

Notes to the Financial Statements

Year ended 31 December 2002

1 Turnover

	2002	2001
	€'000	€'000
<i>The amount of turnover by class of activity is as follows:</i>		
Irish merchandising and wholesaling	215,037	216,513
DIY retailing	98,117	85,207
Irish manufacturing and related activities	<u>30,665</u>	<u>29,866</u>
Total turnover from Irish activities	<u>343,819</u>	<u>331,586</u>
UK merchandising and other activities	<u>808,539</u>	<u>657,204</u>
	<u><u>1,152,358</u></u>	<u><u>988,790</u></u>

2 Operating Profit and Trading Profit

	2002	2001
	€'000	€'000
Republic of Ireland	38,596	39,187
Great Britain and Northern Ireland	<u>53,715</u>	<u>39,952</u>
Operating profit before goodwill amortisation	92,311	79,139
Goodwill amortised	(4,195)	(3,096)
Profit on disposal of property	<u>3,711</u>	<u>2,262</u>
Trading profit	91,827	78,305
Income from financial assets	<u>1,611</u>	<u>1,317</u>
	<u><u>93,438</u></u>	<u><u>79,622</u></u>

In the opinion of the Directors, it would be seriously prejudicial to the interests of the Group to disclose further segmental information for its separate classes of business.

	2002	2001
	€'000	€'000
<i>The following have been charged/(credited) in arriving at operating profit:</i>		
Increase in stocks	(11,162)	(5,426)
Purchases and consumables	782,097	678,343
Staff costs (note 5)	153,518	126,576
Auditors' remuneration	854	630
Depreciation	22,439	18,756
Lease rentals and other hire charges	13,698	13,292
Goodwill amortisation	4,195	3,096
Profit on disposal of fixed assets	(1,839)	(1,436)
Profit on disposal of fixed asset investments	-	(36)
Other operating charges	<u>100,442</u>	<u>78,952</u>
	<u><u>1,064,242</u></u>	<u><u>912,747</u></u>

During 2002 acquisitions accounted for €64.9 million of the above costs and expenses.

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3 Profit on Disposal of Property

The Group realised a profit of €3,711,000 (2001: €2,262,000) on the sale of two Chadwicks Limited branch properties. The estimated taxation payable on the property profit amounts to €416,000 (2001: € nil)

4 Directors' Remuneration, Pension Entitlements and Interests

Directors' remuneration, pension entitlements and interests in shares and share options are presented in the Report of the Remuneration Committee on pages 25 to 28.

5 Employment

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

	2002	2001
Merchanting and DIY retailing	4,364	3,709
Manufacturing	340	278
	<u>4,704</u>	<u>3,987</u>

	2002	2001
	€'000	€'000
<i>The aggregate remuneration costs of employees were:</i>		
Wages and salaries	137,600	113,257
Social welfare	11,445	9,460
Pensions	4,473	3,859
	<u>153,518</u>	<u>126,576</u>

6 Interest Payable (net)

	2002	2001
	€'000	€'000
<i>Interest payable and similar charges:</i>		
Bank overdrafts and loans repayable within five years	8,626	7,140
Bank loans repayable by instalments within five years	1,433	3,993
Bank loans repayable by instalments after five years	2,487	-
Interest on finance leases	65	119
Interest on loan notes	3,131	4,091
	<u>15,742</u>	<u>15,343</u>
Interest receivable	<u>(2,523)</u>	<u>(2,957)</u>
	<u>13,219</u>	<u>12,386</u>

7 Foreign Currencies

The results and cash flows of the Group's United Kingdom subsidiaries have been translated into euro using the average exchange rate. The related balance sheets of the Group's United Kingdom subsidiaries at 31 December 2002 and 31 December 2001 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 2002 was Stg62.88p (2001: Stg62.19p). The euro/sterling exchange rate at 31 December 2002 was Stg65.05p (2001: Stg60.85p).

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Year ended 31 December 2002

8 Taxation on Profit on Ordinary Activities

(a) Analysis of charge for the year

	2002	2001
	€'000	€'000
<i>Based on the profit on ordinary activities:</i>		
Irish corporation tax	1,281	2,144
UK corporation tax	<u>8,993</u>	<u>4,848</u>
	10,274	6,992
Deferred tax:		
- Irish	111	1,114
- UK	<u>1,663</u>	<u>635</u>
	<u><u>12,048</u></u>	<u><u>8,741</u></u>

The charge for Irish corporation tax has been reduced by manufacturing relief in the amount of €231,000 (2001: €431,000), timing differences on Group financing arrangements, capital allowances and other reliefs.

(b) Group tax reconciliation

	2002	2001
	€'000	€'000
Profit on ordinary activities before taxation	<u>80,219</u>	<u>67,236</u>
Profit on ordinary activities at standard corporation tax rate in Ireland of 16% (2001: 20%)	12,835	13,447
Effects of:		
Expenses not deductible for tax purposes	127	(196)
Adjustment for earnings taxed at higher rates	4,909	3,083
Adjustment for earnings taxed at lower rates including manufacturing relief	(5,383)	(7,141)
Profits on disposals of fixed assets	(440)	(452)
Depreciation for year in excess of capital allowances	1,159	(1,195)
Other timing differences	<u>(2,933)</u>	<u>(554)</u>
Corporation tax charge for the year	<u><u>10,274</u></u>	<u><u>6,992</u></u>

(c) Factors that may affect future tax rates

No provision has been made for deferred tax on gains recognised on revaluing property to its market value or on the sale of the properties where taxable gains have been rolled over into replacement assets. Such tax would become payable only if the property were sold without it being possible to claim rollover relief. The total amount unprovided is €8.1 million (2001: €8.3 million). No amount has been recognised as there is no binding agreement to sell any property at the year end.

Rollover relief of €2.16 million (2001: €2.94 million) was claimed in respect of property disposals in 2002. This relief will be withdrawn if assets into which the gains were rolled over are sold without further re-investment, into qualifying assets, but this is not anticipated.

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries. No remittance of profit is expected to arise in such a way that an incremental tax charge will arise.

Manufacturing relief is due to expire by 31 December 2010. The standard rate of corporation tax is reducing to 12.5% with effect from 1 January 2003.

The tax effect of the implementation of FRS 17 on pensions is included in note 37.

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9 Dividends on Equity Shares and Redemption of Redeemable Shares

	2002 €'000	2001 €'000
Interim dividend of nil (2001: 3.25c) paid	-	5,679
Final dividend payable of nil (2001:4.75c)	<u>9</u>	<u>8,321</u>
	9	14,000
Redemption of one redeemable share for 3.75c paid	<u>6,610</u>	-
Redemption of one redeemable share for 5.25c payable	<u>9,260</u>	-
Total redemption/dividends	<u><u>15,879</u></u>	<u><u>14,000</u></u>

The Group redeemed one redeemable share per Grafton Unit on 14 February 2003 for a cash consideration of 5.25 cent per share which was paid on 6 March 2003. Accordingly, no final dividend will be declared in respect of the year ended 31 December 2002. This follows the redemption of one redeemable share per Grafton Unit for a cash consideration of 3.75 cent per share on 20 September 2002. This together with the redemption made on 14 February 2003 gives total redemption proceeds of 9 cent per Grafton Unit, which is equivalent to an increase of 12.5 per cent on the total dividend of 8 cent per Grafton Unit paid for the year ended 31 December 2001. The redemption on 14 February 2003 is chargeable to reserves in 2003.

10 Earnings per Share

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

	2002	2001
Profit on ordinary activities after taxation (€'000)	<u>68,171</u>	<u>58,495</u>
Weighted average Grafton Units outstanding during the year	<u>175,935,668</u>	<u>174,034,644</u>
Earnings per share	<u><u>38.75c</u></u>	<u><u>33.61c</u></u>
Number of dilutive Grafton Units under option	<u>9,696,587</u>	8,554,850
Number of Grafton Units that would have been issued at fair value	<u>(5,746,943)</u>	(5,286,600)
Dilutive potential Grafton Units	<u><u>3,949,644</u></u>	<u><u>3,268,250</u></u>
Number of Grafton Units for calculating diluted earnings per share and adjusted diluted earnings per share	<u><u>179,885,312</u></u>	<u><u>177,302,894</u></u>
Diluted earnings per share	<u><u>37.90c</u></u>	<u><u>32.99c</u></u>

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10 Earnings per Share (continued)

Earnings per share of 38.75c (2001: 33.61c) have been calculated on profits after taxation of €68,171,000 (2001: €58,495,000) and the weighted average number of Grafton Units of 175,935,668 (2001: 174,034,644).

The calculation of adjusted earnings per share of 39.26c (2001: 34.09c) is arrived at after eliminating goodwill of €4,195,000 and property profit after taxation of €3,295,000 from profit after taxation of €68,171,000. Adjusted earnings per share was increased by 2.38c (2001: 1.78c) due to the elimination of goodwill from earnings and reduced by 1.87c (2001: 1.30c) due to the elimination of property profit from earnings.

Diluted earnings per share of 37.90c (2001: 32.99c) have been calculated on profits after taxation of €68,171,000 (2001: €58,495,000) and the weighted average number of Grafton Units in issue during the year adjusted for the dilutive effect of outstanding share options.

The calculation of adjusted diluted earnings per share of 38.40c (2001: 33.47c) uses the same earnings figure as for adjusted earnings per share and the weighted average number of Grafton Units as adjusted to reflect the dilutive effect of outstanding share options.

Earnings per Share – Adjusted for Bonus Element of Rights Issue (Post Balance Sheet Event)

	2002 Actual	2002 Adjusted for Rights Issue	2001 Actual	2001 Adjusted for Rights Issue
Earnings per share (EPS)	38.75c	36.51c	33.61c	31.67c
Adjusted EPS	39.26c	36.99c	34.09c	32.12c
Diluted EPS	37.90c	35.71c	32.99c	31.09c
Adjusted diluted EPS	38.40c	36.18c	33.47c	31.54c

As referred to in the Chairman's Statement, Group Finance Review and note 38, the Group announced on 4 February 2003 that it was raising approximately €67.7 million, net of expenses, by the issue of up to 35,276,228 New Grafton Units at a price of €2.00 per New Grafton Unit by way of a 1 for 5 Rights Issue.

The actual cum rights price on 28 February 2003, the last day of quotation cum rights, was €3.06 and the theoretical ex-rights price for a Grafton Unit was therefore €2.8833 per Grafton Unit. The 2002 and 2001 adjusted earnings per share shown above are calculated by applying the factor 1.06128 (3.06/2.8833) to the weighted average number of Grafton Units for 2002 and 2001 in order to adjust for the bonus element of the Rights Issue.

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Year ended 31 December 2002

11 Intangible Assets – Goodwill

	2002 €'000	2001 €'000
Cost		
At 1 January	69,489	55,372
Acquired during the year (note 30)	46,841	12,850
Translation adjustment	<u>(5,296)</u>	<u>1,267</u>
At 31 December	<u>111,034</u>	<u>69,489</u>
Amortisation		
At 1 January	6,948	3,701
Amortised during the year	4,195	3,096
Translation adjustment	<u>(552)</u>	<u>151</u>
At 31 December	<u>10,591</u>	<u>6,948</u>
Net book amount	<u>100,443</u>	<u>62,541</u>

12 Tangible Fixed Assets

	Freehold Land and Buildings €'000	Leasehold Land and Buildings €'000	Plant Machinery And Motor Vehicles €'000	Total €'000
Group				
Cost or Valuation				
At 1 January 2002	151,613	30,244	128,417	310,274
Additions	26,514	3,814	37,679	68,007
Acquisitions	18,950	1,396	4,214	24,560
Disposals	(3,053)	(50)	(12,588)	(15,691)
Exchange adjustment	<u>(6,412)</u>	<u>(1,279)</u>	<u>(6,510)</u>	<u>(14,201)</u>
At 31 December 2002	<u>187,612</u>	<u>34,125</u>	<u>151,212</u>	<u>372,949</u>
Comprising				
Cost	140,958	22,733	150,680	314,371
Valuation	<u>46,654</u>	<u>11,392</u>	<u>532</u>	<u>58,578</u>
	<u>187,612</u>	<u>34,125</u>	<u>151,212</u>	<u>372,949</u>
Depreciation				
At 1 January 2002	3,958	3,111	51,721	58,790
Charge for year	1,888	1,315	19,236	22,439
Disposals	(148)	(46)	(6,391)	(6,585)
Exchange adjustment	<u>(370)</u>	<u>(303)</u>	<u>(3,358)</u>	<u>(4,031)</u>
At 31 December 2002	<u>5,328</u>	<u>4,077</u>	<u>61,208</u>	<u>70,613</u>
Net book amount				
At 31 December 2002	<u>182,284</u>	<u>30,048</u>	<u>90,004</u>	<u>302,336</u>
At 31 December 2001	<u>147,655</u>	<u>27,133</u>	<u>76,696</u>	<u>251,484</u>

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12 Tangible Fixed Assets (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. The valuations, which were made on an open market for existing use basis, amounted to €58.0 million. The remaining properties, which are located in the United Kingdom, are included at cost less depreciation.

Freehold land and buildings and leasehold land and buildings would have been stated as follows under the historical cost convention:

	2002 €'000	2001 €'000
Cost	180,364	140,048
Accumulated Depreciation	<u>(9,873)</u>	<u>(7,784)</u>
Net book amount	<u>170,491</u>	<u>132,264</u>
		Tangible Fixed Assets €'000
Company		
Cost		
At 1 January 2002		794
Additions		<u>165</u>
At 31 December 2002		<u>959</u>
Depreciation		
At 1 January 2002		347
Charge for year		<u>123</u>
At 31 December 2002		<u>470</u>
Net book amount		
At 31 December 2002		<u>489</u>
At 31 December 2001		<u>447</u>

The tangible fixed assets of the Group include leased assets as follows:

	2002 €'000	2001 €'000
		Plant, Machinery & Motor Vehicles
Cost	10,569	10,148
Accumulated depreciation	<u>(6,532)</u>	<u>(5,220)</u>
Net book amount	<u>4,037</u>	<u>4,928</u>
Depreciation charge for year	<u>1,290</u>	<u>1,469</u>

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13 Financial Fixed Assets

	<u>Group</u>	<u>Company</u>		
	Other	Other	Shares in	
	Investments	Investments	Subsidiary	Total
	€'000	€'000	Undertakings	€'000
			€'000	
At 1 January 2002	33,554	13	18,394	18,407
Translation adjustment	(5)	-	-	-
Arising on acquisition	30	-	-	-
At 31 December 2002	<u>33,579</u>	<u>13</u>	<u>18,394</u>	<u>18,407</u>

Other Group investments include a holding of 11,760,291 ordinary shares or 23.96% in the ordinary share capital of Heiton Group plc, an Irish registered company whose shares are listed on the Irish and London Stock Exchanges. The original cost of this investment was €33.5 million and the market value at 31 December 2002 was €25.9 million. The main activities of Heitons are builders merchanting, steel stockholding, homecare/DIY and plant and tool hire. Heitons profit before tax in the financial year ended 30 April 2002 was €15.5 million and its capital and reserves at that date were €139.8 million. The shares are held for investment purposes and the investment has not been treated as an associate, as defined in FRS 9, as the company does not actively exercise significant influence over Heitons. Related dividend income is only accrued once declared. The registered office of Heiton Group plc is Ashfield, Naas Road, Clondalkin, Dublin 22.

14 Stocks

	<u>Group</u>	
	2002	2001
	€'000	€'000
Raw materials	1,385	1,246
Finished goods	3,479	2,722
Goods purchased for resale	154,481	129,485
	<u>159,345</u>	<u>133,453</u>

The estimated replacement cost of stocks is not considered to be materially different from the amounts stated above.

15 Debtors

	<u>Group</u>		<u>Company</u>	
	2002	2001	2002	2001
	€'000	€'000	€'000	€'000
<i>Amounts falling due within one year:</i>				
Trade debtors	169,286	153,650	-	-
Amounts owed by subsidiaries	-	-	205,503	204,948
Prepayments and accrued income	39,990	26,158	2,904	928
ACT recoverable	-	2,147	-	-
	<u>209,276</u>	<u>181,955</u>	<u>208,407</u>	<u>205,876</u>

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16 Creditors

	Group		Company	
	2002 €'000	2001 €'000	2002 €'000	2001 €'000
<i>Amounts falling due within one year:</i>				
Trade creditors	150,371	129,316	-	-
Accruals and deferred income	43,062	22,677	4,338	2,935
Social welfare	1,190	1,148	-	-
Income tax deducted under PAYE	1,987	1,749	-	-
Value added tax	12,075	9,040	-	-
	<u>208,685</u>	<u>163,930</u>	<u>4,338</u>	<u>2,935</u>
Bank loans and overdrafts	41,171	55,952	4	768
Loan notes (note 17)	15,551	21,019	459	578
Obligations under finance leases (note 20)	998	1,704	-	-
Deferred acquisition consideration	1,777	3,960	-	-
Amounts owed to subsidiary undertakings	-	-	77,313	73,541
Corporation tax	13,833	9,707	12	12
Dividends payable	-	8,321	-	8,321
	<u>282,015</u>	<u>264,593</u>	<u>82,126</u>	<u>86,155</u>

17 Loan Notes

Loan notes are redeemable at the option of the note holders on specified dates between February 2003 and May 2008. The interest rates payable on the loan notes are set at fixed rates or on terms which relate directly to London Inter-Bank Offer Rate (LIBOR). The loan notes were issued to the vendors of businesses acquired by the Group in part satisfaction of the purchase consideration.

18 Creditors

	Group		Company	
	2002 €'000	2001 €'000	2002 €'000	2001 €'000
<i>Amounts falling due after more than one year:</i>				
Bank loans	235,008	150,054	-	-
Unsecured senior notes due 2008	50,731	54,234	50,731	54,234
Loan notes	-	384	-	-
Obligations under finance leases (note 20)	293	639	-	-
Deferred acquisition consideration	2,051	806	-	-
	<u>288,083</u>	<u>206,117</u>	<u>50,731</u>	<u>54,234</u>

During 1998 the Group completed a US\$55 million debt financing in the US Private Placement Market and issued unsecured senior loan notes maturing in 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.

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19 Loans

Group	2002 €'000	2001 €'000
<i>Bank loans, loan notes and senior unsecured notes 2008 are repayable as follows:</i>		
Between one and two years	85,340	34,896
Between two and five years	128,809	148,082
After five years	71,590	21,694
	<u>285,739</u>	<u>204,672</u>
Bank loans repayable within one year	27,671	28,855
Loan notes repayable within one year	15,551	21,019
	<u>328,961</u>	<u>254,546</u>
<i>Loans fully repayable between one and five years</i>		
Not by instalment	136,670	102,410
By instalment	77,479	80,568
	<u>214,149</u>	<u>182,978</u>
<i>Loans fully repayable in more than five years</i>		
By instalment	71,590	21,694
	<u>285,739</u>	<u>204,672</u>

20 Obligations under Finance Leases

Group	2002 €'000	2001 €'000
<i>Finance lease obligations, included in creditors, net of interest to which the Group is committed are due as follows:</i>		
Within one year	998	1,704
Between one and two years	293	639
	<u>1,291</u>	<u>2,343</u>

21 Provision for Liabilities and Charges

Group	2002 €'000	2001 €'000
Deferred taxation		
At 1 January	16,891	14,948
Profit and loss account	1,774	1,749
Acquired with subsidiaries	(2,308)	61
Exchange adjustment	(341)	133
At 31 December	<u>16,016</u>	<u>16,891</u>
<i>Deferred taxation arises as follows:</i>		
Capital allowances	2,970	3,939
Other timing differences	13,046	12,952
	<u>16,016</u>	<u>16,891</u>

No provision has been made for deferred tax in respect of the surplus arising on property revaluations, as there is no current intention to dispose of the properties concerned, and on the unremitted earnings of overseas subsidiaries as there is no current intention to repatriate these earnings. The amount provided above reflects all other timing differences.

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22 Share Capital

		2002 €'000	2001 €'000
Authorised:			
Equity shares			
200 million ordinary shares of 5c each		10,000	10,000
Redeemable shares			
2 billion redeemable shares of 0.01c each		<u>200</u>	<u>-</u>
		<u>10,200</u>	<u>10,000</u>
		2002	2001
		Nominal	Nominal
		Value	Value
		€'000	€'000
Issued and fully paid:			
Ordinary shares			
At 1 January	<u>176,081,740</u>	<u>8,804</u>	<u>8,711</u>
Executive share option scheme			
Date options granted			
March 1991	0.21	-	1
May 1992	0.18	60,000	3
April 1993	0.20	43,400	2
September 1994	0.48	185,000	9
October 1995	0.56	290,000	15
April 1996	0.69	193,500	10
April 1997	1.14	427,500	21
	<u>1,199,400</u>	<u>60</u>	<u>93</u>
At 31 December	<u>177,281,140</u>	<u>8,864</u>	<u>8,804</u>
Redeemable shares			
At 1 January	-	-	-
Redeemable shares capitalised from share premium account - July 2002	1,772,706,400	177	-
Redemption of redeemable shares transferred to the capital redemption reserve	<u>(177,176,140)</u>	<u>(18)</u>	<u>-</u>
At 31 December	<u>1,595,530,260</u>	<u>159</u>	<u>-</u>
Total share capital		<u>9,023</u>	<u>8,804</u>

Grafton Units

In May 1999, C ordinary shares of Stg0.001p each were issued by Grafton Group (UK) plc in order to give shareholders the option of receiving dividends on either ordinary shares in Grafton Group plc or on their C ordinary shares in Grafton Group (UK) plc. Following the ten for one share split in 2001, the issue and redemption of redeemable shares in July 2002 and September 2002 respectively, a Grafton Unit comprises of one ordinary share of 5c in Grafton Group plc and one C ordinary share of Stg0.0001p in Grafton Group (UK) plc and nine redeemable shares of 0.01c each in Grafton Group plc.

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22 Share Capital (continued)

New Redeemable Shares

The issue of ten new redeemable shares per Grafton Unit, approved by shareholders at the AGM on 1 May 2002, took effect on 26 July 2002 by way of a bonus issue for every one ordinary share held by each shareholder. On 20 September 2002, one redeemable share per Grafton Unit was redeemed for a cash consideration of 3.75 cent per share leaving nine redeemable shares per Grafton Unit at 31 December 2002. Following the redemption of one redeemable share per Grafton Unit on 14 February 2003 for 5.25 cent per share, the number of redeemable shares per Grafton Unit reduced to eight.

Share Option Schemes

The number of Grafton Units issued during the year under the Company's Share Option Schemes was 1,199,400 and the total consideration received amounted to €889,000. Costs relating to the issues were €23,000. In accordance with the terms of the 1999 Grafton Group Share Option Scheme and the Grafton Group (UK) plc Approved Share Option Scheme, options over 1,342,000 Grafton Units were granted during the year. Total options outstanding at 31 December 2002 amounted to 8,702,700 Grafton Units. Options granted are exercisable, in accordance with the terms of the schemes, at prices ranging between €0.20 and €4.33 during the period to 2012.

UK SAYE Scheme

Options over 1,519,031 Grafton Units were outstanding at 31 December 2002, pursuant to a three year saving contract under Grafton Group (UK) plc Saving's Related Share Option Scheme at a price of €2.40, 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.

Treasury Shares

The company currently holds 900,000 Grafton Units which were bought back in 1995 but not cancelled or re-issued.

23 Share Premium Account

	2002 €'000	2001 €'000
Group and Company		
At 1 January	34,836	32,982
Premium on shares issued under share option scheme	806	1,148
Premium on re-issue of treasury shares	-	706
Bonus issue of redeemable shares	(177)	-
At 31 December	<u>35,465</u>	<u>34,836</u>

24 Capital Redemption Reserve

	2002 €'000	2001 €'000
Group and Company		
At 1 January	-	-
Redemption of redeemable shares	18	-
At 31 December	<u>18</u>	<u>-</u>

Notes to the Financial Statements

Year ended 31 December 2002

25 Revaluation Reserve

	2002 €'000	2001 €'000
Group		
At 1 January	41,537	42,938
Transfer to profit & loss account	<u>(1,004)</u>	<u>(1,401)</u>
At 31 December	<u><u>40,533</u></u>	<u><u>41,537</u></u>

26 Profit and Loss Account

The Group revenue reserves of €236,934,000 (2001: €179,290,000) are after charging goodwill of €12,982,000 (2001: €12,982,000) directly to reserves between 1 January 1988 and 31 December 1997, and the cost of buying back 900,000 treasury shares in 1995 in the amount of €486,000.

In accordance with Section 3(2) of the Companies (Amendment) Act, 1986, the profit and loss account of the parent undertaking has not been presented separately in these financial statements. There was a profit after tax of €15.3 million (2001: €13.9 million) attributable to the parent undertaking for the financial year.

27 Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities

	2002 €'000	2001 €'000
Operating profit	88,116	76,043
Depreciation	22,439	18,756
Goodwill amortisation	4,195	3,096
Profit on disposal of plant, machinery and motor vehicles	(1,839)	(1,436)
Increase in working capital (note 28)	(3,652)	(14,058)
Profit on disposal of financial fixed assets	-	(36)
Net cash inflow from operating activities	<u><u>109,259</u></u>	<u><u>82,365</u></u>

28 Movement in Working Capital

	Stocks €'000	Debtors €'000	Creditors €'000	Total €'000
At 1 January 2002	133,453	181,955	(163,930)	151,478
Translation adjustment	(6,285)	(12,236)	10,027	(8,494)
Interest accruals and other movements	-	(2,126)	(2,205)	(4,331)
Acquisitions	14,730	28,262	(25,361)	17,631
Movement in 2002	<u>17,447</u>	<u>13,421</u>	<u>(27,216)</u>	<u>3,652</u>
At 31 December 2002	<u><u>159,345</u></u>	<u><u>209,276</u></u>	<u><u>(208,685)</u></u>	<u><u>159,936</u></u>
Movement in 2001	<u>3,586</u>	<u>9,924</u>	<u>548</u>	<u>14,058</u>

Notes to the Financial Statements

Year ended 31 December 2002

29 Returns on Investments and Servicing of Finance

	2002 €'000	2001 €'000
Interest received	2,549	3,144
Interest paid	(13,472)	(15,423)
Interest element of finance lease payments	(65)	(119)
Net cash outflow from servicing of finance	<u>(10,988)</u>	<u>(12,398)</u>
Dividend income received	1,564	634
	<u>(9,424)</u>	<u>(11,764)</u>

30 Acquisition of Subsidiary Undertakings and Businesses

During the year the Group made 15 UK acquisitions at a total cost of €88.8 million. The only material acquisition under FRS 6 was E & J W Lake Limited, a builders merchant trading from seven branches in Derbyshire. Four other merchanting chains acquired were BMB, a Barnsley based builders merchant trading from five branches principally in Yorkshire; Plumbing and Drainage Merchants (PDM) a Scottish heavyside merchant trading from seven branches; Aizlewoods, based in Rotherham and trading from four branches, and JKS Heating and Plumbing Supplies, a seven branch plumbers merchant trading in the Greater Manchester area.

The Group also acquired 9 single branch builders merchanting businesses located at Whitburn and Cumbernauld, Scotland; Telford, Shropshire; Tamworth, Staffordshire; Thurrock, Surrey; Awesworth, Nottinghamshire; Theale, West Berkshire; South Kirkby, West Yorkshire; Belfast, Northern Ireland, and a two branch plumbers merchant based in Yeovil, Somerset and Bridport, Dorset.

	2002 €'000	2001 €'000
<i>The fair values of assets and liabilities acquired are set out below:</i>		
Tangible fixed assets	24,560	22,240
Financial fixed assets	30	6
Stocks	14,730	12,779
Debtors	28,262	11,651
Creditors	(25,361)	(11,039)
Corporation tax	(1,846)	(281)
Deferred tax liability	(335)	(61)
Deferred tax asset	2,643	-
Finance leases acquired	(744)	(947)
Net assets acquired excluding cash and overdrafts	<u>41,939</u>	<u>34,348</u>
Goodwill	46,841	12,850
Consideration	<u>88,780</u>	<u>47,198</u>
Satisfied by:		
Cash paid	76,379	28,955
Cash acquired	(10,712)	(1,736)
Bank overdrafts assumed on acquisition	5,462	4,693
Net cash outflow	<u>71,129</u>	<u>31,912</u>
Deferred acquisition consideration	3,178	3,615
Loan notes issued to vendors of businesses acquired	14,473	11,671
	<u>88,780</u>	<u>47,198</u>

Notes to the Financial Statements

Year ended 31 December 2002

30 Acquisition of Subsidiary Undertakings and Businesses (continued)

The fair value of net assets acquired of €41,939,000 includes the E & J W Lake Ltd acquisition which was made on 1 July 2002 and which constituted a material acquisition for the Group.

	Fair Values €'000	Consideration €'000	Goodwill €'000
E & J W Lake Ltd	10,337	17,702	7,365
Other acquisitions	31,602	71,078	39,476
	<u>41,939</u>	<u>88,780</u>	<u>46,841</u>

The fair values were calculated as follows:

	Book Value €'000	Fair Value Adjustment €'000	Fair Values €'000
E & J W Lake Ltd			
Tangible fixed assets	6,685	-	6,685
Financial fixed assets	2	-	2
Working capital	4,355	-	4,355
Corporation tax	(690)	-	(690)
Deferred tax liability	(15)	-	(15)
	<u>10,337</u>	<u>-</u>	<u>10,337</u>
Other acquisitions			
Tangible fixed assets	17,875	-	17,875
Financial fixed assets	28	-	28
Working capital	15,163	(1,887)	13,276
Corporation tax	(1,156)	-	(1,156)
Deferred tax liability	(320)	-	(320)
Deferred tax asset	2,643	-	2,643
Finance leases	(744)	-	(744)
	<u>33,489</u>	<u>(1,887)</u>	<u>31,602</u>

A fair value adjustment has been made for certain liabilities which existed at the acquisition date.

No provisions were made in respect of reorganisation and rationalisation costs or asset write-downs in the financial statements of the businesses acquired during the twelve months preceding the date of acquisition.

The effect of acquisitions made during the year on the principal headings of the Group Cash Flow Statement is as follows:

	Operating Cash Flow €'000	Servicing of Finance €'000	Taxation €'000	Capital Expenditure €'000	Total €'000
E & J W Lake Ltd	3,370	(492)	(417)	(120)	2,341
Other acquisitions	(4,673)	(1,206)	(71)	(1,777)	(7,727)
	<u>(1,303)</u>	<u>(1,698)</u>	<u>(488)</u>	<u>(1,897)</u>	<u>(5,386)</u>

Post-acquisition integration and re-organisation costs of acquired businesses are charged to the profit and loss account as incurred.

Notes to the Financial Statements

Year ended 31 December 2002

30 Acquisition of Subsidiary Undertakings and Businesses *(continued)*

The results of E & J W Lake Ltd for its previous financial year, being the year ended 31 December 2001, and for the period from 1 January 2002 to 30 June 2002, are set out below:

	Period ended 30 June 2002 €'000	Year ended 31 Dec 2001 €'000
Turnover	<u>16,415</u>	<u>31,216</u>
Operating profit	926	1,240
Net interest receivable	<u>129</u>	<u>342</u>
Profit on ordinary activities before taxation	<u><u>1,055</u></u>	<u><u>1,582</u></u>

The turnover and operating profit from 1 July 2002 to 31 December 2002 amounted to €15,390,000 and €89,000 respectively inclusive of redundancy costs.

31 Analysis of Net Debt

	At 1 Jan 2002 €'000	Cash Flow €'000	Acquisitions €'000	Non-Cash Movement €'000	Translation Adjustment €'000	At 31 Dec 2002 €'000
Cash at bank and in hand	13,601	22,181	-	-	(396)	35,386
Overdrafts	(27,097)	12,410	-	-	1,187	(13,500)
Total cash and demand debt	<u>(13,496)</u>	<u>34,591</u>	<u>-</u>	<u>-</u>	<u>791</u>	<u>21,886</u>
Short term deposits and liquid resources	<u>75,480</u>	<u>(7,272)</u>	<u>-</u>	<u>-</u>	<u>(486)</u>	<u>67,722</u>
Debt due after 1 year	(150,054)	(95,377)	-	728	9,695	(235,008)
Unsecured Senior Notes and loan notes due after 1 year	(54,618)	-	-	383	3,504	(50,731)
Debt due within 1 year						
- Bank loans	(28,855)	48	-	(728)	1,864	(27,671)
- Loan notes	(21,019)	18,627	(14,473)*	(383)	1,697	(15,551)
Finance leases	(2,343)	1,723	(744)	-	73	(1,291)
Total term finance	<u>(256,889)</u>	<u>(74,979)</u>	<u>(15,217)</u>	<u>-</u>	<u>16,833</u>	<u>(330,252)</u>
Net debt	<u><u>(194,905)</u></u>	<u><u>(47,660)</u></u>	<u><u>(15,217)</u></u>	<u><u>-</u></u>	<u><u>17,138</u></u>	<u><u>(240,644)</u></u>

* These loan notes were issued by the Group to the vendors of businesses acquired in part settlement of the purchase consideration payable.

Notes to the Financial Statements

Year ended 31 December 2002

32 Group Net Debt

	2002 €'000	2001 €'000
Bank loans and overdrafts repayable within one year	41,171	55,952
Bank loans repayable after more than one year	235,008	150,054
Unsecured senior notes repayable after more than one year	50,731	54,234
Loan notes repayable after more than one year	-	384
Loan notes repayable within one year	15,551	21,019
Finance leases	<u>1,291</u>	<u>2,343</u>
	<u>343,752</u>	<u>283,986</u>
Cash and short term bank deposits	<u>(103,108)</u>	<u>(89,081)</u>
Net debt	<u>240,644</u>	<u>194,905</u>
Shareholders' funds	<u>321,973</u>	<u>264,467</u>
Gearing	<u>75%</u>	<u>74%</u>

33 Financial Instruments and Risk Management

Interest rate and currency profile

The interest rate and currency profile of the Group's net debt and net worth as at 31 December 2002 was as follows:

	Euro €'000	Sterling €'000	Total €'000
<i>Weighted average fixed interest rates</i>	4%	5.04%	5.03%
<i>Weighted average fixed debt periods – years</i>	1	4.24	4.23
Fixed rate debt	(490)	(110,020)	(110,510)
Floating rate debt	(841)	(232,401)	(233,242)
Cash and short term bank deposits	<u>82,788</u>	<u>20,320</u>	<u>103,108</u>
Net debt by currency	<u>81,457</u>	<u>(322,101)</u>	<u>(240,644)</u>
Deferred acquisition consideration due after more than one year	<u>-</u>	<u>(2,051)</u>	<u>(2,051)</u>
Net financial assets and liabilities (excluding short term debtors and creditors)	<u>81,457</u>	<u>(324,152)</u>	<u>(242,695)</u>
Capital employed	175,426	389,242	564,668
Shareholders' funds (net worth)	<u>256,883</u>	<u>65,090</u>	<u>321,973</u>

Notes to the Financial Statements

Year ended 31 December 2002

33 Financial Instruments and Risk Management (continued)

The interest rate and currency profile of the Group's net debt and net worth as at 31 December 2001 was as follows:

	Euro €'000	Sterling €'000	Total €'000
<i>Weighted average fixed interest rates</i>	4%	7.5%	5.55%
<i>Weighted average fixed debt periods – years</i>	2	1.2	1.6
Fixed rate debt	(1,471)	(1,164)	(2,635)
Floating rate debt	(1,549)	(279,802)	(281,351)
Cash and short term bank deposits	<u>79,427</u>	<u>9,654</u>	<u>89,081</u>
Net debt by currency	76,407	(271,312)	(194,905)
Deferred acquisition consideration due after more than one year	<u>-</u>	<u>(806)</u>	<u>(806)</u>
Net financial assets and liabilities (excluding short term debtors and creditors)	76,407	(272,118)	(195,711)
Capital employed	144,765	315,413	460,178
Shareholders' funds (net worth)	<u><u>221,172</u></u>	<u><u>43,295</u></u>	<u><u>264,467</u></u>

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

Maturity of Financial Liabilities

The maturity profile of the Group's financial liabilities (bank debt, loan notes, deferred consideration and finance leases) is set out in notes 16 to 20 and can be summarised as follows:

	Bank and other debt €'000	Other financial liabilities €'000	Total €'000
Due within one year	57,720	1,777	59,497
Between one and two years	85,633	1,025	86,658
Between two and five years	128,809	1,026	129,835
After five years	<u>71,590</u>	<u>-</u>	<u>71,590</u>
	<u><u>343,752</u></u>	<u><u>3,828</u></u>	<u><u>347,580</u></u>

Borrowing Facilities

The Group had undrawn committed borrowing facilities at 31 December 2002 of €30.8 million in respect of which all conditions precedent have been met and which expire after five years.

Notes to the Financial Statements

Year ended 31 December 2002

33 Financial Instruments and Risk Management *(continued)*

Fair Value of Financial Assets and Financial Liabilities

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

	Book value €'000	Fair value €'000
Overdraft and short term borrowings	(41,171)	(41,171)
Loans and Unsecured Senior Notes due 2008	(285,739)	(285,739)
Loans notes	(15,551)	(15,551)
Leasing	(1,291)	(1,291)
Cash and short-term deposits	<u>103,108</u>	<u>103,108</u>
	(240,644)	(240,644)
Other investments	33,579	25,994
Sterling SWAP's	-	(3,533)
	<u>(207,065)</u>	<u>(218,183)</u>

Gains and Losses on Hedges

At 31 December 2002 there were no gains or losses on forward foreign exchange contract hedges carried forward for future recognition in the profit and loss account.

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.

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 is to hedge the balance sheet exposure by means of matching sterling assets with sterling borrowings.

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 normally 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 and acquisitions.

Notes to the Financial Statements

Year ended 31 December 2002

34 Capital Expenditure Commitments

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

	2002 €'000	2001 €'000
Contracted for	11,096	7,341
Not contracted for	<u>30,819</u>	<u>17,847</u>
	<u>41,915</u>	<u>25,188</u>

35 Operating Leases

Annual commitments under non cancelable operating leases are as follows:

	Land and Buildings €'000	Other €'000
Group		
<i>Operating leases which expire:</i>		
Within one year	382	339
Between two and five years	1,429	811
Over five years	<u>12,284</u>	<u>148</u>
	<u>14,095</u>	<u>1,298</u>

36 Guarantees

The Company has given guarantees in respect of the bank borrowings of subsidiary undertakings which amounted to €291 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 on page 63 are covered by this guarantee. This guarantee also applies to the following wholly owned subsidiaries, whose Registered Office is 1 Stokes Place, St. Stephen's Green, Dublin 2: MFP Sales Limited, Pulsar Direct Limited, Knottingley Limited, Weeksbury Limited, Titanium Limited, W&S Timber Components Limited, Grafton Financial Services Limited, Chadwicks Holdings Limited, Sandtex Ireland Limited, Tribiani Limited, Athina Limited, Pechura Limited, Heatovent Ireland Limited, Payless D.I.Y. Limited, Circle Syntalux Limited, Circle Paints Manufacturing Ireland Limited, Cheshunt Limited, Kenn Truss Limited, Tiska Limited, Topez Limited, Denningco Limited, Universal Providers Limited, Grafton Group Management Services Limited and Grafton Group Secretarial Services Limited.

37 Pension Commitments

The Group has continued to account for pensions in accordance with SSAP 24 and the relevant disclosures are given in (a) below. FRS 17, the new accounting standard on retirement benefit will be fully adopted by the Group during the year ended 31 December 2005. In the meantime the phased transitional disclosure requirements of FRS 17 are given in (b) below.

Notes to the Financial Statements

Year ended 31 December 2002

37 Pension Commitments (continued)

(a) SSAP 24 Disclosures

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.

Contributions to the schemes are charged to the profit and loss account based on the recommendations of independent qualified actuaries, so as to spread the cost of pensions over employees' working lives with the Group using the projected unit credit or attained age methods of funding. The most recent actuarial valuations were carried out in January 2001 and April 2001 and confirmed that the total market value of the schemes' assets were €55,706,000. The assets of all schemes were more than sufficient to meet their liabilities on a current funding level basis apart from one scheme where there was a deficiency of €540,000 which has since been discharged. The schemes are subject to triennial actuarial valuations.

The assumptions which have the most significant effect on the results of the valuations are those relating to the rate of return on investments and the rates of increase in pensionable remuneration. In the case of most of the valuations it was assumed that the investment return would be two per cent per annum in excess of the assumed rate of growth in pensionable remuneration.

Allowing for expected future increases in pensionable remuneration up to the assumed retirement dates of members, the actuarial value of the schemes' assets before future contributions, represented 99% of the benefits that had accrued to members. The employer's contribution rate over the average remaining service lives of the members of the schemes takes account of the current actuarial funding level.

The pension charge for the year was €4,473,000 (2001: €3,859,000).

The actuarial reports are not available for public inspection.

(b) FRS 17 Retirement Benefits

The Group operates 6 defined benefit schemes in Ireland and four in the UK. Full actuarial valuations were carried out at 1 January 2001 and 1 April 2001 and updated to 31 December 2002 by a qualified independent actuary. All schemes except for 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 FRS 17 were as follows:

	2002 %	2001 %
Valuation Method	Projected Unit	Projected Unit
Rate of increase in salaries	3.5%	3.5%
Rate of increase of pensions in payment	2.5%	2.5%
Discount rate	5.5%	6.0%
Inflation rate increase	2.5%	2.5%

Notes to the Financial Statements

Year ended 31 December 2002

37 Pension Commitments *(continued)*

(b) FRS 17 Retirement Benefits *(continued)*

Scheme Assets

The assets in these schemes and the long term rates of return expected at 31 December 2002 and 31 December 2001 are set out below:

	2002	2001
	%	%
Equities	7.0%	7.0%
Bonds	5.5%	5.5%
Property	7.0%	7.0%
Cash	4.0%	5.0%
	2002	2001
	€'000	€'000
Equities	31,702	41,766
Bonds	8,146	8,043
Property	2,474	3,843
Cash	1,273	2,370
	<u>43,595</u>	<u>56,022</u>
Actuarial value of liabilities	(69,266)	(60,237)
Recoverable deficit in the schemes	<u>(25,671)</u>	<u>(4,215)</u>
Related deferred tax asset	5,161	769
Net pension liability under FRS 17	<u>(20,510)</u>	<u>(3,446)</u>

Analysis of the amount that would have been charged to operating profit in 2002 under FRS 17:

	2002
	Total
	€'000
Current service cost	1,332
Past service cost	-
Total operating charge	<u>1,332</u>

Analysis of the amount that would have been credited to other finance income in 2002 under FRS 17:

	2002
	Total
	€'000
Expected return on scheme assets	3,600
Interest on scheme liabilities	<u>(3,476)</u>
Net return	<u>124</u>

Notes to the Financial Statements

Year ended 31 December 2002

37 Pension Commitments *(continued)*

(b) FRS 17 Retirement Benefits *(continued)*

Analysis of amount that would have been recognised in statement of total recognised gains and losses (STRGL)	2002 Total €'000
Actual return less expected return on pension scheme assets	(13,711)
Experience gains and losses arising on the scheme liabilities	(2,179)
Changes in assumptions underlying the present value of scheme liabilities	(5,895)
	<u>(21,785)</u>
Movement in deficit during the year	
Recoverable deficit in the schemes at beginning of year	(4,215)
<i>Movement in year:</i>	
Currency adjustment on opening deficit	88
Current service cost	(1,332)
Employer contribution paid	1,449
Past service cost	-
Other finance income	124
Actuarial loss	(21,785)
	<u>(25,671)</u>
History of experience gains and losses:	
	2002 Total €'000
<i>Difference between the expected and actual return on scheme assets:</i>	
Amount	(13,711)
Percentage of scheme assets	(31.5%)
<i>Experience gains and (losses) on scheme liabilities:</i>	
Amount	(2,179)
Percentage of past service scheme liabilities	(3.1%)
<i>Total amount recognised in STRGL:</i>	
Amount	(21,785)
Percentage of past service scheme liabilities	(31.5%)

Notes to the Financial Statements

Year ended 31 December 2002

37 Pension Commitments *(continued)*

(b) FRS 17 Retirement Benefits *(continued)*

	2002 €'000	2001 €'000
Net assets		
Net assets of Group excluding pension assets and liabilities	321,973	264,467
Net pension assets	-	526
Net pension liabilities	(20,510)	(3,972)
	<u>301,463</u>	<u>261,021</u>
Reserves		
Profit and loss reserve excluding pension assets and liabilities	236,934	179,290
Pension deficit	(20,510)	(3,446)
	<u>216,424</u>	<u>175,844</u>

38 Post Balance Sheet Events

On 4 February 2003, the Group announced that it was raising approximately €67.7 million net of expenses, by the issue of up to 35,276,228 New Grafton Units at a price of €2.00 per New Grafton Unit which represents a 37.5 per cent discount to the closing price of €3.20 per Grafton Unit on 3 February 2003, the day before the announcement. The issue is being made by way of a rights issue on the basis of one New Grafton Unit for every five Grafton Units held on the record date.

On 3 March 2003, the Group acquired the entire share capital of Jackson Building Centres Limited, a regional builders merchanting chain based in the East Midlands for a cash consideration of €129.5 million (STG£88.75 million).

39 Principal Operating Subsidiary Undertakings

Details of the principal operating subsidiary undertakings are set out on page 63.

40 Approval of Financial Statements

The Board of Directors approved the financial statements on 7 March 2003.