

Notes to the Financial Statements

Year ended 31 December 2004

1 Turnover

	2004 €'000	2003 €'000
<i>The amount of turnover by class of activity is as follows:</i>		
Irish merchandising and wholesaling	286,126	239,829
DIY retailing	129,783	110,308
Irish manufacturing and related activities	<u>35,833</u>	<u>34,391</u>
Total turnover from Irish activities	<u>451,742</u>	<u>384,528</u>
UK merchandising and other activities	<u>1,420,604</u>	<u>1,111,490</u>
	<u>1,872,346</u>	<u>1,496,018</u>

2 Operating Profit and Trading Profit

	2004 €'000	2003 €'000
Republic of Ireland	49,019	44,768
Great Britain and Northern Ireland	<u>108,382</u>	<u>78,555</u>
Operating profit before goodwill amortisation and property development profit	<u>157,401</u>	<u>123,323</u>
Property development profit	6,729	-
Goodwill amortised	<u>(12,820)</u>	<u>(9,358)</u>
Operating profit	151,310	113,965
Profit on disposal of property	<u>792</u>	<u>3,437</u>
Trading profit	152,102	117,402
Income from financial assets (see note 13)	<u>1,541</u>	<u>1,788</u>
	<u>153,643</u>	<u>119,190</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.

The operating profit of €151,310,000 comprises €140,914,000 relating to continuing operations, €3,667,000 for 2004 acquisitions and €6,729,000 relating to property development profit.

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

	2004 €'000	2003 €'000
(Increase)/decrease in stocks	(34,054)	4,682
Purchases and consumables	1,291,746	997,816
Staff costs (note 5)	249,620	201,344
Auditors' remuneration	840	699
Depreciation	34,197	28,212
Lease rentals and other hire charges	21,304	16,017
Property development profit	(6,729)	-
Goodwill amortisation	12,820	9,358
Net profit on sale of scaffolding	(2,585)	(2,015)
Loss on disposal of other fixed assets	406	400
Other operating charges	<u>153,471</u>	<u>125,540</u>
	<u>1,721,036</u>	<u>1,382,053</u>

During 2004 acquisitions accounted for €59.6 million of the above costs and expenses.

Notes to the Financial Statements

Year ended 31 December 2004

3 Property Development Profit and Profit on Disposal of Property

(a) Property Development Profit

The Group realised a property development profit of €6,729,000 (2003: €nil) on the development of the new Woodie's store on the Naas Road, Dublin. The estimated taxation payable on this profit amounts to €841,000 (2003: €nil)

(b) Profit on Disposal of Property

The Group realised a profit of €792,000 (2003: €3,437,000) on the sale of property at Cardiff, Wales arising from the relocation of a merchandising branch. The estimated taxation payable on the property profit amounts to €238,000 (2003: €515,000)

4 Directors' Remuneration, Pension Entitlements and Interests

Directors' remuneration, pension entitlements and interests in shares are presented in the Report of the Remuneration Committee on pages 31 to 34.

5 Employment

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

	2004	2003
Merchandising and DIY retailing	7,105	5,874
Manufacturing	414	405
	<u>7,519</u>	<u>6,279</u>

	2004	2003
	€'000	€'000
<i>The aggregate remuneration costs of employees were:</i>		
Wages and salaries	219,400	178,353
Social welfare	21,127	15,700
Pensions	9,093	7,291
	<u>249,620</u>	<u>201,344</u>

6 Interest Payable (net)

	2004	2003
	€'000	€'000
<i>Interest payable and similar charges:</i>		
Bank overdrafts and loans repayable within five years	16,942	11,341
Bank loans repayable by instalments within five years	2,869	2,593
Bank loans repayable by instalments after five years	1,944	2,828
Interest on finance leases	1,300	77
Interest on loan notes	3,493	3,319
	<u>26,548</u>	<u>20,158</u>
Interest receivable	<u>(4,756)</u>	<u>(2,989)</u>
	<u>21,792</u>	<u>17,169</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 2004 and 31 December 2003 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 2004 was Stg67.86p (2003: Stg69.20p). The euro/sterling exchange rate at 31 December 2004 was Stg70.51p (2003: Stg70.48p).

Notes to the Financial Statements

Year ended 31 December 2004

8 Tax on Profit on Ordinary Activities

(a) Analysis of charge for the year

	2004 €'000	2003 €'000
Based on the profit on ordinary activities:		
Irish corporation tax	1,960	1,305
UK corporation tax	<u>4,823</u>	<u>11,219</u>
	6,783	12,524
Deferred tax:		
- Irish	992	1,230
- UK	<u>12,013</u>	<u>1,566</u>
	<u>19,788</u>	<u>15,320</u>

The charge for Irish corporation tax has been reduced by manufacturing relief in the amount of €104,000 (2003: €103,000), timing differences on Group financing arrangements, capital allowances and other reliefs.

(b) Group tax reconciliation

	2004 €'000	2003 €'000
Profit on ordinary activities before taxation	<u>131,851</u>	<u>102,021</u>
Profit on ordinary activities at standard corporation tax rate in Ireland of 12.5% (2003: 12.5%)	16,481	12,753
Effects of:		
Expenses not deductible for tax purposes (permanent)	178	512
Adjustment for earnings taxed at higher rates	-	6,565
Adjustment for earnings taxed at lower rates	(6,298)	(4,596)
Profits on disposals of fixed assets	(321)	86
Capital allowances for year in excess of depreciation	(16)	(1,555)
Other timing differences	<u>(3,241)</u>	<u>(1,241)</u>
Corporation tax charge for the year	<u>6,783</u>	<u>12,524</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 €8.0 million (2003: €8.1 million). No amount has been recognised as there is no binding agreement to sell any property at the year end.

Rollover relief claimed in respect of property disposals in 2004 was nil (2003: nil). Relief previously claimed 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.

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

Notes to the Financial Statements

Year ended 31 December 2004

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

	2004 €'000	2003 €'000
Dividend paid of 0.125c (2003:nil)	266	-
Subscription proceeds for issue of A ordinary shares	<u>(213)</u>	<u>-</u>
Net dividend paid	<u>53</u>	<u>-</u>
Redemption of one redeemable share for 5.25c	-	9,260
Redemption of one redeemable share for 4.5c	-	9,556
Redemption of one redeemable share for 6.0c	12,759	-
Redemption of remaining redeemable shares for 5.0c	10,633	-
Purchase of one A ordinary share for 1.0 cent	<u>2,131</u>	<u>-</u>
Total redemptions/purchase of A ordinary shares	<u>25,523</u>	<u>18,816</u>

The company paid a special dividend of 0.125 cent per ordinary share payable on 14 June 2004 which was partly applied to subscribe for the issue of ten A ordinary shares per Grafton Unit.

The Board has decided to purchase one A ordinary share for a cash consideration of 7.0 cent payable on 29 March 2005. This follows the redemption of the remaining six redeemable shares per Grafton Unit for a cash consideration of 5 cent per share payable on 19 March 2004 and the purchase of one A ordinary share per Grafton Unit for a cash consideration of 1 cent paid on 1 October 2004, to give total share purchase/share redemption payments for the year of 13.0 cent. This represents an increase of 24 per cent on redemptions of 10.5 cent payable for 2003. The share purchase payable on 29 March 2005 is chargeable to reserves in 2005.

10 Earnings per Share

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

	2004	2003
Profit on ordinary activities after taxation (€'000)	<u>112,063</u>	<u>86,701</u>
Weighted average Grafton Units outstanding during the year	<u>212,875,181</u>	<u>206,659,076</u>
Earnings per share	<u>52.64c</u>	<u>41.95c</u>
Number of dilutive Grafton Units under share schemes	11,825,423	9,588,723
Number of Grafton Units that would have been issued at fair value	<u>(6,212,816)</u>	<u>(5,543,126)</u>
Dilutive potential Grafton Units	<u>5,612,607</u>	<u>4,045,597</u>
Number of Grafton Units for calculating diluted earnings per share and adjusted diluted earnings per share	<u>218,487,788</u>	<u>210,704,673</u>
Diluted earnings per share	<u>51.29c</u>	<u>41.15c</u>

Earnings per share of 52.64c (2003: 41.95c) has been calculated on profits after taxation of €112,063,000 (2003: €86,701,000) and the weighted average number of Grafton Units of 212,875,181 (2003: 206,659,076).

The calculation of adjusted earnings per share of 55.64c (2003: 45.07c) is arrived at after eliminating goodwill of €12,820,000 (2003: €9,358,000), property development profit after taxation of €5,888,000 (2003: nil) and profit after taxation on disposal of land and buildings of €554,000 (2003: €2,922,000) from profit after taxation of €112,063,000 (2003: €86,701,000). Adjusted earnings per share was increased by 6.02c (2003: 4.53c) due to the elimination of goodwill from earnings, reduced by 2.76c (2003: nil) due to the elimination of property development profit and reduced by 0.26c (2003:1.41c) due to the elimination of profit on disposal of land and buildings from earnings.

Notes to the Financial Statements

Year ended 31 December 2004

10 Earnings per Share (continued)

Diluted earnings per share of 51.29c (2003: 41.15c) has been calculated on profits after taxation of €112,063,000 (2003: €86,701,000) and the weighted average number of Grafton Units in issue during the year adjusted for the dilutive effect of outstanding shares under the share schemes.

The calculation of adjusted diluted earnings per share of 54.21c (2003: 44.20c) 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 shares under the share schemes.

11 Goodwill

	2004 €'000	2003 €'000
Cost		
At 1 January	229,863	111,034
Acquired during the year (note 30)	37,574	129,422
Translation adjustment	(1,723)	(10,593)
At 31 December	<u>265,714</u>	<u>229,863</u>
Amortisation		
At 1 January	19,023	10,591
Amortised during the year	12,820	9,358
Translation adjustment	(438)	(926)
At 31 December	<u>31,405</u>	<u>19,023</u>
Net book amount	<u>234,309</u>	<u>210,840</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 2004	208,928	41,696	180,676	431,300
Additions	26,908	10,590	51,419	88,917
Acquisitions	11,638	2,255	3,868	17,761
Disposals	(12,132)	(596)	(19,707)	(32,435)
Exchange adjustment	(600)	(104)	(526)	(1,230)
At 31 December 2004	<u>234,742</u>	<u>53,841</u>	<u>215,730</u>	<u>504,313</u>
Comprising				
Cost	188,088	42,449	215,198	445,735
Valuation	46,654	11,392	532	58,578
	<u>234,742</u>	<u>53,841</u>	<u>215,730</u>	<u>504,313</u>
Depreciation				
At 1 January 2004	7,114	4,960	72,414	84,488
Charge for year	2,917	2,212	29,068	34,197
Disposals	(126)	(186)	(9,657)	(9,969)
Exchange adjustment	(94)	(85)	(1,110)	(1,289)
At 31 December 2004	<u>9,811</u>	<u>6,901</u>	<u>90,715</u>	<u>107,427</u>
Net book amount				
At 31 December 2004	<u>224,931</u>	<u>46,940</u>	<u>125,015</u>	<u>396,886</u>
At 31 December 2003	<u>201,814</u>	<u>36,736</u>	<u>108,262</u>	<u>346,812</u>

Notes to the Financial Statements

Year ended 31 December 2004

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:

	2004 €'000	2003 €'000
Cost	247,209	209,250
Accumulated Depreciation	(16,634)	(12,269)
Net book amount	<u>230,575</u>	<u>196,981</u>
		Tangible Fixed Assets €'000
Company		
Cost		
At 1 January 2004		992
Additions		10,615
Disposals		(10,550)
At 31 December 2004		<u>1,057</u>
Depreciation		
At 1 January 2004		592
Charge for year		131
Disposals		-
At 31 December 2004		<u>723</u>
Net book amount		
At 31 December 2004		<u>334</u>
At 31 December 2003		<u>400</u>

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

	Plant, Machinery & Motor Vehicles	
	2004 €'000	2003 €'000
Cost	3,618	34,071
Accumulated depreciation	(2,384)	(10,697)
Net book amount	<u>1,234</u>	<u>23,374</u>
Depreciation charge for year	<u>3,377</u>	<u>1,333</u>

During the year the Group repaid finance leases amounting to €23.4 million.

Notes to the Financial Statements

Year ended 31 December 2004

13 Financial Fixed Assets

	Group		Company	
	Other Investments €'000	Other Investments €'000	Shares in Subsidiary Undertakings €'000	Total €'000
At 1 January 2004	33,665	13	18,394	18,407
Translation adjustment	(14)	-	-	-
Acquisitions	17	-	-	-
Acquired in year	13,351	-	1,070	1,070
At 31 December 2004	47,019	13	19,464	19,477

Other Group investments include a holding of 14,397,489 ordinary shares or 28.76 per cent of the ordinary share capital of Heiton Group plc, an Irish registered company whose shares were listed on the Irish and London Stock Exchanges. The original cost of this investment was €46.8 million and the market value at 31 December 2004 was €100.8 million. The main activities of Heitons are builders merchandising, steel stockholding, homecare/DIY and plant and tool hire. Heitons profit before tax in the financial year ended 30 April 2004 was €32.8 million and its capital and reserves at that date were €170.4 million. The shares were held as an investment as Grafton did not exercise significant influence over Heitons during 2004. Related dividend income was accrued once declared. The registered office of Heiton Group plc is Ashfield, Naas Road, Clondalkin, Dublin 22.

On 7 January 2005, following clearance from the Competition Authority in Ireland, the Group completed the acquisition of Heiton Group plc for a total consideration of approximately €398 million including estimated debt assumed and the cost of the Group's 29 per cent investment in the business held prior to the offer.

14 Stocks

	Group	
	2004 €'000	2003 €'000
Raw materials	1,997	1,771
Finished goods	9,283	6,160
Goods purchased for resale	226,400	186,505
	237,680	194,436

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

15 Debtors

	Group		Company	
	2004 €'000	2003 €'000	2004 €'000	2003 €'000
<i>Amounts falling due within one year:</i>				
Trade debtors	259,699	215,754	-	-
Amounts owed by subsidiary undertakings	-	-	289,368	266,070
Prepayments and accrued income	58,466	51,728	2,896	7,012
Pension prepayment	4,673	5,315	3,630	4,162
	322,838	272,797	295,894	277,244

Notes to the Financial Statements

Year ended 31 December 2004

16 Creditors

	Group		Company	
	2004 €'000	2003 €'000	2004 €'000	2003 €'000
<i>Amounts falling due within one year:</i>				
Trade creditors	217,717	175,182	-	-
Accruals and deferred income	75,367	60,415	6,216	8,927
Social welfare	1,637	1,512	-	-
Income tax deducted under PAYE	3,946	2,885	108	-
Value added tax	12,119	12,428	-	-
	310,786	252,422	6,324	8,927
Bank loans and overdrafts	76,139	45,169	4	4
Loan notes (note 17)	29,532	36,359	9,738	9,777
Obligations under finance leases (note 20)	595	4,590	-	-
Deferred acquisition consideration	4,433	2,945	-	-
Amounts owed to subsidiary undertakings	-	-	85,635	78,430
Corporation tax	14,074	13,313	12	15
	435,559	354,798	101,713	97,153

17 Loan Notes

€20.17 million in loan notes were issued to vendors of businesses acquired and are redeemable at the option of the note holders between January 2005 and March 2010. The interest rates payable on these loan notes are set at fixed rates or on terms which relate directly to London Inter-Bank Offer Rate (LIBOR). The remaining loan notes of €9.36 million were issued in connection with debt finance raised in the US Private Placement Market (see note 18).

18 Creditors

	Group		Company	
	2004 €'000	2003 €'000	2004 €'000	2003 €'000
<i>Amounts falling due after more than one year:</i>				
Bank loans	339,270	308,560	9,177	-
Unsecured senior notes due 2008	28,081	37,457	28,081	37,457
Obligations under finance leases (note 20)	422	18,536	-	-
Deferred acquisition consideration	1,552	5,373	-	-
	369,325	369,926	37,258	37,457

During 1998 the Group raised US\$55 million debt finance 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.

Deferred acquisition consideration of €1.55 million is payable between March 2005 and May 2006.

Notes to the Financial Statements

Year ended 31 December 2004

19 Loans

	2004 €'000	2003 €'000
Group		
<i>Bank loans, loan notes and senior unsecured notes 2008 are repayable as follows:</i>		
Between one and two years	61,112	48,382
Between two and five years	255,227	252,134
After five years	<u>51,012</u>	<u>45,501</u>
	<u>367,351</u>	<u>346,017</u>
Bank loans repayable within one year	46,093	12,770
Loan notes repayable within one year	<u>29,532</u>	<u>36,359</u>
	<u>442,976</u>	<u>395,146</u>
<i>Loans fully repayable between one and five years</i>		
Not by instalment	243,583	224,750
By instalment	<u>72,756</u>	<u>75,766</u>
	<u>316,339</u>	<u>300,516</u>
<i>Loans fully repayable in more than five years</i>		
By instalment	<u>51,012</u>	<u>45,501</u>
	<u>367,351</u>	<u>346,017</u>

20 Obligations under Finance Leases

	2004 €'000	2003 €'000
Group		
<i>Finance lease obligations, included in creditors, net of interest to which the Group is committed are due as follows:</i>		
Within one year	595	4,590
Between one and five years	<u>422</u>	<u>18,536</u>
	<u>1,017</u>	<u>23,126</u>

21 Provision for Liabilities and Charges

	Group		Company	
	2004 €'000	2003 €'000	2004 €'000	2003 €'000
Deferred taxation				
At 1 January	22,941	16,016	-	-
Profit and loss account	13,005	2,796	508	-
Acquired with subsidiaries	(1,563)	(5,129)	-	-
Transfer from corporation tax	-	9,500	-	-
Exchange adjustment	(488)	(242)	-	-
At 31 December	<u>33,895</u>	<u>22,941</u>	<u>508</u>	<u>-</u>
<i>Deferred taxation arises as follows:</i>				
Capital allowances	6,578	4,846	13	-
Other timing differences	<u>27,317</u>	<u>18,095</u>	<u>495</u>	<u>-</u>
	<u>33,895</u>	<u>22,941</u>	<u>508</u>	<u>-</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.

Notes to the Financial Statements

Year ended 31 December 2004

22 Share Capital

	2004 €'000	2003 €'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	-
Redeemable shares		
2.8 billion redeemable shares of 0.01c each	-	280
	<u>15,300</u>	<u>15,280</u>

	Issue Price €	Number Of Shares	2004 Nominal Value €'000	2003 Nominal Value €'000
Issued and fully paid:				
Ordinary shares				
At 1 January		<u>212,643,639</u>	<u>10,632</u>	<u>8,864</u>
Rights issue			-	1,719
Grafton Group Share Schemes				
Date options and entitlements to acquire shares granted				
April 1993	0.19	-	-	2
September 1994	0.45	15,919	1	4
October 1995	0.52	84,902	4	3
April 1996	0.65	-	-	6
April 1997	1.07	61,839	3	13
June 1998	2.21	97,210	5	20
September 1998	1.65	-	-	1
July 1999	1.81	534,683	27	-
		<u>794,553</u>	<u>40</u>	<u>49</u>
At 31 December		<u>213,438,192</u>	<u>10,672</u>	<u>10,632</u>
A Ordinary Shares				
At 1 January		-	-	-
Issue of A ordinary shares - June 2004		2,126,754,780	212.6	-
A ordinary shares entitlements under share schemes		7,323,593	0.7	-
Purchase of 1 A ordinary share per Grafton Unit		<u>(213,134,645)</u>	<u>(21.3)</u>	-
At 31 December		<u>1,920,943,728</u>	<u>192</u>	-
Redeemable shares				
At 1 January		1,488,505,473	149	159
Redeemable shares issued under rights issue and share schemes		78,582	-	29
Redemption of redeemable shares transferred to the capital redemption reserve		<u>(1,488,584,055)</u>	<u>(149)</u>	<u>(39)</u>
At 31 December		-	-	149
Total share capital			<u>10,864</u>	<u>10,781</u>

Grafton Units

At 31 December 2004 a Grafton Unit comprised one ordinary share of 5 cent and nine A ordinary shares of 0.01 cent each in Grafton Group plc and one C ordinary share of Stg0.0001p in Grafton Group (UK) plc. At 31 December 2003 a Grafton Unit comprised of one ordinary share of 5 cent and seven redeemable shares of 0.01 cent each in Grafton Group plc and one C ordinary share of Stg0.0001p in Grafton Group (UK) plc.

Notes to the Financial Statements

Year ended 31 December 2004

22 Share Capital (continued)

Redeemable Shares

On 19 March 2004, the Board redeemed the remaining six redeemable shares per Grafton Unit for a total cash consideration of 5.0 cent.

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 partly used to subscribe for the issue of the 10 A ordinary shares per Grafton Unit. The Company purchased one of the 10 A ordinary shares on 1 October 2004 for a cash consideration of 1 cent, leaving nine A ordinary shares per Grafton Unit at 31 December 2004.

Share Schemes

The number of Grafton Units issued during the year under the Company's executive Share Schemes was 794,553 and the total consideration received amounted to €1,302,000. Costs relating to the issues were €14,000. In accordance with the terms of the 1999 Grafton Group Share Scheme and the Grafton Group (UK) plc Approved Share Option Scheme, the entitlement to acquire 1,893,100 Grafton Units was granted during the year. Entitlements outstanding at 31 December 2004 amounted to 11,081,141 Grafton Units. Shares may be acquired in accordance with the terms of the schemes, at prices ranging between €0.65 and €6.20 during the period to 2014.

UK SAYE Scheme

Options over 1,387,417 Grafton Units were outstanding at 31 December 2004 pursuant to a three year saving contract under Grafton Group (UK) plc Saving's Related Share Option Scheme at a price of €2.26, which represented a discount of 20 per cent to the market price on the date of the grant. These options are exercisable within a period of six months after the third anniversary of the savings contract, being February 2005. As permitted by UITF 17 no charge has been included in the profit and loss account for the discount given on the SAYE scheme option price.

Treasury Shares

The company re-issued 900,000 Grafton Units as part of the rights issue in March 2003. These units which were bought back in 1995 at a cost of €486,000 were re-issued for €1,800,000. The original costs of €486,000, which was charged to the profit and loss account in 1995, was released back to the profit and loss account in 2003 and the balance of €1,314,000 was credited to share premium in 2003.

23 Share Premium Account

	2004	2003
	€'000	€'000
Group and Company		
At 1 January	102,352	35,465
Premium on shares issued under rights issue	-	64,275
Premium on shares issued under share schemes	1,248	1,298
Premium on re-issue of treasury shares	-	1,314
At 31 December	103,600	102,352

The premium on shares issued under the rights issue in 2003 is net of expenses of €2.73 million.

Notes to the Financial Statements

Year ended 31 December 2004

24 Capital Redemption Reserve

	2004 €'000	2003 €'000
Group and Company		
At 1 January	57	18
Redemption of redeemable shares	149	39
Purchase of A ordinary shares	21	-
At 31 December	<u>227</u>	<u>57</u>

25 Revaluation Reserve

	2004 €'000	2003 €'000
Group		
At 1 January	40,260	40,533
Transfer to profit & loss account	(273)	(273)
At 31 December	<u>39,987</u>	<u>40,260</u>

26 Profit and Loss Account

The Group revenue reserves of €381,143,000 (2003: €296,391,000) are after charging goodwill of €12,982,000 (2003: €12,982,000) directly to reserves between 1 January 1988 and 31 December 1997.

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 €39.4 million (2003: €17.3 million) attributable to the parent undertaking for the financial year.

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

	2004 €'000	2003 €'000
Operating profit	151,310	113,965
Depreciation	34,197	28,212
Goodwill amortisation	12,820	9,358
Net profit on sale of scaffolding	(2,585)	(2,015)
Loss on disposal of plant, machinery and motor vehicles	406	400
Increase in working capital (note 28)	(19,099)	(20,127)
Net cash inflow from operating activities	<u>177,049</u>	<u>129,793</u>

28 Movement in Working Capital

	Stocks €'000	Debtors €'000	Creditors €'000	Total €'000
At 1 January 2004	194,436	272,797	(252,422)	214,811
Translation adjustment	(460)	(1,137)	845	(752)
Interest accruals and other movements	-	(916)	(138)	(1,054)
Acquisitions	9,190	23,424	(14,986)	17,628
Movement in 2004	<u>34,514</u>	<u>28,670</u>	<u>(44,085)</u>	<u>19,099</u>
At 31 December 2004	<u>237,680</u>	<u>322,838</u>	<u>(310,786)</u>	<u>249,732</u>
Movement in 2003	4,682	22,770	(7,325)	20,127

Notes to the Financial Statements

Year ended 31 December 2004

29 Returns on Investments and Servicing of Finance

	2004 €'000	2003 €'000
Interest received	4,849	2,984
Interest paid	(25,159)	(20,425)
Interest element of finance lease payments	(1,251)	(77)
Net cash outflow from servicing of finance	<u>(21,561)</u>	<u>(17,518)</u>
Dividend income received	2,364	1,694
	<u>(19,197)</u>	<u>(15,824)</u>

30 Acquisition of Subsidiary Undertakings and Businesses

During the year the Group made seventeen UK acquisitions at a total cost of €71.7 million with twenty builders merchanting and two plumbers merchanting branches. These included five two branch builders merchants as follows: Thompson Builders Merchants based in Preston, Lancashire; Hall & Rogers located in central Manchester and Everton, Liverpool; Keelsupply which trades from Newton-le-Willows, St Helens and from Leyland, Lancashire; Slocombe & Butcher based in Weston-Super-Mare, North Somerset and Wellington, Somerset and Castle Builders Merchants based in Littlelever, Bolton and Crewe in Cheshire.

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

	2004 €'000	2003 €'000
<i>The fair values of assets and liabilities acquired are set out below:</i>		
Tangible fixed assets	17,761	44,119
Financial fixed assets	17	99
Stocks	9,190	39,771
Debtors	23,424	57,880
Creditors	(14,986)	(51,347)
Corporation tax	(1,503)	(4,492)
Deferred tax liability	(245)	(272)
Deferred tax asset	1,808	5,401
Finance leases acquired	(1,388)	(478)
Net assets acquired excluding cash and overdrafts	<u>34,078</u>	<u>90,681</u>
Goodwill	<u>37,574</u>	<u>129,422</u>
Consideration	<u>71,652</u>	<u>220,103</u>
Satisfied by:		
Cash paid	61,805	187,497
Cash acquired	(4,221)	(7,813)
Bank overdrafts assumed on acquisition	3,503	9,725
Net cash outflow	<u>61,087</u>	<u>189,409</u>
Deferred acquisition consideration	1,480	6,127
Loan notes issued to vendors of businesses acquired	9,085	24,567
	<u>71,652</u>	<u>220,103</u>

There was no difference between the book value and the fair value of assets acquired. 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.

Notes to the Financial Statements

Year ended 31 December 2004

30 Acquisition of Subsidiary Undertakings and Businesses (continued)

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
All acquisitions	<u>3,894</u>	<u>(574)</u>	<u>(299)</u>	<u>(991)</u>	<u>2,030</u>

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

31 Analysis of Net Debt

	At 1 Jan 2004 €'000	Cash Flow €'000	Acquisitions €'000	Non-Cash Movement €'000	Translation Adjustment €'000	At 31 Dec 2004 €'000
Cash at bank and in hand	30,946	(2,400)	-	-	(175)	28,371
Overdrafts	(32,399)	3,509	-	-	(1,156)	(30,046)
Total cash and demand debt	<u>(1,453)</u>	<u>1,109</u>	<u>-</u>	<u>-</u>	<u>(1,331)</u>	<u>(1,675)</u>
Short term deposits and liquid resources	<u>108,010</u>	<u>(506)</u>	<u>-</u>	<u>-</u>	<u>(7)</u>	<u>107,497</u>
Debt due after 1 year Unsecured Senior Notes and loan notes due after 1 year	(308,560)	(69,843)	-	39,002	131	(339,270)
	(37,457)	-	-	9,360	16	(28,081)
Debt due within 1 year						
- Bank loans	(12,770)	5,673	-	(39,002)	6	(46,093)
- Loan notes	(36,359)	24,758	(9,085)	(9,360)	514	(29,532)
Finance leases	<u>(23,126)</u>	<u>23,404</u>	<u>(1,388)</u>	<u>-</u>	<u>93</u>	<u>(1,017)</u>
Total term finance	<u>(418,272)</u>	<u>(16,008)</u>	<u>(10,473)</u>	<u>-</u>	<u>760</u>	<u>(443,993)</u>
Net debt	<u>(311,715)</u>	<u>(15,405)</u>	<u>(10,473)</u>	<u>-</u>	<u>(578)</u>	<u>(338,171)</u>

The non-cash movements reflect changes to the age profile of debt.

Notes to the Financial Statements

Year ended 31 December 2004

32 Group Net Debt

	2004 €'000	2003 €'000
Bank loans and overdrafts repayable within one year	76,139	45,169
Bank loans repayable after more than one year	339,270	308,560
Unsecured senior notes repayable after more than one year	28,081	37,457
Loan notes repayable within one year	29,532	36,359
Finance leases	<u>1,017</u>	<u>23,126</u>
	474,039	450,671
Cash and short term bank deposits	<u>(135,868)</u>	<u>(138,956)</u>
Net debt	<u>338,171</u>	<u>311,715</u>
Shareholders' funds	<u>535,821</u>	<u>449,841</u>
Gearing	<u>63%</u>	<u>69%</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 2004 was as follows:

	Euro	Sterling	Total
Weighted average fixed interest rates	-	4.5%	4.5%
Weighted average fixed debt periods – years	-	2.98	2.98
	Euro €'000	Sterling €'000	Total €'000
Fixed rate debt	-	(156,521)	(156,521)
Floating rate debt	(568)	(316,950)	(317,518)
Cash and short term bank deposits	<u>104,360</u>	<u>31,508</u>	<u>135,868</u>
Net debt by currency	<u>103,792</u>	<u>(441,963)</u>	<u>(338,171)</u>
Financial fixed assets	46,824	195	47,019
Deferred acquisition consideration due after more than one year	<u>(772)</u>	<u>(780)</u>	<u>(1,552)</u>
Net financial assets and liabilities (excluding short term debtors and creditors)	<u>149,844</u>	<u>(442,548)</u>	<u>(292,704)</u>
Capital employed	<u>225,024</u>	<u>603,501</u>	<u>828,525</u>
Shareholders' funds (net worth)	<u>374,868</u>	<u>160,953</u>	<u>535,821</u>

Notes to the Financial Statements

Year ended 31 December 2004

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 2003 was as follows:

	Euro	Sterling	Total
Weighted average fixed interest rates	-	4.55%	4.55%
Weighted average fixed debt periods – years		3.81	3.81
	Euro €'000	Sterling €'000	Total €'000
Fixed rate debt	-	(194,809)	(194,809)
Floating rate debt	(1,448)	(254,414)	(255,862)
Cash and short term bank deposits	89,423	49,533	138,956
Net debt by currency	87,975	(399,690)	(311,715)
Financial fixed assets	33,472	193	33,665
Deferred acquisition consideration due after more than one year	(4,425)	(948)	(5,373)
Net financial assets and liabilities (excluding short term debtors and creditors)	117,022	(400,445)	(283,423)
Capital employed	230,830	502,434	733,264
Shareholders' funds (net worth)	<u>347,852</u>	<u>101,989</u>	<u>449,841</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 2004 €'000	Other financial liabilities 2004 €'000	Total 2004 €'000	Bank and other debt 2003 €'000	Other financial liabilities 2003 €'000	Total 2003 €'000
Due within one year	106,266	4,433	110,699	86,118	2,945	89,063
Between one and two years	61,534	1,552	63,086	52,765	3,198	55,963
Between two and five years	255,227	-	255,227	266,287	2,175	268,462
After five years	51,012	-	51,012	45,501	-	45,501
	<u>474,039</u>	<u>5,985</u>	<u>480,024</u>	<u>450,671</u>	<u>8,318</u>	<u>458,989</u>

Borrowing Facilities

The Group had undrawn committed borrowing facilities at 31 December 2004 of €91.9 million (2003: €68.2 million) in respect of which all conditions precedent have been met and which expire after two years.

Notes to the Financial Statements

Year ended 31 December 2004

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	Fair value	Book value	Fair Value
	2004	2004	2003	2003
	€'000	€'000	€'000	€'000
Overdraft and short term borrowings	(76,139)	(76,139)	(45,169)	(45,169)
Loans and Unsecured Senior Notes due after more than one year	(367,351)	(367,351)	(346,017)	(346,017)
Loans notes	(29,532)	(29,532)	(36,359)	(36,359)
Leasing	(1,017)	(1,017)	(23,126)	(23,126)
Cash and short-term deposits	135,868	135,868	138,956	138,956
	(338,171)	(338,171)	(311,715)	(311,715)
Other investments	47,019	100,993	33,665	48,425
Sterling SWAPs	-	2,110	-	2,287
	(291,152)	(235,068)	(278,050)	(261,003)

Gains and Losses on Hedges

At 31 December 2004 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 to the extent not financed from the cash flow of the business.

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.

Notes to the Financial Statements

Year ended 31 December 2004

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::

	2004	2003
	€'000	€'000
Contracted for	14,580	15,852
Not contracted for	47,213	41,289
	<u>61,793</u>	<u>57,141</u>

35 Operating Leases

Annual commitments under non cancelable operating leases are as follows:

	Land and Buildings	Other	Land and Buildings	Other
	2004	2004	2003	2003
	€'000	€'000	€'000	€'000
Group				
<i>Operating leases which expire:</i>				
Within one year	5,717	263	233	697
Between two and five years	1,704	511	1,849	576
Over five years	16,959	22	15,523	88
	<u>24,380</u>	<u>796</u>	<u>17,605</u>	<u>1,361</u>

36 Guarantees

The Company has given guarantees in respect of the bank borrowings of subsidiary undertakings which amounted to €436 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 67 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: CPI Limited, MFP Plastics Limited, MFP Sales Limited, Pulsar Direct Limited, Telford Group Limited, Telfords (Portlaoise) Limited, Telfords (Athy) Limited, J.E. Telford Limited, Knottingly Limited, Weeksbury Limited, Titanium Limited, W&S Timber Components Limited, Grafton Financial Services Limited, Chadwicks Holdings Limited, Tribiani Limited, Athina Limited, Pechura Limited, Heatavent Ireland Limited, Payless D.I.Y. Limited, Circle Syntalux Limited, Circle Paints Manufacturing Ireland Limited, Cheshunt Limited, Kenn Truss Limited, Tiska Limited, Topez Limited, Denningco Limited, Universal Providers Limited, Heron Financial Services Limited, Grafton Group Management Services Limited, Grafton Group Holdings Limited, Grafton Group Investments Limited 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 benefits, 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 2004

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 2004 and July 2004 for the six Irish schemes and in March 2002, December 2002 and April 2004 for the three UK schemes and confirmed that the total market value of the schemes' assets were €71,589,000. The value of the schemes assets are insufficient to cover the value of the schemes liabilities and show a deficit of €9.0 million on a current funding level basis. Special additional contributions totaling €0.3 million (2003: €13.6 million of which €9.2 million was part of the acquisition cost of Jackson Building Centres and formed part of the goodwill calculation in 2003) were made during the year to reduce the deficits in the schemes.

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 most of the valuations it was assumed that the investment return would be three per cent per annum in excess of the assumed rate of growth in pensionable remuneration. In the period after retirement, an investment return assumption of 5.5 per cent per annum was used in most valuations.

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 73% 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 €9,093,000 (2003: €7,291,000) of which €4,951,000 relates to defined benefit schemes and €4,142,000 relates to defined contribution schemes.

The actuarial reports are not available for public inspection.

(b) FRS 17 Retirement Benefits

The Group operates six defined benefit schemes in Ireland and three in the UK. Full actuarial valuations were carried out at 1 January 2004, 1 July 2004 and 4 July 2004 for the six Irish schemes and at 1 March 2002, 31 December 2002 and 1 April 2004 for the three UK schemes and all updated to 31 December 2004 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:

	2004	2004	2003	2003	2002	2002
	Irish Schemes	UK Schemes	Irish Schemes	UK Schemes	Irish Schemes	UK Schemes
Valuation Method	Projected Unit	Projected Unit	Projected Unit	Projected Unit	Projected Unit	Projected Unit
Rate of increase in salaries	3.5%	3.6%	3.5%	3.5%	3.5%	3.5%
Rate of increase of pensions in payment	-	2.6%	-	2.5%	-	2.5%
Discount rate	4.7%	5.3%	5.3%	5.3%	5.5%	5.5%
Inflation rate increase	2.3%	2.6%	2.5%	2.5%	2.5%	2.5%

Notes to the Financial Statements

Year ended 31 December 2004

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 2004, 31 December 2003 and 31 December 2002 are set out below:

	2004 Irish Schemes %	2004 UK Schemes %	2003 Irish Schemes %	2003 UK Schemes %	2002 Irish Schemes %	2002 UK Schemes %
Equities	7.25%	7.25%	7.25%	7.25%	7.0%	7.0%
Bonds	3.8%	5.1%	4.75%	5.3%	4.75%	5.5%
Property	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Cash	4.0%	4.5%	4.0%	4.0%	4.0%	4.0%
			2004 €'000	2003 €'000	2002 €'000	
Equities			64,990	58,987	31,702	
Bonds			14,076	13,417	8,146	
Property			2,781	2,332	2,474	
Cash			13,217	12,969	1,273	
			95,064	87,705	43,595	
Actuarial value of liabilities			(130,379)	(112,867)	(69,266)	
Recoverable deficit in the schemes			(35,315)	(25,162)	(25,671)	
Related deferred tax asset			6,673	5,705	5,161	
Net pension liability under FRS 17			(28,642)	(19,457)	(20,510)	

Analysis of the amount that would have been charged to operating profit in 2004 and 2003 under FRS 17:

	2004 €'000	2003 €'000
Current service cost	3,085	2,575
Past service cost	-	-
Total operating charge	3,085	2,575

Analysis of the amount that would have been credited to other finance income in 2004 and 2003 under FRS 17:

	2004 €'000	2003 €'000
Expected return on scheme assets	5,651	4,795
Interest on scheme liabilities	(5,940)	(5,342)
Net return	(289)	(547)

Notes to the Financial Statements

Year ended 31 December 2004

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)

	2004 €'000	2003 €'000
Actual return less expected return on pension scheme assets	1,576	4,493
Experience gains and losses arising on the scheme liabilities	(3,554)	12
Changes in assumptions underlying the present value of scheme liabilities	(9,695)	(10,677)
	<u>(11,673)</u>	<u>(6,172)</u>
Actuarial loss recognised in STRGL		
Movement in deficit during the year		
Recoverable deficit in the schemes at beginning of year	(25,162)	(25,671)
<i>Movement in year:</i>		
Currency adjustment on opening deficit	(57)	860
On acquisition	-	(7,835)
Current service cost	(3,085)	(2,575)
Employer contribution paid	4,951	16,778
Past service cost	-	-
Other finance income	(289)	(547)
Actuarial loss	<u>(11,673)</u>	<u>(6,172)</u>
Recoverable deficit in the schemes at end of year	<u>(35,315)</u>	<u>(25,162)</u>

History of experience gains and losses:

	2004 €'000	2003 €'000
<i>Difference between the expected and actual return on scheme assets:</i>		
Amount	1,576	4,493
Percentage of scheme assets	1.7%	5.1%
<i>Experience gains and (losses) on scheme liabilities:</i>		
Amount	(3,554)	12
Percentage of past service scheme liabilities	(2.7%)	(-)
<i>Total amount recognised in STRGL:</i>		
Amount	(11,673)	(6,172)
Percentage of past service scheme liabilities	(9.0%)	(5.5%)

Notes to the Financial Statements

Year ended 31 December 2004

37 Pension Commitments *(continued)*

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

	2004 €'000	2003 €'000
Net assets		
Net assets per Group balance sheet	535,821	449,841
Less SSAP 24 pension asset	(4,673)	(5,315)
Net pension liabilities	(28,642)	(19,457)
	<hr/>	<hr/>
Net assets of Group including pension assets and liabilities	502,506	425,069
Reserves		
Profit and loss reserve per Group balance sheet	381,143	296,391
Add SSAP 24 pension asset charged	644	116
Pension deficit	(28,642)	(19,457)
	<hr/>	<hr/>
Profit and loss reserve including pension assets and liabilities	353,145	277,050

38 Principal Operating Subsidiary Undertakings

Details of the principal operating subsidiary undertakings are set out on page 67.

39 Post Balance Sheet Event

On 7 January 2005 the Group's offer for Heiton Group plc was declared unconditional in all respects and control passed to Grafton. The consideration payable for the 71 per cent of the ordinary shares not already owned by Grafton involved the issue of 21.4 million Grafton Units and payment of €100 million in cash to Heiton Group plc shareholders plus expenses associated with the acquisition. The operations of Heiton Group plc are described in the Chairman's Statement on page 8.

40 Approval of Financial Statements

The Board of Directors approved the financial statements on 8 March 2005.