
	€'000	€'000	**€'000**	€'000
Trade and other payables				
Trade creditors	**370,814**	347,826	**2**	101
Accruals	**119,168**	111,264	**13,367**	8,723
Amounts owed to subsidiary undertakings	**-**	-	**357,108**	433,470
Social welfare	**2,839**	2,561	**-**	-
Income tax deducted under PAYE	**6,278**	6,075	**-**	508
Value added tax	**22,166**	19,301	**-**	112
	521,265	487,027	**370,477**	442,914

28. Obligations under Finance Leases

	2006			2005		
Group	**Minimum Lease payments €'000**	**Interest €'000**	**Principal €'000**	Minimum Lease payments €'000	Interest €'000	Principal €'000
Committed finance lease obligations:						
Within one year	**2,158**	**771**	**1,387**	2,997	966	2,031
Between one and five years	**5,295**	**2,092**	**3,203**	7,154	3,864	3,290
Later than five years	**22,191**	**14,680**	**7,511**	27,832	15,127	12,705
	29,644	**17,543**	**12,101**	37,983	19,957	18,026

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

Notes to the Financial Statements

29. Deferred Taxation

Recognised deferred tax assets and liabilities	Group			Group		
	Assets 2006 €'000	**Liabilities 2006 €'000**	**Net Assets /Liabilities 2006 €'000**	Assets 2005 €'000	Liabilities 2005 €'000	Net Assets /Liabilities 2005 €'000
Property, plant and equipment	**(1,308)**	**46,389**	**45,081**	(1,978)	39,713	37,735
Intangible assets	**-**	**1,663**	**1,663**	-	1,940	1,940
Financing	**(10,035)**	**1,356**	**(8,679)**	(3,082)	40	(3,042)
Employee share schemes	**(3,255)**	**-**	**(3,255)**	(836)	-	(836)
Other items	**(2,111)**	**-**	**(2,111)**	(3,970)	1,239	(2,731)
Tax value of losses forward	**(11,319)**	**-**	**(11,319)**	(5,441)	-	(5,441)
Pension	**(6,837)**	**-**	**(6,837)**	(10,673)	-	(10,673)
Tax (assets) / liabilities	**(34,865)**	**49,408**	**14,543**	(25,980)	42,932	16,952

Recognised deferred tax assets and liabilities	Company			Company		
	Assets 2006 €'000	**Liabilities 2006 €'000**	**Net Assets /Liabilities 2006 €'000**	Assets 2005 €'000	Liabilities 2005 €'000	Net Assets /Liabilities 2005 €'000
Other	**-**	**13**	**13**	-	69	69
Pension	**(193)**	**-**	**(193)**	(280)	-	(280)
Tax (assets) / liabilities	**(193)**	**13**	**(180)**	(280)	69	(211)

Analysis of net deferred tax (asset) / liability

Group 2006	Balance 1 Jan 06 €'000	Recognised in Income €'000	Recognised in Equity €'000	Foreign Exchange Retranslation €'000	Arising on Acquisitions €'000	Balance 31 Dec 06 €'000
Property, plant and equipment	37,735	3,960	-	218	3,168	45,081
Intangible assets	1,940	(277)	-	-	-	1,663
Financing	(3,042)	(5,811)	191	(17)	-	(8,679)
Employee share schemes	(836)	(587)	(1,832)	-	-	(3,255)
Other items	(2,731)	605	-	15	-	(2,111)
Tax value of losses forward	(5,441)	17,306	-	462	(23,646)	(11,319)
Pension	(10,673)	3,888	44	(96)	-	(6,837)
	16,952	19,084	(1,597)	582	(20,478)	14,543

Notes to the Financial Statements

29. Deferred Taxation (continued)

Analysis of net deferred tax (asset) / liability (continued)

Group 2005

	Balance 1 Jan 05 €'000	Recognised in income €'000	Recognised in Equity €'000	Foreign Exchange Retranslation €'000	Arising on Acquisitions €'000	Balance 31 Dec 05 €'000
Property, plant and equipment	25,310	1,516	-	267	10,642	37,735
Intangible assets	-	(272)	-	-	2,212	1,940
Financing	(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 forward	-	11,675	-	-	(17,116)	(5,441)
Pension	(6,733)	1,323	(1,944)	171	(3,490)	(10,673)
	13,655	12,432	(2,061)	545	(7,619)	16,952

Company 2006

	Balance 1 Jan 06 €'000	**Recognised in income €'000**	**Recognised in Equity €'000**	**Foreign Exchange Retranslation €'000**	**Arising on Acquisitions €'000**	**Balance 31 Dec 06 €'000**
Other items	**69**	**(56)**	**-**	**-**	**-**	**13**
Pension	**(280)**	**163**	**(76)**	**-**	**-**	**(193)**
	(211)	**107**	**(76)**	**-**	**-**	**(180)**

Company 2005

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

30. 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 €299.6 million (2005: €63.4 million) attributable to the parent undertaking for the financial year.

31. Movement in Working Capital

Group

	Inventory €'000	Trade and Other Receivables €'000	Trade and Other Payables €'000	Total €'000
At 1 January 2006	**356,647**	**499,308**	**(487,027)**	**368,928**
Translation adjustment	**4,485**	**10,997**	**(10,282)**	**5,200**
Interest accruals and other movements	**-**	**37**	**657**	**694**
Acquisitions	**12,115**	**25,014**	**(26,817)**	**10,312**
Movement in 2006	**17,153**	**6,754**	**2,204**	**26,111**
At 31 December 2006	**390,400**	**542,110**	**(521,265)**	**411,245**
Movement in 2005	23,837	17,755	(13,107)	28,485

Company

	Trade and Other Receivables €'000	Trade and Other Payables €'000	Total €'000
At 1 January 2006	**4,141**	**(9,444)**	**(5,303)**
Interest accrual and other movements	**39**	**40**	**79**
Movement in 2006	**3,485**	**(3,965)**	**(480)**
At 31 December 2006	**7,665**	**(13,369)**	**(5,704)**
Movement in 2005	1,245	(3,120)	(1,875)

32. Acquisition of Subsidiary Undertakings and Businesses

During the year the Group made sixteen UK acquisitions in the merchanting sector.

UK acquisitions added nineteen builders and eight plumbers merchanting branches. These included eight single branch builders merchanting businesses located at Market Rasen, Lincolnshire; Wakefield, West Yorkshire; Malmesbury, Wiltshire; Ipswich, Suffolk; Osbaldwick, York; Larkfield, Kent; Larne, and Magheragall, Co. Antrim in Northern Ireland. Two multi-branch builders merchanting businesses acquired were Fleming Holdings trading from eight Scottish branches in Aberdeen, Aberdeenshire; Banchory, Kincardineshire; Dundee, Angus; Elgin, Moray; Grangemouth, West Lothian; Inverness, Inverness-shire; Kirkwall, Isle of Orkney and Lerwick, Isle of Shetland, and Total Timber and Building Supplies with two branches in Whittlesey, Cambridgeshire and one site in Wisbech, Peterborough.

Six plumbers merchanting businesses acquired added eight branches of which five were single branch locations based at Folkestone, Kent; two locations at Kidderminster, Worcestershire, Thornton-Cleveley, Lancashire and Evesham, Worcestershire. The one multi branch plumbers merchanting business acquired was MFY Hepworth trading from three West Yorkshire branches in Leeds, Headingley and Wakefield.

In the year ended 31 December 2005 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.

Notes to the Financial Statements

32. Acquisition of Subsidiary Undertakings and Businesses (continued)

The UK acquisitions completed in 2005 added seven builders and twelve plumbers merchanting branches. The seven single branch builders merchanting businesses acquired are 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 trade from twelve branches. The five single branch businesses trade from the following locations; Fort William, Invernesshire; Bramhall, Cheshire; Darwen, Lancashire; Heathfield, East Sussex and Kirkintillock 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.

Acquisitions would have contributed €4.3 million and €57.8 million to operating profit in the years ended 31 December 2006 and 2005 respectively, assuming that they had been acquired on 1 January of each year.

2006 acquisitions contributed €2.7 million to operating profit since acquisition (2005: €51.3 million).

	2006 €'000	2005 €'000
The fair values of assets and liabilities acquired are set out below;		
Intangible assets	-	17,695
Property, plant and equipment	**24,926**	176,711
Financial assets	**63**	39
Inventories	**12,115**	90,011
Trade and other receivables	**25,014**	152,542
Trade and other payables	**(26,817)**	(155,980)
Deferred consideration	-	(4,141)
Employee benefits	-	(25,014)
Corporation tax	**(1,616)**	(6,198)
Deferred tax liability	**(3,168)**	(12,762)
Deferred tax asset	**23,646**	20,381
Finance leases acquired	**(95)**	(7,934)
Bank debt acquired	**(3,579)**	(76,864)
Loan notes acquired	-	(12,655)
Net assets acquired excluding cash and overdrafts	**50,489**	155,831
Goodwill	**44,649**	278,892
Consideration	**95,138**	434,723
Satisfied by:		
Cash paid	**70,621**	221,828
Cash acquired	**(5,169)**	(26,468)
Bank overdrafts assumed on acquisition	**4,392**	3,571
Net cash outflow	**69,844**	198,931
Shares issued*	-	173,623
Further payments accrued	**19,214**	10,055
Deferred acquisition consideration	**4,427**	-
Loan notes issued to vendors of businesses acquired	**1,653**	867
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)
	95,138	434,723

* 21.4 million Grafton Units were issued at a share price of €8.12 (share price on 6 January 2005) in connection with the acquisition of Heiton Group plc.

Notes to the Financial Statements

32. Acquisition of Subsidiary Undertakings and Businesses (continued)

The fair value of net assets acquired was €50,489,000

	Fair Values €'000	Consideration €'000	Goodwill €'000
Total acquisitions	50,489	95,138	44,649

The fair values were calculated as follows:

	Book Values €'000	Fair Value Adjustment €'000	Fair Values €'000
Financial assets	63	-	63
Property, plant and equipment	24,926	-	24,926
Working capital	10,212	100	10,312
Corporation tax	(1,616)	-	(1,616)
Deferred tax liability	(26)	(3,142)	(3,168)
Deferred tax asset	23,646	-	23,646
Finance leases	(95)	-	(95)
Bank debt	(3,579)	-	(3,579)
	53,531	(3,042)	50,489

The fair value adjustments noted above have arisen as follows:

- 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 adjustment Under IAS 12 Income Taxes. Deferred tax has also arisen on the difference between the fair values of the properties acquired and their tax base.

Goodwill on the above transactions reflects the potential synergies for the businesses acquired as part of the enlarged Group.

Notes to the Financial Statements

33. Analysis of Net Debt

	At 1 Jan 2006 €'000	Cash Flow €'000	Acquisitions €'000	Non-Cash Movement €'000	Translation Adjustment €'000	Fair value Movement in Derivatives €'000	At 31 Dec 2006 €'000
Cash at bank and on deposit	334,023	(108,258)	-	-	5,754	-	231,519
Overdrafts	(42,179)	12,852	-	-	(428)	-	(29,755)
Total cash and cash equivalents	291,844	(95,406)	-	-	5,326	-	201,764
Bank loans due after 1 year	(408,504)	2,191	(653)	5,730	(5,669)	-	(406,905)
Unsecured Senior Notes and loan notes due after 1 year	(289,213)	-	-	14,048	(5,758)	26,925	(253,998)
Interest bearing loans due within 1 year							
- Bank loans	(141,319)	114,979	(2,926)	(5,730)	(2,234)	-	(37,230)
- Loan notes	(23,749)	18,087	(1,653)	(14,048)	(409)	1,559	(20,213)
Finance leases	(18,026)	1,850	(95)	4,210	(40)	-	(12,101)
Total term finance	(880,811)	137,107	(5,327)	4,210	(14,110)	28,484	(730,447)
Net debt	(588,967)	41,701	(5,327)	4,210	(8,784)	28,484	(528,683)
Derivative financial instruments	4,785					(26,962)	(22,177)
Net debt as adjusted	(584,182)	41,701	(5,327)	4,210	(8,784)	1,522	(550,860)

33. Analysis of Net Debt (continued)

	At 1 Jan 2005 €'000	Cash Flow €'000	Acquisitions €'000	Non-Cash Movement €'000	Translation Adjustment €'000	Fair value Movement in Derivatives €'000	At 31 Dec 2005 €'000
Cash at bank and on deposit	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
Bank loans 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 loans 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)

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

Notes to the Financial Statements

34. Reconciliation of Net Cash Flow Movement in Net Debt

	Group		Company	
	2006	2005	**2006**	2005
	€'000	€'000	**€'000**	€'000
Net (decrease) / increase in cash and cash equivalents	**(95,406)**	185,606	**8,321**	1,964
Cashflow from increase / (decrease) in debt and lease financing	**141,317**	(310,107)	**9,829**	18,821
Change in net debt resulting from cash flows	**45,911**	(124,501)	**18,150**	20,785
Loan notes issued on acquisition of subsidiary undertakings	**(1,653)**	(867)	**-**	-
Finance leases acquired with subsidiary undertakings	**(95)**	(7,934)	**-**	-
Bank loans and loan notes acquired with subsidiary undertakings	**(3,579)**	(89,519)	**-**	-
Translation adjustment	**(8,784)**	(12,457)	**(1)**	(457)
Net movement in derivative financial instruments	**1,522**	(1,332)	**-**	-
Movement in net debt in the year	**33,322**	(236,610)	**18,149**	20,328
Net debt at 1 January	**(584,182)**	(349,229)	**(24,585)**	(44,913)
IAS 32/39 adjustment at 1 January 2005	**-**	1,657	**-**	-
Net debt restated at 1 January	**(584,182)**	(347,572)	**(24,585)**	(44,913)
Net debt at 31 December 2005	**(550,860)**	(584,182)	**(6,436)**	(24,585)

35. 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	
	2006	2005
	€'000	€'000
Contracted for	**28,773**	15,512
Not contracted for	**65,041**	50,268
	93,814	65,780

Capital commitments in the UK and Ireland amounted to €73.4 million (2005: €40.6 million) and €20.4 million (2005: €25.2 million) respectively.

36. Operating Leases

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

	Group				Company	
	Land and Buildings 2006 €'000	**Other 2006 €'000**	Land and Buildings 2005 €'000	Other 2005 €'000	**Land and Buildings 2006 €'000**	Land and Buildings 2005 €'000
Operating leases which expire:						
Within one year	**2,962**	**319**	511	292	**-**	-
Between two and five years	**7,411**	**3,874**	6,597	3,025	**-**	-
Over five years	**833,016**	**466**	690,192	465	**7,287**	7,716
	843,389	**4,659**	697,300	3,782	**7,287**	7,716

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 2006 €28.37 million (2005: €27.34 million) was recognised as an expense in the income statement in respect of operating leases.

37. Pension Commitments

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

The actuarial reports are not available for public inspection.

IAS 19 – Employee Benefits
The Group operates five defined benefit schemes in Ireland and four in the UK. There was a merger of five plans in Ireland during 2006. Full actuarial valuations were carried out at 1 January 2004, 30 April 2004, 1 July 2004, 1 July 2005 and 1 January 2006 for the five Irish schemes and at 1 April 2004, 1 March 2005, 1 April 2005 and 31 December 2005 for the four UK schemes and all updated to 31 December 2006 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 2006 Irish Schemes Projected Unit**	**At 31 Dec 2006 UK Schemes Projected Unit**	At 31 Dec 2005 Irish Schemes Projected Unit	At 31 Dec 2005 UK Schemes Projected Unit	At 31 Dec 2004 Irish Schemes Projected Unit	At 31 Dec 2004 UK Schemes Projected Unit
Rate of increase in salaries	**3.5%**	**4%**	3.5%	3.5%	3.5%	3.6%
Rate of increase of pensions in payment	**0-3%**	**3%**	0-3%	2.5%	-	2.6%
Discount rate	**4.6%**	**5.1%**	4.1%	4.75%	4.7%	5.3%
Inflation rate increase	**2.3%**	**3%**	2.3%	2.5%	2.3%	2.6%

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

Notes to the Financial Statements

37. Pension Commitments (continued)

The future life expectancy at age 65 for males and females inherent in the mortality tables used for the 2006 and 2005 year end IAS19 disclosures are as follows:

2006 Mortality		**Years**	2005 Mortality		Years
Future pensioner aged 65:	**Male**	**20.4**	Future pensioner aged 65:	Male	19.3
	Female	**23.4**		Female	22.2
Current pensioner aged 65:	**Male**	**19.7**	Current pensioner aged 65:	Male	17.6
	Female	**22.6**		Female	20.5

Scheme Assets

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

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

	%	**2006 €'000**	%	2005 €'000	%	2004 €'000
Equities	**74**	**165,609**	78	135,128	68	64,783
Bonds	**12**	**26,632**	13	22,775	15	14,030
Property	**5**	**11,997**	5	9,573	3	2,766
Cash	**9**	**18,887**	4	6,436	14	13,203
		223,125		173,912		94,782
Actuarial value of liabilities		**(257,288)**		(232,944)		(130,379)
Deficit in the schemes		**(34,163)**		(59,032)		(35,597)
On an after tax basis:						
Related deferred tax asset		**6,837**		10,673		6,733
Net pension liability		**(27,326)**		(48,359)		(28,864)

37. Pension Commitments (continued)

Movements in present value of defined benefit obligations	Group		Company	
	2006 €'000	2005 €'000	**2006 €'000**	2005 €'000
At 1 January	**232,944**	130,379	**13,730**	10,213
Acquired on acquisitions during the year	**-**	57,906	**-**	-
Addition of new member	**-**	-	**3,804**	-
Current service cost	**7,492**	5,972	**821**	425
Interest cost	**10,270**	9,431	**718**	491
Actuarial losses	**5,778**	28,477	**1,654**	2,526
Contributions by members	**2,688**	2,597	**120**	100
Benefits paid	**(4,135)**	(3,981)	**(37)**	(25)
Translation adjustment	**2,251**	2,163	**-**	-
At 31 December	**257,288**	232,944	**20,810**	13,730

Movements in fair value of plan assets

	Group		Company	
	2006 €'000	2005 €'000	**2006 €'000**	2006 €'000
At 1 January	**173,912**	94,782	**11,758**	5,826
Acquired on acquisitions during the year	**-**	32,892	**-**	-
Addition of new member	**-**	-	**2,691**	-
Expected return on plan assets	**12,170**	8,579	**1,033**	435
Actuarial gains	**10,717**	19,531	**2,156**	1,122
Contributions by employer	**25,841**	17,712	**1,549**	4,300
Contributions by members	**2,688**	2,591	**120**	100
Benefits paid	**(4,135)**	(3,981)	**(37)**	(25)
Translation adjustment	**1,932**	1,806	**-**	-
At 31 December	**223,125**	173,912	**19,270**	11,758

Expense recognised in operating costs

	Group		Company	
	2006 €'000	2005 €'000	**2006 €'000**	2006 €'000
Current service cost	**7,492**	5,972	**821**	425
Past service cost	**-**	-	**-**	-
Total operating charge	**7,492**	5,972	**821**	425

37. Pension Commitments (continued)

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

	2006 €'000	2005 €'000	**2006 €'000**	2005 €'000
Operating costs	**7,492**	5,972	**821**	425
Finance income (expected return on scheme assets)	**(12,170)**	(8,579)	**(1,033)**	(435)
Finance expense (interest on scheme liabilities)	**10,270**	9,431	**718**	491
Total Income Statement charge	**5,592**	6,824	**506**	481

Cumulative net actuarial losses reported in the Statement of Recognised Income and Expenses since 1 January 2004, the transition date, to 31 December 2006 is €15.8 million (2005: €20.7 million)

Movement in deficit during the year	**Group**		**Company**	
	2006 €'000	2005 €'000	**2006 €'000**	2005 €'000
Deficit in the schemes at start of year	**(59,032)**	(35,597)	**(1,972)**	(4,387)
Movement in year:				
Addition of new member	**-**	-	**(1,113)**	-
Acquired on acquisitions during the year	**-**	(25,014)	**-**	-
Current service cost	**(7,492)**	(5,972)	**(821)**	(425)
Employer contribution paid	**25,841**	17,712	**1,549**	4,300
Other finance income (net)	**1,900**	(852)	**315**	(56)
Actuarial gain/loss (net)	**4,939**	(8,946)	**502**	(1,404)
Translation adjustment	**(319)**	(363)	**-**	-
Deficit in the schemes at end of year	**(34,163)**	(59,032)	**(1,540)**	(1,972)

38. Share Based Payments

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

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

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

Notes to the Financial Statements

38. Share Based Payments (continued)

Share Schemes

The number of Grafton Units issued during the year under the Company's Executive Share Schemes was 1,822,720 (2005: 1,369,092) and the total consideration received amounted to €4,102,000 (2005: €2,430,000). Costs relating to the issues were €139,000. 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 2,273,500 Grafton Units were granted during the year. Entitlements outstanding at 31 December 2006 amounted to 11,970,557 (2005: 11,780,873). Grafton Units may be acquired, in accordance with the terms of the schemes, at prices ranging between €1.07 and €11.50 during the period to 2016.

UK SAYE Scheme

Options over 1,135,499 (2005: 1,302,992) Grafton Units were outstanding at 31 December 2006, 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 SAYE scheme for good leavers was 4,670 and the total consideration amounted to €35,000.

A summary of the share entitlements granted in 2006 and 2005 are set out below:

	1999 Grafton Group Share Scheme 2006	UK SAYE Scheme 2005	1999 Grafton Group Share Scheme 2005
Grant Date	**8 November 2006**	6 April 2005	7 November 2005
Share price at grant date	**€11.50**	€9.55	€8.11
Exercise price	**€11.50**	€7.64	€8.11
Number of employees	**124**	1,911	132
Shares under grant	**2,273,500**	1,361,613	2,274,000
Vesting period	**5 years**	3 years	5 years
Expected volatility	**27%**	30%	30%
Option life	**10 years**	3.5 years	10 years
Expected life	**6 years**	3.5 years	6 years
Risk free rate	**4.64%**	3.7%	4.34%
Expected dividends expressed as dividend yield	**1.58%**	1.74%	1.48%
Possibility of ceasing employment before vesting	**0%**	5%	0%
Valuation model	**Binominal model**	Binomial model	Binomial model
Fair value per option	**€3.55**	€2.82	€2.81

Notes to the Financial Statements

38. Share Based Payments (continued)

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

	2006		2005	
	Number	**Weighted Average exercise price €**	Number	Weighted Average exercise price €
Outstanding at 1 January	**11,780,873**	**4.69**	11,081,141	3.63
Granted	**2,273,500**	**11.50**	2,274,000	8.11
Forfeited	**(261,096)**	**6.28**	(205,176)	4.59
Exercised	**(1,822,720)**	**2.25**	(1,369,092)	1.78
Outstanding at 31 December	**11,970,557**	**6.32**	11,780,873	4.69
Exercisable at 31 December	**2,684,251**	**2.25**	2,933,665	1.94

39. Accounting Estimates and Judgements

The Group's main accounting policies affecting its results of operations and financial condition are set out on pages 56 to 64. Judgements and assumptions have been made by management by applying the Group's accounting policies in certain areas. Actual results may differ from estimates calculated using these judgements and assumptions. Key sources of estimation uncertainty and critical accounting judgements are as follows:

Goodwill

The Group has capitalised goodwill of €582.9 million at 31 December 2006 (2005: €532.3 million). 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 2006.

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 €257.3 million (2005: €232.9 million). The Group also has plan assets totalling €223.1 million (2005: €173.9 million) giving a net deficit position of €34.2 million (2005: €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

40. Related Party Transactions

Grafton Group plc has advanced a net €2.7 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 2006 (2005 €13.6 million).

Divided income of €293.9 million in the year ended 31 December 2006 (2005 €50.6 million).

Provision of finance for certain subsidiaries.

41. Guarantees and Principal Operating Subsidiaries

The Company has given guarantees in respect of the bank borrowings of subsidiary undertakings which amounted to €726 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 and Steel Trading
Chadwicks Limited	Builders merchants
Woodie's DIY Limited	DIY superstores
Atlantic Home Care Limited	DIY superstores
Panelling Centre Limited	DIY/Retail

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

Notes to the Financial Statements

41. Guarantees and Principal Operating Subsidiaries (continued)

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

The principal operating subsidiaries operating in the United Kingdom are:

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

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

42. Approval of Financial Statements

The Board of Directors approved the financial statements on 28 February 2007.

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 2006
Full year results	1 March 2007
Annual general meeting	11 May 2007

Purchase of 'A' Ordinary Share

First	6 October 2006
Second	9 March 2007

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Grafton Group plc will be held at the IMI Conference Centre, Sandyford Road, Dublin 16, Ireland on 11th May, 2007 at 10.30am for the following purposes:

(1) To receive and consider the financial statements for the year ended 31 December 2006 together with the reports of the Directors and the auditors thereon.

(Resolution No. 1)

(2) To elect/re-elect the following Directors who retire and, being eligible, offer themselves for election/re-election:

Anthony E. Collins*	**(Resolution No. 2a)**
Gillian Bowler*	**(Resolution No. 2b)**
Richard W. Jewson*	**(Resolution No. 2c)**
Leo J. Martin	**(Resolution No. 2d)**
Peter S. Wood	**(Resolution No. 2e)**

* member of the Remuneration Committee

Biographical information on the directors eligible for re-election is set out on page 27 of the 2006 Annual Report.

(3) To authorise the Directors to fix the remuneration of the auditors for the year ending 31 December 2007.

(Resolution No. 3)

As Special Business:

(4) **To consider and, if thought fit, pass the following resolution as a special resolution:**
"That in accordance with the powers, provisions and limitations of Article 8(iii) of the Articles of Association of the Company, the Directors be and they are hereby empowered to allot equity securities for cash and in respect of sub-paragraph (b) thereof up to an aggregate nominal value of €606,000."

(Resolution No. 4)

(5) **To consider and, if thought fit, pass the following as a special resolution:**
"That, subject to the provisions of the Companies Acts 1963 to 2006, the Directors be and they are hereby generally authorised to exercise all the powers of the Company for the time being to make market purchases from time to time of its own shares (within the meaning of Section 212 of the Companies Act, 1990) up to a maximum number of shares equal to ten per cent of the Company's issued share capital at the date of the passing of this resolution, provided that this authority shall expire at the close of business on the date of the next Annual General Meeting of the Company after the passing of this resolution, or the date 15 months after the date of the passing of this resolution, whichever comes first, save that the Company may before such expiry make a contract of purchase which would or might be executed wholly or partly after the expiry of this authority, so, however, that purchases of shares will be limited to a maximum price which will not exceed 5% above the average of the middle market quotations taken from the Stock Exchange Official List in Dublin or, as the case may be, in London, for the ten business days before the purchase is made and to a minimum price which will not be less than the par value of the shares at the time the purchase is made."

(Resolution No. 5)

(6) **To consider and, if thought fit, pass the following resolution as a special resolution:**
"That, pursuant to the authority conferred by the special resolution authorising the Directors to exercise the powers of the Company to make market purchases from time to time of its own shares passed earlier this day (Resolution No. 5), for the purposes of Section 209 of the Companies Act, 1990, the re-issue price range at which any treasury shares (as defined by the said Section 209) for the time being held by the Company may be re-issued off-market shall be as follows:

(a) the maximum price at which a treasury share may be re-issued off-market shall be an amount equal to 120% of the Appropriate Price; and

NOTICE OF ANNUAL GENERAL MEETING

(b) the minimum price at which a treasury share may be re-issued off-market shall be an amount equal to 95% of the Appropriate Price.

For the purposes of this resolution the expression "Appropriate Price" shall mean the average of ten amounts resulting from determining whichever of the following {(i), (ii) or (iii) specified below} in relation to shares of the class of which such treasury shares is to be re-issued shall be appropriate in respect of each of the 10 business days immediately preceding the day on which the treasury share is re-issued, as determined from information published in the Irish Stock Exchange Daily Official List reporting the business done on each of these 10 business days:-

(i) if there shall be more than one dealing reported for the day, the average of the prices at which such dealings took place; or

(ii) if there shall be only one dealing reported for the day, the price at which such dealing took place; or

(iii) if there shall not be any dealing reported for the day, the average of the closing bid and offer prices for the day

and if there shall be only a bid (but not an offer) or an offer (but not a bid) price reported, or if there shall not be any bid or offer price reported, for any particular day then that day shall not count as one of the said 10 business days for the purposes of determining the Appropriate Price. If the means of providing the foregoing information as to dealings and prices by reference to which the Appropriate Price is to be determined is altered or is replaced by some other means, then the Appropriate Price shall be determined on the basis of the equivalent information published by the relevant authority in relation to dealings on the Irish Stock Exchange or its equivalent. The authority hereby conferred shall expire at the close of business on the day of the next Annual General Meeting of the Company or the date 18 months after the date of the passing of this resolution, whichever is the earlier, unless previously varied or renewed in accordance with the provisions of Section 209 of the Companies Act, 1990."

(Resolution No. 6)

(7) **To consider and, if thought fit, pass the following resolution as a special resolution:**

"That the terms of the proposed contingent purchase contract (within the meaning of section 214 of the Companies Act, 1990) relating to the 'A' Ordinary shares in the capital of the Company, as set out in Article 4A of the Articles of Association of the Company, be and are hereby authorised. The authority hereby granted shall expire at the close of business on the date of the next Annual General Meeting of the Company after the passing of this resolution, or the date 15 months after the date of the passing of this resolution, whichever comes first, save that the Company may before such expiry make a contract of purchase which would or might be executed wholly or partly after the expiry of this authority."

(Resolution No. 7)

On behalf of the Board

Charles Rinn
Company Secretary
Grafton Group plc
Heron House
Corrig Road
Sandyford Industrial Estate
Dublin 18

28 February, 2007

NOTICE OF ANNUAL GENERAL MEETING

Notes

(1) Any member entitled to attend and vote at the meeting is entitled to appoint one or more proxies (who need not be a member of the Company) to attend, speak and vote in his/her place. Completion of a form of proxy will not affect the right of a member to attend, speak and vote at the meeting in person.

(2) To be valid, proxy forms duly signed together with the power of attorney or such other authority (if any) under which they are signed (or a certified copy of such power or authority) must be lodged with the Company's Registrars, Capita Corporate Registrars Plc, Unit 5, Manor Street Business Park, Manor Street, Dublin 7, Ireland not later than 10.30am on 9th May, 2007.

(3) The Company, pursuant to Regulation 14 of the Companies Act, 1990 (Uncertificated Securities) Regulations, 1996, hereby specifies that only those shareholders entered in the register of members of the Company as at 6.00 pm on 9th May, 2007 (or in the case of an adjournment as at 6.00 pm on the day prior to the day before the time fixed for the adjourned meeting) shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries in the register after that time will be disregarded in determining the right of any person to attend and/or vote at the meeting.

IMI Conference Centre, Sandyford Road, Dublin 16

LUAS   Recommended routes to IMI

Enniskerry   Wexford

BY CAR

From the North, West and South

Using the M50 going south, take Exit 13 (Sandyford/Dundrum/R113), then take the Green Route to Sandyford Industrial Estate. Turn left onto Blackthorn Drive at Beacon Court.
At the next T-junction, turn right onto Sandyford Road. IMI is the next turn left, 100 yards away.

From the East and South East

Travelling north on the N11, take the M50 at Loughlinstown. Take Exit 13 to Sandyford Industrial Estate.
Turn left onto Blackthorn Drive at Beacon Court.
At the next T-junction, turn right onto Sandyford Road. IMI is the next turn left, 100 yards away.

BY LUAS

Balally stop, 1km from IMI. On exiting the LUAS plaza onto Sandyford Road, turn left. IMI is a brisk 10-minute uphill walk, set in its own grounds on the right hand side. The entrance is on Clonard Road, joining Sandyford Road at traffic lights.

IMI, Sandyford Road, Dublin 16 T (01) 207 8400

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