

Notes to the Financial Statements

1. Segmental Analysis (continued)

	Ireland		UK		Group	
	2007 €'000	2006 €'000	2007 €'000	2006 €'000	2007 €'000	2006 €'000
Segment liabilities	(310,655)	(339,383)	(286,490)	(296,132)	(597,145)	(635,515)
Unallocated liabilities	-	-	-	-	(805,901)	(833,634)
Total liabilities					(1,403,046)	(1,469,149)

	Ireland		UK		Group	
	2007 €'000	2006 €'000	2007 €'000	2006 €'000	2007 €'000	2006 €'000
Capital expenditure	27,744	37,579	76,906	86,822	104,650	124,401
Non-cash expenditure:						
Depreciation	19,335	19,151	37,457	34,012	56,792	53,163
Intangible amortisation	2,212	2,212	-	-	2,212	2,212
Share based payments	2,024	1,310	2,441	1,954	4,465	3,264
	23,571	22,673	39,898	35,966	63,469	58,639

Unallocated assets include financial assets, deferred tax assets, derivatives and cash and cash equivalents.

Unallocated liabilities include interest bearing loans and borrowings, deferred tax liabilities and derivative financial instruments.

Capital expenditure excludes non-current assets acquired in business combinations.

Business Segment

	Segment Revenue		Segment Assets		Capital Expenditure	
	2007 €'000	2006 €'000	2007 €'000	2006 €'000	2007 €'000	2006 €'000
UK merchanting	1,905,378	1,664,856	1,230,516	1,196,174	74,023	76,564
Irish merchanting	819,164	816,602	772,259	768,352	17,272	27,168
Total merchanting	2,724,542	2,481,458	2,002,775	1,964,526	91,295	103,732
DIY	339,849	311,680	127,748	132,507	8,974	7,525
Manufacturing	140,635	140,799	106,976	117,810	4,381	13,144
	3,205,026	2,933,937	2,237,499	2,214,843	104,650	124,401
Deferred tax assets			27,309	34,865		
Financial assets			850	414		
Derivative and other financial instruments			584	1,847		
Cash and cash equivalents			204,489	231,519		
			2,470,731	2,483,488		

Notes to the Financial Statements

2. Other Income

Other income relates to profit on disposal of property. The Group realised a profit of €7,254,000 (2006: €37,989,000) on the sale of one property in Ireland and two in the United Kingdom. The estimated taxation payable on these profits amounted to €943,000 (2006: €4,938,000).

3. Operating Costs

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

	2007 €'000	2006 €'000
Decrease/(increase) in inventories	17,010	(21,638)
Purchases and consumables	2,141,227	2,006,315
Staff costs (note 5)	427,948	389,218
Auditor's remuneration	1,352	1,056
Depreciation	56,792	53,163
Lease rentals and other hire charges	55,315	43,581
Intangible amortisation	2,212	2,212
(Profit) on sale of scaffolding	(1,534)	(1,955)
(Profit) on disposal of other plant and equipment	(1,692)	(1,446)
Other operating charges	242,851	220,700
	2,941,481	2,691,206

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

	Group		Company	
	2007 €'000	2006 €'000	2007 €'000	2006 €'000
Audit Services:				
Statutory audit	1,352	1,056	76	72
Further assurance services	128	125	11	10
Tax compliance and advisory services	2,072	1,203	2,072	1,203
	3,552	2,384	2,159	1,285

4. Directors' Remuneration, Pension Entitlements and Interests

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

Notes to the Financial Statements

5. Employment

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

	Group		Company	
	2007	2006	2007	2006
Merchanting and DIY retailing	10,887	10,169	-	-
Manufacturing	474	473	-	-
Holding company	22	22	22	22
	11,383	10,664	22	22

The aggregate remuneration costs of employees were:

	€'000	€'000	€'000	€'000
Wages and salaries	373,164	338,265	5,176	4,114
Social welfare	36,921	34,540	474	387
Share based payments expense	4,465	3,264	766	396
Defined benefit pension	7,326	7,492	894	821
Defined contribution and pension related costs	6,072	5,657	377	298
Charged to operating profit	427,948	389,218	7,687	6,016
Actuarial (gain)/loss on pension schemes	(12,573)	(4,939)	514	(502)
Finance cost on pension scheme liabilities	12,307	10,270	959	718
Expected return on pension scheme assets	(16,426)	(12,170)	(1,455)	(1,033)
Total employee benefit cost	411,256	382,379	7,705	5,199

Key Management

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

	Group		Company	
	2007	2006	2007	2006
Number of Individuals	13	13	10	10
	2007	2006	2007	2006
	€'000	€'000	€'000	€'000
Short-term employee benefits	4,708	4,536	3,706	3,638
Share based payment expense	925	570	559	348
IAS 19 pension charge	966	860	834	743
Charged to operating profit	6,599	5,966	5,099	4,729

Notes to the Financial Statements

6. Finance Expense and Finance Income

	2007 €'000	2006 €'000
Finance expense:		
Bank overdrafts and loans	32,629	26,137
Net change in fair value of cash flow hedges transferred from equity	(1,784)	(353)
Interest on finance leases	696	1,026
Finance cost on pension scheme liabilities	12,307	10,270
Interest on loan notes	17,799	16,070
Fair value movement on hedged financial liabilities	(3,147)	30,382
Fair value movement on fair value hedges	3,147	(30,382)
Interest capitalised on joint venture	(78)	(264)
	61,569	52,886
Finance income:		
Interest income on bank deposits	(10,177)	(9,352)
Expected return on pension plan assets	(16,426)	(12,170)
	(26,603)	(21,522)
Net finance expense recognised in income statement	34,966	31,364
Recognised directly in equity		
Currency translation effects on foreign currency net investments	(44,583)	8,584
Currency translation effects on foreign currency borrowings	829	(396)
Effective portion of changes in fair value of cash flow hedges	521	1,875
Net change in fair value of cash flow hedges transferred to income statement	(1,784)	(353)
Deferred tax on cash flow hedges recognised directly in equity	158	(191)
	(44,859)	9,519

7. Foreign Currencies

The results and cash flows of the Group's United Kingdom subsidiaries have been translated into euro using the average exchange rate for the year. The related balance sheets of the Group's United Kingdom subsidiaries at 31 December 2007 and 31 December 2006 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 2007 was Stg68.43p (2006: Stg68.17p). The euro/sterling exchange rate at 31 December 2007 was Stg73.34p (2006: Stg67.15p).

Notes to the Financial Statements

8. Income Tax Expense

(a) Income tax expense recognised in the income statement	2007	2006
	€'000	€'000
Current tax expense		
Irish corporation tax	11,071	11,986
UK corporation tax	2,498	1,348
	13,569	13,334
Deferred tax expense		
Irish	587	2,212
UK	16,502	16,872
Total deferred tax	17,089	19,084
Total income tax expense in income statement	30,658	32,418

The deferred tax charge for the Group for the year ended 31 December 2007 includes a minor benefit reflecting the impact of the legislated reduction in the UK tax rates from 30 per cent to 28 per cent.

(b) Reconciliation of effective tax rate	2007	2006
	€'000	€'000
Profit before tax	235,833	249,356
Profit before tax multiplied by the standard rate of tax of 12.5% (2006: 12.5%)	29,479	31,170
Effects of:		
Expenses not deductible for tax purposes	5,815	6,077
Differences in effective tax rates on overseas earnings	(3,474)	(3,964)
Higher Irish tax rates on property disposals	-	1,919
Income at reduced Irish rates	(117)	(1,990)
Other differences	(1,045)	(794)
Total income tax expense in income statement	30,658	32,418

(c) Deferred tax liability/(asset) recognised directly in equity	2007	2006
	€000	€000
Share based payments	2,078	(1,832)
Actuarial movement on pension schemes	2,599	44
Financing – cash flow hedge	(158)	191
	4,519	(1,597)

(d) Factors that may affect future tax rates

No provision for tax has been recognised on the undistributed profits of overseas subsidiaries as no remittance of profit is expected in such a way that an incremental tax charge will arise. Similarly, no deferred tax assets or liabilities have been recognised in respect of temporary differences associated with investments in subsidiaries.

Notes to the Financial Statements

9. Purchase of 'A' ordinary shares

	2007 €'000	2006 €'000
Group and Company		
Purchase of one 'A' ordinary share for 10.50 cent – paid 28 March 2007	25,129	-
Purchase of one 'A' ordinary share for 10.00 cent – paid 3 October 2007	23,919	-
Purchase of one 'A' ordinary share for 8.50 cent – paid 31 March 2006	-	20,204
Purchase of one 'A' ordinary share for 8.25 cent – paid 18 October 2006	-	19,716
	49,048	39,920

The Board resolved to purchase one 'A' ordinary share per Grafton Unit for a cash consideration of 12.00 cent payable on 11 April 2008. Accordingly, no final dividend will be declared in respect of the year ended 31 December 2007. This follows the purchase of one 'A' ordinary share per Grafton Unit for a cash consideration of 10.00 cent which was paid on 3 October 2007 to give total payments for the year of 22.00 cent. This represents an increase of 17 per cent on share purchase payments for 2006 of 18.75 cent per Grafton Unit. The share purchase payable on 11 April 2008 is chargeable to reserves in 2008.

10. Earnings per Share – Group

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

	2007 €'000	2006 €'000
Numerator for basic, adjusted and diluted earnings per share:		
Profit after tax for the financial year	205,175	216,938
Numerator for basic and diluted earnings per share	205,175	216,938
Other income (property profit) after tax	(6,311)	(33,051)
Intangible amortisation after tax	1,935	1,935
Numerator for adjusted earnings per share	200,799	185,822
Denominator for basic and adjusted earnings per share:		
Weighted average number of Grafton Units in issue	238,145,757	238,324,290
Effect of potential dilutive Grafton Units	3,856,396	4,505,408
Denominator for diluted earnings per share	242,002,153	242,829,698
Earnings per Share (cent)		
– Basic	86.16	91.03
– Diluted	84.78	89.34
Adjusted earnings per share (cent)		
– Basic	84.32	77.97
– Diluted	82.97	76.52

Weighted average share entitlements of 2,748,194 Grafton Units (2006: 330,125) which are currently anti-dilutive are not included in the above calculations.

Notes to the Financial Statements

11. Goodwill – Group

	2007 €'000	2006 €'000
Cost		
At 1 January	582,861	532,323
Acquired during the year (note 32)	48,073	44,649
Goodwill written off	(88)	(243)
Translation adjustment	(30,053)	6,132
At 31 December	600,793	582,861

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

	2007 €'000	2006 €'000
UK	329,411	312,885
Ireland	271,382	269,976
	600,793	582,861

Goodwill acquired through business combinations is monitored for impairment by review of the underlying performance of each individual acquisition compared to pre-acquisition objectives and budgets. Goodwill on each individual acquisition/cash generating unit is tested for impairment annually by review of profit and cashflow forecasts and budgets.

The key assumptions used to assess impairment were as follows:

Forecast sales and cashflows are based on management approved budgets for 2008 projected forward for an additional nine years based on historical organic sales growth adjusted for management's assessment of macro-economic factors affecting the industry and other developments and initiatives in the business and specifically exclude incremental profit and cashflows resulting from future acquisition activity. Long-term forecast growth rates of 2.5 per cent and 3.5 per cent for the nine years were used for the UK and Irish economies respectively.

Forecast gross margin is based on the historically achieved gross margin as adjusted for management's assessment of competitive factors within the industry and opportunities for margin improvement.

Forecasted cashflows for each individual acquisition/cash generating unit are discounted at a rate of 8 per cent, representing the Group's weighted average cost of capital (WACC). No impairment of goodwill was identified as a result of this review.

Notes to the Financial Statements

11. (a) Intangible Assets – Group

	Brands €'000	Customer Relationships €'000	Total €'000
Cost			
At 1 January 2007/2006	5,658	12,037	17,695
At 31 December 2007/2006	5,658	12,037	17,695
Amortisation			
At 1 January 2006	696	1,480	2,176
Amortised during the year	707	1,505	2,212
At 1 January 2007	1,403	2,985	4,388
Amortised during the year	707	1,505	2,212
At 31 December 2007	2,110	4,490	6,600
Net book amount at 31 December 2007	3,548	7,547	11,095
Net book amount at 31 December 2006	4,255	9,052	13,307

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

The value attributable to customer relationships was determined based on management's estimate of the profitability of recurring customers and by discounting the related forecasted cashflow arising over the asset life.

Notes to the Financial Statements

12. Property, Plant and Equipment

Group	Freehold Land and Buildings €'000	Leasehold Buildings €'000	Plant Machinery and Motor Vehicles €'000	Total €'000
Cost				
At 1 January 2006	393,759	73,593	298,206	765,558
Additions	50,105	6,349	67,947	124,401
Acquisitions	21,252	348	3,326	24,926
Disposals	(28,106)	(3,867)	(31,852)	(63,825)
Exchange adjustment	5,004	1,009	5,165	11,178
At 1 January 2007	442,014	77,432	342,792	862,238
Additions	36,083	9,997	58,570	104,650
Acquisitions	12,206	610	2,820	15,636
Disposals	(2,439)	(91)	(29,368)	(31,898)
Exchange adjustment	(24,157)	(4,755)	(23,800)	(52,712)
At 31 December 2007	463,707	83,193	351,014	897,914
Depreciation				
At 1 January 2006	14,577	10,463	117,290	142,330
Charge for year	5,376	3,594	44,193	53,163
Disposals	(436)	(898)	(22,007)	(23,341)
Exchange adjustment	366	270	3,285	3,921
At 1 January 2007	19,883	13,429	142,761	176,073
Charge for year	5,874	4,200	46,718	56,792
Disposals	(409)	(89)	(19,752)	(20,250)
Exchange adjustment	(1,692)	(1,160)	(15,586)	(18,438)
At 31 December 2007	23,656	16,380	154,141	194,177
Net book amount				
At 31 December 2007	440,051	66,813	196,873	703,737
At 31 December 2006	422,131	64,003	200,031	686,165
At 31 December 2005	379,182	63,130	180,916	623,228

Notes to the Financial Statements

12. Property, Plant and Equipment (continued)

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

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

	Plant, Machinery & Motor Vehicles		Leasehold Properties	
	2007 €'000	2006 €'000	2007 €'000	2006 €'000
Cost	8,018	9,620	10,643	10,109
Accumulated depreciation	(5,513)	(5,163)	(1,589)	(1,167)
Net book amount	2,505	4,457	9,054	8,942
Depreciation charge for year	848	828	449	612

During the year the Group repaid finance leases amounting to €1.9 million (2006: €1.9 million).

Plant and equipment in the Company is stated as follows:

	Plant and Equipment	
	2007 €'000	2006 €'000
Company		
Cost		
At 1 January	1,375	1,200
Additions	21	175
At 31 December	1,396	1,375
Depreciation		
At 1 January	1,022	850
Charge for year	122	172
At 31 December	1,144	1,022
Net book amount		
At 31 December	252	353
At 31 December	353	350

Notes to the Financial Statements

13. Financial Assets

	Group		Company	
	Other Investments €'000	Other Investments €'000	Shares in Subsidiary Undertakings €'000	Total €'000
At 1 January 2006	256	13	343,706	343,719
Additions	90	-	-	-
Acquisitions	63	-	3,131	3,131
Capital contribution – share based payments	-	-	2,868	2,868
Translation adjustment	5	-	-	-
At 31 December 2006	414	13	349,705	349,718
Additions	510	-	-	-
Acquisitions	17	-	6,770	6,770
Disposal	(58)	-	-	-
Capital contribution – share based payments	-	-	3,699	3,699
Translation adjustment	(33)	-	-	-
At 31 December 2007	850	13	360,174	360,187

Other investments represent sundry equity investments at cost.

Interest in Joint Venture The Group has a fifty per cent interest in Navan Retail Developments Limited, a joint venture company, whose principal activity is the development of a retail park in Navan, Co. Meath. At 31 December 2007 the Group had no outstanding advance to Navan Retail Developments Limited (31 December 2006: €2.7 million). The joint venture has been accounted for using proportionate accounting. Assets and liabilities included for Navan Retail Developments Limited in the consolidated financial statements are work-in-progress of €3.0 million (31 December 2006: €3.1 million); other net current (liabilities)/assets of (€0.4) million (31 December 2006: €0.9 million); interest bearing debt within current liabilities of €nil million (31 December 2006: €1.4 million) and reserves of €2.6 million (31 December 2006: €2.6 million) which reflects the net profit the Group has recognised in the income statement in respect of this development.

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

14. Inventories

	Group	
	2007 €'000	2006 €'000
Raw materials	1,969	2,421
Work in progress	2,963	4,995
Finished goods	10,265	10,459
Goods purchased for resale	370,982	372,525
	386,179	390,400

Notes to the Financial Statements

15. Trade and Other Receivables

	Group		Company	
	2007 €'000	2006 €'000	2007 €'000	2006 €'000
<i>Amounts falling due within one year:</i>				
Trade debtors	423,080	431,830	-	-
Amounts owed by subsidiary undertakings	-	-	670,515	668,056
Other receivables	112,615	108,930	8,821	7,665
Amount owed by joint venture	-	1,350	-	-
	535,695	542,110	679,336	675,721

16. Reconciliation of Total Equity

Group	Notes	2007 €'000	2006 €'000
At beginning of period		1,014,339	813,811
Shares bought back and cancelled		(67,090)	-
Treasury shares acquired		(5,746)	-
Issue of ordinary and 'A' ordinary share capital		2,553	4,000
Adjustment for share based payments expense		4,465	3,264
Deferred tax on share based payments expense		(2,078)	1,832
Purchase of 'A' ordinary shares	9	(49,048)	(39,920)
Total recognised income and expense for the year		170,290	231,352
Closing shareholders' funds – equity		1,067,685	1,014,339

Company	Notes	2007 €'000	2006 €'000
At beginning of period		647,796	381,356
Shares bought back and cancelled		(67,090)	-
Treasury shares acquired		(5,746)	-
Issue of ordinary and 'A' ordinary share capital		2,553	4,000
Adjustment for share based payments expense		4,465	3,264
Purchase of 'A' ordinary shares	9	(49,048)	(39,920)
Total recognised income and expense for the year		106,076	299,096
At end of period		639,006	647,796

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17. Share Capital

Group and Company	2007	2006
	€'000	€'000
Authorised:		
Equity shares		
300 million ordinary shares of 5c each	15,000	15,000
3 billion 'A' ordinary shares of 0.01c each	300	300
	15,300	15,300

	Issue Price	Number of Shares	2007 Nominal Value	2006 Nominal Value
	€		€'000	€'000
Issued and fully paid:				
Ordinary shares				
At 1 January		239,245,554	11,962	11,871
Shares bought back and cancelled		(10,031,000)	(502)	-
Issued under UK SAYE scheme		9,446	1	-

Grafton Group Share Schemes

Date options and entitlements to acquire shares granted

April 1996	0.65	-	-	2
April 1997	1.07	39,798	2	9
June 1998	2.21	47,758	3	16
Sept 1998	1.65	-	-	2
July 1999	1.81	31,838	2	10
May 2000	2.07	87,556	4	13
May 2001	2.83	129,084	6	39
April 2002	4.00	387,047	19	-
June 2002	4.08	59,436	3	-
		782,517	39	91

At 31 December	230,006,517	11,500	11,962
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'A' ordinary shares

At 1 January	1,196,227,770	120	166
'A' ordinary shares issued in year	2,900,180	-	2
Shares bought back and cancelled	(30,093,000)	(3)	-
Purchase of 1 'A' ordinary share per Grafton Unit	(239,326,989)	(24)	(24)
Purchase of 1 'A' ordinary share per Grafton Unit	(239,688,410)	(24)	(24)
At 31 December	690,019,551	69	120

Total nominal share capital issued	11,569	12,082
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17. Share Capital (continued)

Grafton Units Issued During 2007

The number of Grafton Units issued during the year under the Group's Executive Share Schemes was 782,517 and the total consideration received amounted to €2,545,000. UK employees were issued with 9,446 Grafton Units under the Grafton Group (UK) plc Savings Related Share Option Scheme for a total consideration of €72,000.

Grafton Units

At 31 December 2007 a Grafton Unit comprised one ordinary share of 5 cent and three '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 2006 a Grafton Unit comprised one ordinary share of 5 cent and five 'A' ordinary shares of 0.01 cent each in Grafton Group plc and one 'C' ordinary share of Stg0.0001p in Grafton Group (UK) plc.

Ordinary shares

The holders of ordinary shares are entitled to attend, speak and vote at all General Meetings of the Company.

'A' ordinary shares

The authorised share capital of the Company was increased by the creation of 3 billion 'A' ordinary shares on 11 May 2004. On 14 June 2004, the Company issued 10 'A' ordinary shares per Grafton Unit. A special dividend of 0.125c paid on 14 June 2004 was used as subscription proceeds for the issue of the 10 'A' ordinary shares. The Company purchased one of the 10 'A' ordinary shares on 1 October 2004 for a cash consideration of 1 cent, to leave nine 'A' ordinary shares attaching to a Grafton Unit at 31 December 2004. On 18 March 2005 the Company purchased one 'A' ordinary share for a cash consideration of 7 cent each and on 14 October 2005 purchased one 'A' ordinary share for a cash consideration of 7.25 cent each, leaving seven 'A' ordinary shares per Grafton Unit at 31 December 2005. On 24 March 2006 the Company purchased one 'A' ordinary share for a cash consideration of 8.50 cent each and on 6 October 2006 purchased one 'A' ordinary share for a cash consideration of 8.25 cent each leaving five 'A' ordinary shares per Grafton Unit at 31 December 2006. In 2007 a further two 'A' ordinary shares were purchased on 9 March 2007 and 24 August 2007 for a cash consideration of 10.50 cent and 10.00 cent respectively leaving three 'A' ordinary shares per Grafton Unit at 31 December 2007. All 'A' ordinary shares purchased were cancelled.

The 'A' ordinary shares rank *pari passu* with ordinary shares regarding any dividends declared. On a return of capital on a winding up or otherwise (other than on conversion, redemption or purchase of shares), the holders of 'A' ordinary shares are entitled, *pari passu* with the holders of the ordinary shares, to the repayment of their nominal value of 0.01 cent per share, with no right to participate any further. The holders of the 'A' ordinary shares are not entitled to receive notice of any general meeting of Grafton or to attend, speak or vote at any such general meeting, unless the business of the meeting includes a resolution varying or abrogating any of the special rights attaching to such shares.

'C' ordinary shares

The 'C' ordinary shares do not entitle their holders to receive notice of, attend or vote at any general meeting of Grafton Group (UK) plc unless the business of the meeting includes a resolution varying or abrogating any of the special rights attaching to such shares. If dividends are declared, the holder of a Grafton Unit who has given an appropriate dividend election shall be entitled to be paid dividends in respect of the 'C' ordinary shares comprised in such Grafton Unit. On a return of capital on a winding up or otherwise (other than on conversion, redemption or purchase of shares) the holders of 'C' ordinary shares are entitled, *pari passu* with the holders of the 'A' ordinary shares and 'B' ordinary shares in Grafton Group (UK) plc, to the repayment of their nominal value of Stg0.0001p per share, with no right to participate any further. Any holder of a 'C' ordinary share, with the prior approval of an extraordinary resolution of the holders of the 'C' ordinary shares or with the prior consent in writing of the holders of at least three quarters in nominal value of the issued 'C' ordinary shares, is entitled to call for all the holders of the 'A' ordinary shares and/or 'B' ordinary shares to acquire all the 'C' ordinary shares at their nominal value.

Share Buybacks and Treasury Shares

In June 2007 the Group bought 500,000 Grafton Units to be held as treasury shares at a total cost of €5,746,000. In the second half of the year the Group bought back and cancelled 10,031,000 Grafton Units at a total cost of €67,090,000.

Notes to the Financial Statements

18. Share Premium Account

	2007 €'000	2006 €'000
Group and Company		
At 1 January	284,945	281,038
Premium on shares issued under share schemes	2,577	4,046
Costs of share issues	(64)	(139)
At 31 December	287,458	284,945

19. Capital Redemption Reserve

	2007 €'000	2006 €'000
Group and Company		
At 1 January	322	274
Shares bought back and cancelled	505	-
Purchase of 'A' ordinary shares	48	48
At 31 December	875	322

This is a legal reserve which arises from shares bought back and cancelled in 2007 and from the purchase of the 'A' ordinary shares and the redemption of redeemable shares in prior years.

20. Revaluation Reserve

	2007 €'000	2006 €'000
Group and Company		
At 1 January	32,973	36,574
Transfer to retained earnings	(205)	(3,601)
At 31 December	32,768	32,973

21. Other Reserves

	2007 €'000	2006 €'000
Group and Company		
Shares to be Issued		
At 1 January	6,455	3,191
Provision for cost of share based payments	4,465	3,264
At 31 December	10,920	6,455

Notes to the Financial Statements

22. Foreign Currency Translation Reserve

	2007 €'000	2006 €'000
Group		
At 1 January	13,220	5,032
On foreign currency net investments	(44,583)	8,584
On foreign currency borrowings	829	(396)
At 31 December	(30,534)	13,220

23. Cash Flow Hedge Reserve

	2007 €'000	2006 €'000
Group		
At 1 January	1,616	285
Adjustment for deferred tax	158	(191)
Movement in year	(1,263)	1,522
At 31 December	511	1,616

24. Interest Bearing Loans and Borrowings

	Group		Company	
	2007 €'000	2006 €'000	2007 €'000	2006 €'000
Non-Current Liabilities				
Sterling bank loans	129,569	242,699	-	-
Euro bank loans	178,024	164,206	-	-
2005 unsecured senior US dollar loan notes	206,343	245,585	-	-
1998 unsecured senior US dollar loan notes	-	8,413	-	8,413
Finance leases	9,375	10,714	-	-
	523,311	671,617	-	8,413
Current Liabilities				
Bank overdrafts	1,000	29,755	4	4
Sterling bank loans	133,981	37,230	-	-
Euro bank loans	48,142	-	-	-
2005 unsecured senior US dollar loan notes	20,485	-	-	-
1998 unsecured senior US dollar loan notes	7,482	8,412	7,482	8,412
1997 unsecured senior US dollar loan notes	-	3,738	-	-
Vendor loan notes	1,460	8,063	272	390
Obligations under finance leases	1,074	1,387	-	-
	213,624	88,585	7,758	8,806

Notes to the Financial Statements

24. Interest Bearing Loans and Borrowings (continued)

In 1998 the Group completed a US\$55 million debt financing at a fixed interest rate of 6.91 per cent in the US Private Placement Market and issued unsecured senior loan notes maturing up to 2008. The US dollar proceeds were swapped into sterling and a cross currency interest rate derivative effectively changes the interest rate payable on the loan notes to sterling variable by reference to six month LIBOR rates.

On 23 June 2005 the Group completed a US\$325 million debt financing at fixed interest rates ranging from 4.68 per cent to 4.88 per cent in the US Private Placement Market and issued unsecured senior loan notes maturing between 2008 and 2015. US\$250 million of the US dollar proceeds were swapped into sterling and a cross currency interest rate derivative changes the interest rate payable on the loan notes to sterling variable by reference to six month LIBOR rates. The balance of US\$75 million was received in sterling and the interest rate payable on the loan notes is currently variable by reference to three month LIBOR rates.

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

Loan notes were issued to vendors of businesses acquired and are redeemable at the option of the note holders on specified dates between January 2008 and December 2011. The interest rates payable on these loan notes are set at fixed rates or on terms directly related to London Inter-Bank Offer Rate (LIBOR).

Maturity of Financial Liabilities

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

	Bank Loans and Overdrafts	Loan Notes	Finance Leases	Total	Bank Loans and Overdrafts	Loan Notes	Finance Leases	Total
	2007	2007	2007	2007	2006	2006	2006	2006
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Due within one year	183,123	29,427	1,074	213,624	66,985	20,213	1,387	88,585
Between one and two years	16,363	52,838	141	69,342	334,815	30,568	603	365,986
Between two and three years	16,363	35,826	-	52,189	17,870	59,270	80	77,220
Between three and four years	211,273	35,826	-	247,099	17,871	36,784	-	54,655
Between four and five years	63,594	35,826	-	99,420	17,871	38,768	-	56,639
After five years	-	46,027	9,234	55,261	18,478	88,608	10,031	117,117
	490,716	235,770	10,449	736,935	473,890	274,211	12,101	760,202
Derivatives				17,943				22,177
Gross Debt				754,878				782,379
Cash and short-term deposits				(204,489)				(231,519)
Net debt				550,389				550,860
Shareholders' funds				1,067,685				1,014,339
Gearing				52%				54%

Notes to the Financial Statements

24. Interest Bearing Loans and Borrowings (continued)

The following table indicates the effective interest rates at 31 December 2007 in respect of interest bearing financial assets and financial liabilities and the periods in which they reprice. The effective interest rate and timing of repricing were both adjusted for the effect of derivatives.

	Effective Interest Rate	Total €'000	6 months or less €'000	6 to 12 months €'000	1-2 years €'000	More than 5 years €'000
Sterling deposits	6.15%	12,006	12,006	-	-	-
Euro deposits	4.88%	117,012	117,012	-	-	-
Cash at bank	5.25%	75,471	75,471	-	-	-
Cash and cash equivalents		204,489	204,489	-	-	-
Sterling bank overdrafts	6.50%	(1,000)	(1,000)	-	-	-
Deposits and cash less overdrafts		203,489	203,489	-	-	-
<i>Floating rate debt:</i>						
Euro loans	5.11%	(226,166)	(226,166)	-	-	-
Sterling loans	6.32%	(195,370)	(195,370)	-	-	-
Total floating rate debt		(421,536)	(421,536)	-	-	-
<i>Fixed rate debt:</i>						
Sterling loans	3.90%	(68,180)	(68,180)	-	-	-
Finance leases	6.00%	(10,449)	-	(1,074)	(141)	(9,234)
Total fixed rate debt		(78,629)	(68,180)	(1,074)	(141)	(9,234)
<i>Loan notes:</i>						
US dollar loan notes	6.55%	(226,828)	(226,828)	-	-	-
1998 US dollar loan notes*	7.22%	(7,482)	(7,482)	-	-	-
Vendor loan notes	4.50%	(1,188)	(1,188)	-	-	-
Company vendor loan notes*	4.50%	(272)	(272)	-	-	-
Total loan notes		(235,770)	(235,770)	-	-	-
Derivatives		(17,943)	(17,943)	-	-	-
Total Net Debt		(550,389)	(539,940)	(1,074)	(141)	(9,234)

*Relates to Company only.

Notes to the Financial Statements

24. Interest Bearing Loans and Borrowings (continued)

The following table indicates the effective interest rates at 31 December 2006 in respect of interest bearing financial assets and financial liabilities and the periods in which they reprice. The effective interest rate and timing of repricing were both adjusted for the effect of derivatives.

	Effective Interest Rate	Total €'000	6 months or less €'000	6 to 12 months €'000	1-2 years €'000	2-5 years €'000	More than 5 years €'000
Sterling deposits	5.20%	25,288	25,288	-	-	-	-
Euro deposits	3.60%	115,640	115,640	-	-	-	-
Cash at bank	4.17%	90,591	90,591	-	-	-	-
Cash and cash equivalents		231,519	231,519	-	-	-	-
Sterling bank overdrafts	6.00%	(29,755)	(29,755)	-	-	-	-
Deposits and cash less overdrafts		201,764	201,764	-	-	-	-
<i>Floating rate debt:</i>							
Euro loans	3.99%	(164,206)	(164,206)	-	-	-	-
Sterling loans	5.62%	(116,727)	(116,727)	-	-	-	-
Total floating rate debt		(280,933)	(280,933)	-	-	-	-
<i>Fixed rate debt:</i>							
Sterling loans	4.48%	(163,202)	-	(88,742)	(74,460)	-	-
Finance leases	6.00%	(12,101)	-	(1,387)	(603)	(80)	(10,031)
Total fixed rate debt		(175,303)	-	(90,129)	(75,063)	(80)	(10,031)
<i>Loan notes:</i>							
US dollar loan notes	5.99%	(249,323)	(249,323)	-	-	-	-
1998 US dollar loan notes*	6.21%	(16,825)	(16,825)	-	-	-	-
Vendor loan notes	4.32%	(7,673)	(7,673)	-	-	-	-
Company vendor loan notes*	4.32%	(390)	(390)	-	-	-	-
Total loan notes		(274,211)	(274,211)	-	-	-	-
Derivatives		(22,177)	(24,024)	923	924	-	-
Total net debt		(550,860)	(377,404)	(89,206)	(74,139)	(80)	(10,031)

*Relates to Company only.

Borrowing Facilities

The Group had undrawn committed borrowing facilities at 31 December 2007 of €49.0 million (2006: €185.4 million) in respect of which all conditions precedent have been met and which expire within 12 months.

Fair Value

The Group estimates fair value by using interest rate yield curves to create and discount future cash flows. The total amount of fair value changes that were recognised in the income statement for the year netted to nil.

Notes to the Financial Statements

24. Interest Bearing Loans and Borrowings (continued)

The fair values of financial assets and liabilities together with the carrying amounts shown in the balance sheet are as follows:

Group	31 December 2007		31 December 2006	
	Carrying Amount €'000	Fair Value €'000	Carrying Amount €'000	Fair Value €'000
Financial assets	850	850	414	414
Trade debtors and other receivables	535,695	535,695	540,760	540,760
Cash and cash equivalents	204,489	204,489	231,519	231,519
Interest rate swaps used for hedging	584	584	1,847	1,847
Cross currency swaps used for hedging	(18,527)	(18,527)	(24,024)	(24,024)
Euro bank loans	(226,166)	(226,166)	(164,206)	(164,206)
Sterling bank loans	(263,550)	(263,550)	(279,929)	(279,929)
Bank overdrafts	(1,000)	(1,000)	(29,755)	(29,755)
Finance leases	(10,449)	(10,449)	(12,101)	(12,101)
2005 unsecured senior US dollar loan notes	(226,828)	(232,537)	(245,585)	(253,801)
1998 unsecured senior US dollar loan notes	(7,482)	(7,482)	(16,825)	(16,825)
1997 unsecured senior US dollar loan notes	-	-	(3,738)	(3,738)
Vendor loan notes	(1,460)	(1,460)	(8,063)	(8,063)
	(13,844)	(19,553)	(9,686)	(17,902)

There is no difference between the fair value and carrying value of the financial assets and financial liabilities for the Company.

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

Credit Risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on an ongoing basis.

New customers are subject to initial credit checks including trade and bank references. New customers may also be subject to restricted credit limits prior to a credit history being established. Due to the established nature of the businesses and customer relationships, the majority of the customers have long-standing trading histories with the Group companies. The Group also has credit insurance in place to manage its credit exposure to trade debtors.

Notes to the Financial Statements

24. Interest Bearing Loans and Borrowings (continued)

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet. The maximum exposure to credit risk at 31 December 2007 was:

	Carrying Amount	
	2007 €'000	2006 €'000
Financial assets	850	414
Trade debtors and other receivables	535,695	540,760
Cash and cash equivalents	204,489	231,519
Interest rate swaps used for hedging	584	1,847
	741,618	774,540

No adjustment has been made for trade debtors covered by credit insurance. The maximum exposure to credit risk for trade debtors and other receivables at the reporting date by geographic region was:

	Carrying Amount	
	2007 €'000	2006 €'000
Domestic	249,042	230,444
United Kingdom	286,653	310,316
	535,695	540,760

There is no material concentration of credit risk with regard to individual customers included in Group and Company trade debtors and other receivables.

The maximum exposure to credit risk for cash and cash equivalents at the reporting date was:

	Carrying Amount	
	2007 €'000	2006 €'000
Domestic financial institutions	160,091	189,219
United Kingdom financial institutions	44,398	42,300
	204,489	231,519

The domestic cash on deposit is primarily held with Bank of Ireland.

Notes to the Financial Statements

24. Interest Bearing Loans and Borrowings (continued)

Group

The ageing of trade debtors and other receivables at 31 December was:

	2007 €'000	2007 €'000	2006 €'000	2006 €'000
	Gross Value	Impairment	Gross Value	Impairment
Not Past Due	490,711	-	500,478	-
Past Due				
0-30 days	30,686	(2,164)	34,030	(2,087)
30-60 days	22,692	(9,657)	17,308	(9,667)
+60 days	10,747	(7,320)	8,406	(7,708)
	64,125	(19,141)	59,744	(19,462)
	554,836	(19,141)	560,222	(19,462)

Movement in Impairment Provision

	2007 €'000
At 1 January	19,462
Written off	(3,598)
Additional provision	4,291
Translation adjustment	(1,014)
At 31 December	19,141

Company

None of the amounts owed from subsidiary undertakings of €670.5 million (2006: €668.1 million) is overdue for payment or is not fully recoverable. The maximum credit risk is represented by the carrying amount of the asset. The cash on deposit at the year end is primarily held with Bank of Ireland.

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. Therefore the level of transactional foreign exchange exposure is not significant. As part of the Group's net worth is denominated in sterling reflecting ongoing profit after tax reserves retained in sterling in the UK business, the Group is subject to a structural foreign exchange exposure. This is addressed in the sensitivity analysis below.

The majority of foreign exchange exposure for the Company relates to inter-group balances and transactions.

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

Sensitivity Analysis

A ten per cent strengthening of the euro exchange rate against the sterling exchange rate would decrease equity and profit after tax by the amount shown below. This assumes that all variables, in particular interest rates, remain constant. A ten per cent weakening of the euro exchange rate against the sterling exchange rate would have an equal and opposite effect on the amounts shown below on the basis that all variables remain constant.

Notes to the Financial Statements

24. Interest Bearing Loans and Borrowings (continued)

	Equity €'000	Profit after tax €'000
31 December 2007		
10% strengthening of euro currency against sterling	(39,200)	(8,700)
31 December 2006		
10% strengthening of euro currency against sterling	(36,200)	(7,100)

Hedging

The Group has exposure to changes in interest rates on certain debt instruments and took the decision to eliminate an element of this risk by entering into interest rate swaps. The swaps mature in 2008 following the maturity of the related loans and were fixed at 3.90 per cent. At 31 December 2007, the Group had interest rate swaps with a notional contract amount of Stg£50.0 million.

The Group classifies its interest rate swaps as cash flow hedges and states them at their fair value. The fair value of these swaps at 31 December 2007 was €584,000 (2006: €1,847,000) and a corresponding entry was recorded in the cash flow hedge reserve in equity as a result of these hedges being fully effective.

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

The Group classifies these cross currency interest rate swaps as fair value hedges and states them at their fair value. The fair value of these swaps at 31 December 2007 was €18,527,000 and was included in current liabilities and non-current liabilities (31 December 2006: €24,024,000).

Where foreign currency borrowings provide a hedge against a net investment in a foreign operation, foreign exchange differences are taken directly to a foreign exchange reserve.

Interest Rate Risk

The majority of the Group's ongoing operations are financed from a mixture of cash generated from operations and borrowings. Other than the US dollar borrowings which were secured at fixed interest rates, borrowings are initially secured at floating interest rates and interest rate risk is monitored on an ongoing basis. Interest rate swaps are used to manage interest rate risk when considered appropriate having regard to the interest rate environment.

Cash Flow Sensitivity Analysis for Variable Rate Instruments

A reduction of 100 basis points in interest rates at the reporting date would have increased profit before tax by the amounts shown below assuming all other variables including foreign currency rates remain constant. An increase of 100 basis points on the same basis would have an equal and opposite effect.

	Profit before tax €'000
31 December 2007	
Effect of reduction of 100 basis points	4,700
31 December 2006	
Effect of reduction of 100 basis points	3,750

There is no significant cashflow sensitivity for variable rate instruments in the Company.

Notes to the Financial Statements

24. Interest Bearing Loans and Borrowings (continued)

Capital Management

The Group considers that its capital comprises of share capital, share premium and other reserves.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and in order to finance the future development of the business. The Board also seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a capital position with lower financial risk.

There were no changes in the Group's approach to capital management during the year and neither the Company or any of its subsidiaries are subject to externally imposed capital requirements.

The Directors monitor the Company's share price on an ongoing basis and may from time to time exercise their powers to make market purchases of the Company's own shares, at price levels which they consider to be in the best interests of the shareholders generally, after taking account of the Company's overall financial position.

Funding and Liquidity

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

The following are the undiscounted contractual maturities of financial liabilities, including interest payments and excluding the impact of netting arrangements:

Group						
31 December 2007	Carrying	Contractual	Within	Between	Between	Greater
	Amount	Cash Flow	1 Year	1 and 2	2 and 5	Than
	€'000	€'000	€'000	Years	Years	5 years
				€'000	€'000	€'000
Non-Derivative Financial Instruments						
Bank loans	489,716	559,530	205,174	33,923	320,433	-
US dollar loan notes	234,310	274,827	39,473	62,200	123,313	49,841
Vendor loan notes	1,460	1,494	1,494	-	-	-
Finance lease liabilities	10,449	26,658	1,811	1,251	3,331	20,265
Trade and other payables	504,203	504,203	504,203	-	-	-
Provisions	22,192	22,192	11,964	3,409	6,819	-
Bank overdraft	1,000	1,000	1,000	-	-	-
Derivative Financial Instruments						
Interest rate swaps used for hedging						
– Outflow	-	998	998	-	-	-
– Inflow	(584)	(1,587)	(1,587)	-	-	-
Cross currency swaps used for hedging						
– Outflow	18,527	229,234	42,806	56,878	103,422	26,128
– Inflow	-	(202,112)	(35,774)	(50,755)	(92,150)	(23,433)
	1,281,273	1,416,437	771,562	106,906	465,168	72,801

Notes to the Financial Statements

24. Interest Bearing Loans and Borrowings (continued)

Group 31 December 2006	Carrying Amount €'000	Contractual Cash Flow €'000	Within 1 Year €'000	Between 1 and 2 Years €'000	Between 2 and 5 Years €'000	Greater Than 5 years €'000
Non-Derivative Financial Instruments						
Bank loans*	444,135	483,181	52,103	349,376	62,863	18,839
US dollar loan notes	266,148	329,674	26,386	43,572	161,583	98,133
Vendor loan notes	8,063	8,236	8,236	-	-	-
Finance lease liabilities	12,101	29,644	2,158	1,964	3,331	22,191
Trade and other payables	521,265	521,265	521,265	-	-	-
Bank overdraft	29,755	29,755	29,755	-	-	-
Provisions	27,694	27,694	23,226	1,489	2,979	-
Derivative Financial Instruments						
Interest rate swaps used for hedging						
– Outflow	-	8,611	7,849	762	-	-
– Inflow	(1,847)	(10,567)	(9,417)	(1,150)	-	-
Cross currency swaps used for hedging						
– Outflow	24,024	278,426	28,079	46,748	139,263	64,336
– Inflow	-	(248,716)	(22,801)	(39,987)	(126,887)	(59,041)
	<u>1,331,338</u>	<u>1,457,203</u>	<u>666,839</u>	<u>402,774</u>	<u>243,132</u>	<u>144,458</u>

*The timing of these contracted cash flows were renegotiated and extended with the lenders during 2007.

Notes to the Financial Statements

24. Interest Bearing Loans and Borrowings (continued)

Company 31 December 2007	Carrying Amount €'000	Contractual Cash Flow €'000	Within 1 Year €'000	Between 1 and 2 Years €'000	Between 2 and 5 Years €'000	Greater Than 5 years €'000
Non-Derivative Financial Instruments						
Bank overdraft	4	4	4	-	-	-
1998 US dollar loan notes	7,482	7,730	7,730	-	-	-
Vendor loan notes	272	272	272	-	-	-
Derivative Financial Instruments						
Cross currency swap used for hedging						
– Outflow	1,518	9,323	9,323	-	-	-
– Inflow		(7,730)	(7,730)	-	-	-
	9,276	9,599	9,599	-	-	-

Company 31 December 2006	Carrying Amount €'000	Contractual Cash Flow €'000	Within 1 Year €'000	Between 1 and 2 Years €'000	Between 2 and 5 Years €'000	Greater Than 5 years €'000
Non-Derivative Financial Instruments						
Bank overdraft	4	4	4	-	-	-
1998 US dollar loan notes	16,825	17,861	9,220	8,641	-	-
Vendor loan notes	390	390	390	-	-	-
Derivative Financial Instruments						
Cross currency swap used for hedging						
– Outflow	2,833	20,957	10,774	10,183	-	-
– Inflow		(17,861)	(9,220)	(8,641)	-	-
	20,052	21,351	11,168	10,183	-	-

Notes to the Financial Statements

24. Interest Bearing Loans and Borrowings (continued)

The following table indicates the periods in which cash flows associated with derivatives that are cash flow hedges which are both expected to occur and impact the Income Statement.

Group 31 December 2007	€'000 Carrying Amount	€'000 Expected Cash Flow	€'000 6 Months or Less	€'000 6 to 12 Months	€'000 1 to 2 Years
Interest rate Swaps					
Assets	584	1,587	1,587	-	-
Liabilities	-	(998)	(998)	-	-
	584	589	589	-	-

Group 31 December 2006	€'000 Carrying Amount	€'000 Expected Cast Flow	€'000 6 Months or Less	€'000 6 to 12 Months	€'000 1 to 2 Years
Interest rate Swaps					
Assets	1,847	10,567	4,805	4,612	1,150
Liabilities	-	(8,611)	(4,135)	(3,714)	(762)
	1,847	1,956	670	898	388

25. Derivatives

	Group		Company	
	2007 €'000	2006 €'000	2007 €'000	2006 €'000
<i>Included in current assets:</i>				
Fair value of interest rate swaps	584	1,847	-	-
	584	1,847	-	-
<i>Included in non-current liabilities:</i>				
Fair value of cross currency swaps	(14,967)	(22,126)	-	(1,416)
<i>Included in current liabilities:</i>				
Fair value of cross currency swaps	(3,560)	(1,898)	(1,518)	(1,417)
	(17,943)	(22,177)	(1,518)	(2,833)

Notes to the Financial Statements

25. Derivatives (continued)

Nature of Derivative Instruments as at 31 December 2007

	Hedge Period	Underlying Hedge	Notional receivable amount of contracts outstanding	Notional payable amount of contracts outstanding	Fair value asset €'000	Fair value liability €'000
Interest Rate Swap	April 2003 to April 2008	Variable Interest rate	Stg £50,000,000	Stg £50,000,000	584	-
		Fixed				
Cross Currency Swap	June 2005 to June 2015	Interest rate & foreign currency	USD \$250,000,000	Stg £137,665,251	-	17,009
		Fixed				
Cross Currency Swap	May 1998 to May 2008	Interest rate & foreign currency	USD \$11,000,000*	Stg £6,600,000	-	1,518

Nature of Derivative Instruments as at 31 December 2006

	Hedge Period	Underlying Hedge	Notional receivable amount of contracts outstanding	Notional payable amount of contracts outstanding	Fair value asset €'000	Fair value liability €'000
Interest Rate Swap	August 2002 to April 2008	Variable Interest rate	Stg £109,590,000	Stg £109,590,000	1,847	-
		Fixed				
Cross Currency Swap	June 2005 to June 2015	Interest rate & foreign currency	USD \$250,000,000	Stg £137,665,251	-	20,710
		Fixed				
Cross Currency Swaps	May 1998 to May 2008	Interest rate & foreign currency	USD \$5,000,000 USD \$22,000,000*	Eur €4,218,397 Stg £13,200,000	- -	481 2,833

*Relates to Company only.

26. Provisions

	Group		Company	
	2007 €'000	2006 €'000	2007 €'000	2006 €'000
Non-Current Liabilities				
Deferred acquisition consideration	10,228	4,468	-	-
Current Liabilities:				
Deferred acquisition consideration	11,764	23,051	-	-
WEEE provision	200	175	-	-
	11,964	23,226	-	-

The deferred acquisition consideration is payable over the period from January 2008 to December 2010 subject to the businesses concerned achieving the levels of profitability specified in the share purchase agreements.

Notes to the Financial Statements

27. Trade and Other Payables

	Group		Company	
	2007 €'000	2006 €'000	2007 €'000	2006 €'000
<i>Trade and other payables</i>				
Trade creditors	340,795	370,814	-	2
Accruals	129,974	119,168	26,654	13,367
Amounts owed to subsidiary undertakings	-	-	386,743	357,108
Social welfare	2,860	2,839	-	-
Income tax deducted under PAYE	5,712	6,278	-	-
Value added tax	24,862	22,166	-	-
	504,203	521,265	413,397	370,477

28. Obligations under Finance Leases

Group	2007			2006		
	Minimum Lease Payments €'000	Interest €'000	Principal €'000	Minimum Lease Payments €'000	Interest €'000	Principal €'000
<i>Committed finance lease obligations:</i>						
Within one year	1,811	737	1,074	2,158	771	1,387
Between one and five years	4,582	2,130	2,452	5,295	2,092	3,203
Later than five years	20,265	13,342	6,923	22,191	14,680	7,511
	26,658	16,209	10,449	29,644	17,543	12,101

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

Notes to the Financial Statements

29. Deferred Taxation

Recognised deferred tax assets and liabilities	Group			Group		
	Assets	Liabilities	Net Assets /Liabilities	Assets	Liabilities	Net Assets /Liabilities
	2007	2007	2007	2006	2006	2006
	€'000	€'000	€'000	€'000	€'000	€'000
Property, plant and equipment	(10,498)	44,216	33,718	(1,308)	46,389	45,081
Intangible assets	-	1,386	1,386	-	1,663	1,663
Financing	(11,452)	3,267	(8,185)	(10,035)	1,356	(8,679)
Employee share schemes	-	-	-	(3,255)	-	(3,255)
Other items	(2,682)	1,570	(1,112)	(2,111)	-	(2,111)
Tax value of losses carried forward	-	-	-	(11,319)	-	(11,319)
Pension	(2,677)	-	(2,677)	(6,837)	-	(6,837)
(Assets)/liabilities	(27,309)	50,439	23,130	(34,865)	49,408	14,543

Recognised deferred tax assets and liabilities	Company			Company		
	Assets	Liabilities	Net Assets /Liabilities	Assets	Liabilities	Net Assets /Liabilities
	2007	2007	2007	2006	2006	2006
	€'000	€'000	€'000	€'000	€'000	€'000
Other items	(2)	-	(2)	-	13	13
Pension	(232)	-	(232)	(193)	-	(193)
(Assets)/liabilities	(234)	-	(234)	(193)	13	(180)

Analysis of net deferred tax (asset)/liability

Group 2007	Balance 1 Jan 07	Recognised in Income	Recognised in Equity	Foreign		Balance 31 Dec 07
				Exchange Retranslation	Arising on Acquisitions	
	€'000	€'000	€'000	€'000	€'000	€'000
Property, plant and equipment	45,081	2,576	-	(2,200)	(11,739)	33,718
Intangible assets	1,663	(277)	-	-	-	1,386
Financing	(8,679)	745	(158)	(93)	-	(8,185)
Employee share schemes	(3,255)	1,177	2,078	-	-	-
Other items	(2,111)	382	-	617	-	(1,112)
Tax value of losses carried forward	(11,319)	11,106	-	213	-	-
Pension	(6,837)	1,380	2,599	181	-	(2,677)
	14,543	17,089	4,519	(1,282)	(11,739)	23,130

Notes to the Financial Statements

29. Deferred Taxation (continued)

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

Company 2007	Balance 1 Jan 07 €'000	Recognised in Income €'000	Recognised in Equity €'000	Foreign Exchange Retranslation €'000	Arising on Acquisitions €'000	Balance 31 Dec 07 €'000
Other items	13	(15)	-	-	-	(2)
Pension	(193)	25	(64)	-	-	(232)
	(180)	10	(64)	-	-	(234)

Company 2006	Balance 1 Jan 06 €'000	Recognised in Income €'000	Recognised in Equity €'000	Foreign Exchange Retranslation €'000	Arising on Acquisitions €'000	Balance 31 Dec 06 €'000
Other items	69	(56)	-	-	-	13
Pension	(280)	163	(76)	-	-	(193)
	(211)	107	(76)	-	-	(180)

30. Income Statement

In accordance with Section 148(8) of the Companies Act, 1963, the income statement of the parent undertaking has not been presented separately in these financial statements. There was a profit after tax of €106.5 million (2006: €299.6 million) attributable to the parent undertaking for the financial year.

Notes to the Financial Statements

31. Movement in Working Capital

Group	Inventory €'000	Trade and Other Receivables €'000	Trade and Other Payables €'000	Total €'000
At 1 January 2006	356,647	499,308	(487,027)	368,928
Translation adjustment	4,485	10,997	(10,282)	5,200
Interest accrual and other movements	-	37	657	694
Acquisitions	12,115	25,014	(26,817)	10,312
Movement in 2006	17,153	6,754	2,204	26,111
At 1 January 2007	390,400	542,110	(521,265)	411,245
Translation adjustment	(19,701)	(52,018)	49,705	(22,014)
Interest accruals and other movements	-	(944)	1,206	262
Acquisitions	12,789	16,607	(15,635)	13,761
Movement in 2007	2,691	29,940	(18,214)	14,417
At 31 December 2007	386,179	535,695	(504,203)	417,671

Company	Trade and Other Receivables €'000	Trade and Other Payables €'000	Total €'000
At 1 January 2006	4,141	(9,444)	(5,303)
Interest accrual and other movements	39	40	79
Movement in 2006	3,485	(3,965)	(480)
At 1 January 2007	7,665	(13,369)	(5,704)
Interest accrual and other movements	25	6	31
Movement in 2007	1,131	(13,291)	(12,160)
At 31 December 2007	8,821	(26,654)	(17,833)

32. Acquisition of Subsidiary Undertakings and Businesses

During the year the Group made one Irish and thirteen UK acquisitions in the merchanting sector. The Irish acquisition gave a presence in the Mid West merchanting market through the acquisition of Market Hardware in Ennis.

UK acquisitions completed in 2007 added eleven builders and twenty one plumbers merchanting branches. These included seven single branch builders merchanting businesses located at Leeds, Yorkshire; Dover, Kent; Hughenden Valley, Buckinghamshire; Leicester, Leicestershire; Detling, Kent; Arbroath, Angus and Diss in Norfolk. A further two builders merchanting businesses traded from two branches each located at Port Ellen, Isle of Islay; Campbeltown, Argyll; Ormskirk, Lancashire and Birkdale in Merseyside.

Notes to the Financial Statements

32. Acquisition of Subsidiary Undertakings and Businesses (continued)

Four plumbers merchanting businesses acquired added twenty one branches of which two were single branch locations based at Featherstone, West Yorkshire and Colne, Lancashire and one two branch business located at Harrogate, North Yorkshire. The multi branch plumbers merchanting business acquired was Progress Group trading from seventeen branches located at Birmingham, Staffordshire; Bodmin, Cornwall; Bristol, Bristol; Croydon, Surrey; Cwmbran, Gwent; Exeter, Devon; Fairford, Gloucestershire; Gloucester; Gloucestershire; Leicester, Leicestershire; Norwich, Norfolk; Oxford, Oxfordshire; Plymouth, Devon; Preston, Lancashire; Reading, Berkshire; Slough, Berkshire, Southampton, Hampshire and Swindon in Wiltshire.

In the year ended 31 December 2006 the Group made sixteen UK acquisitions in the merchanting sector. The UK acquisitions completed in 2006 added nineteen builders and eight plumbers merchanting branches. These included eight single branch builders merchanting businesses located at Market Rasen, Lincolnshire; Wakefield, West Yorkshire; Malmesbury, Wiltshire; Ipswich, Suffolk; Osbaldwick, York; Larkfield, Kent; Larne, and Magheragall, Co. Antrim in Northern Ireland. Two multi-branch builders merchanting businesses acquired were Fleming Holdings trading from eight Scottish branches in Aberdeen, Aberdeenshire; Banchory, Kincardineshire; Dundee, Angus; Elgin, Moray; Grangemouth, West Lothian; Inverness, Inverness-shire; Kirkwall, Isle of Orkney and Lerwick, Isle of Shetland and Total Timber and Building Supplies with two branches in Whittlesey, Cambridgeshire and one site in Wisbech, Peterborough.

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

Acquisitions would have contributed €10.1 million and €4.3 million to operating profit in the years ended 31 December 2007 and 2006 respectively, assuming that they had been acquired on 1 January of each year.

2007 acquisitions contributed €5.7 million to operating profit since acquisition (2006: €2.7 million).

	2007 €'000	2006 €'000
<i>The fair values of assets and liabilities acquired are set out below;</i>		
Property, plant and equipment	15,636	24,926
Financial assets	17	63
Inventories	12,789	12,115
Trade and other receivables	16,607	25,014
Trade and other payables	(15,635)	(26,817)
Corporation tax	(2,875)	(1,616)
Deferred tax liability	(1,216)	(3,168)
Deferred tax asset	12,955	23,646
Finance leases acquired	(404)	(95)
Bank debt acquired	(2,581)	(3,579)
Net assets acquired excluding cash and overdrafts	35,293	50,489
Goodwill	48,073	44,649
Consideration	83,366	95,138
Satisfied by:		
Cash paid	84,350	70,621
Cash acquired	(10,417)	(5,169)
Bank overdrafts assumed on acquisition	2,728	4,392
Net cash outflow	76,661	69,844
Further payments accrued	-	19,214
Deferred acquisition consideration	6,624	4,427
Loan notes issued to vendors of businesses acquired	81	1,653
	83,366	95,138

Notes to the Financial Statements

32. Acquisition of Subsidiary Undertakings and Businesses (continued)

The fair value of net assets acquired was €35,293,000

	Fair Values €'000	Consideration €'000	Goodwill €'000
Total acquisitions	35,293	83,366	48,073

The fair values were calculated as follows:

	Book Values €'000	Fair Value Adjustment €'000	Fair Values €'000
Financial assets	17	-	17
Property, plant and equipment	15,636	-	15,636
Working capital	13,656	105	13,761
Corporation tax	(2,875)	-	(2,875)
Deferred tax liability	-	(1,216)	(1,216)
Deferred tax asset	12,955	-	12,955
Finance leases	(404)	-	(404)
Bank debt	(2,581)	-	(2,581)
	36,404	(1,111)	35,293

The fair value adjustments noted above have arisen as follows:

- Under IFRS 3, stocks have been valued at selling price adjusted for cost of disposal and a reasonable profit allowance for selling effort.
- Deferred tax has been provided on the above adjustment under IAS 12 Income Taxes. Deferred tax has also arisen on the difference between the fair value of the properties acquired and their tax base.

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

The fair value of net assets acquired in 2006 was €50,489,000

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

Notes to the Financial Statements

33. Reconciliation of Net Cash Flow Movement in Net Debt

	Group		Company	
	2007 €'000	2006 €'000	2007 €'000	2006 €'000
Net increase/(decrease) in cash and cash equivalents	14,443	(95,406)	11,610	8,321
Net movement in derivative financial instruments	(1,263)	1,522	-	-
Cashflow from increase in debt and lease financing	(45,643)	141,317	9,086	9,829
Change in net debt resulting from cash flows	(32,463)	47,433	20,696	18,150
Loan notes issued on acquisition of subsidiary undertakings	(81)	(1,653)	-	-
Finance leases acquired with subsidiary undertakings	(404)	(95)	-	-
Bank loans and loan notes acquired with subsidiary undertakings	(2,581)	(3,579)	-	-
Translation adjustment	36,000	(8,784)	-	(1)
Movement in net debt in the year	471	33,322	-	18,149
Net debt at 1 January	(550,860)	(584,182)	(6,436)	(24,585)
Net debt at 31 December	(550,389)	(550,860)	14,260	(6,436)

34. Capital Expenditure Commitments

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

	Group	
	2007 €'000	2006 €'000
Contracted for	13,337	28,773
Not contracted for	79,631	65,041
	92,968	93,814

Capital commitments in the UK and Ireland amounted to € 78.2 million (2006: €73.4 million) and €14.8 million (2006: €20.4 million) respectively.

Notes to the Financial Statements

35. Operating Leases

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

	Group				Company	
	Land and Buildings 2007 €'000	Other 2007 €'000	Land and Buildings 2006 €'000	Other 2006 €'000	Land and Buildings 2007 €'000	Land and Buildings 2006 €'000
Operating lease payments due:						
Within one year	57,059	1,963	48,030	1,716	429	429
Between two and five years	217,444	2,643	182,472	2,919	1,715	1,715
Over five years	734,711	17	612,887	24	4,714	5,143
	1,009,214	4,623	843,389	4,659	6,858	7,287

The Group leases a number of properties under operating leases. The leases typically run for a period of 15 to 25 years. Rents are generally reviewed every five years.

During the year ended 31 December 2007 €55.32 million (2006: €43.58 million) was recognised as an expense in the income statement in respect of operating leases.

36. Pension Commitments

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

The actuarial reports are not available for public inspection.

IAS 19 – Employee Benefits

The Group operates five defined benefit schemes in Ireland and two in the UK. There was a merger of three plans in the UK during 2007. All actuarial valuations were updated to 31 December 2007 by a qualified independent actuary. All schemes except one are closed to new entrants and as a result the current service cost will increase as members of the schemes approach retirement.

Financial Assumptions

The financial assumptions used to calculate the retirement benefit liabilities under IAS 19 were as follows:

	At 31 Dec 2007	At 31 Dec 2007	At 31 Dec 2006	At 31 Dec 2006	At 31 Dec 2005	At 31 Dec 2005	At 31 Dec 2004	At 31 Dec 2004
	Irish Schemes	UK Schemes	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	Projected Unit	Projected Unit
Rate of increase in salaries	3.5%	4.25%	3.5%	4%	3.5%	3.5%	3.5%	3.6%
Rate of increase of pensions in payment	0-3%	3.3%	0-3%	3%	0-3%	2.5%	-	2.6%
Discount rate	5.5%	5.7%	4.6%	5.1%	4.1%	4.75%	4.7%	5.3%
Inflation rate increase	2.3%	3.3%	2.3%	3%	2.3%	2.5%	2.3%	2.6%

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

Notes to the Financial Statements

36. Pension Commitments (continued)

The future life expectancy at age 65 for males and females (currently age 55 and 65), inherent in the mortality tables used for the 2007 and 2006 year end IAS19 disclosures are as follows:

2007 Mortality		Years	2006 Mortality		Years
Future pensioner aged 65:	Male	20.6	Future pensioner aged 65:	Male	20.4
	Female	23.6		Female	23.4
Current pensioner aged 65:	Male	20.2	Current pensioner aged 65:	Male	19.7
	Female	23.1		Female	22.6

Scheme Assets

The assets in these schemes and the long-term rates of return expected at 31 December 2007, 31 December 2006, 31 December 2005 and 31 December 2004 are set out below:

	2007 Irish Schemes	2007 UK Schemes	2006 Irish Schemes	2006 UK Schemes	2005 Irish Schemes	2005 UK Schemes	2004 Irish Schemes	2004 UK Schemes
Equities	8.0%	8.0%	8.0%	8.0%	7.5%	7.5%	7.25%	7.25%
Bonds	4.5%	5.0%	3.9%	5.0%	3.1%	4.5%	3.8%	5.1%
Property	6.5%	7.0%	6.5%	7.0%	6.0%	7.0%	7.0%	7.0%
Cash	3.5%	5.5%	3.5%	5.0%	2.5%	4.5%	4.0%	4.5%

	2007		2006		2005		2004	
	%	€'000	%	€'000	%	€'000	%	€'000
Equities	78	173,696	74	165,609	78	135,128	68	64,783
Bonds	12	27,897	12	26,632	13	22,775	15	14,030
Property	6	12,390	5	11,997	5	9,573	3	2,766
Cash	4	9,717	9	18,887	4	6,436	14	13,203
		223,700		223,125		173,912		94,782
Actuarial value of liabilities		(239,023)		(257,288)		(232,944)		(130,379)
Deficit in the schemes		(15,323)		(34,163)		(59,032)		(35,597)

Historical information

Experience adjustment on scheme liabilities	(4,430)	(5,815)	(3,450)	(3,554)
As % of scheme liabilities	1.9%	2.3%	1.5%	2.7%
Experience adjustment on scheme assets	(13,792)	10,717	19,531	1,510
As % of scheme assets	6.2%	4.8%	11.2%	1.6%

Notes to the Financial Statements

36. Pension Commitments (continued)

Movements in present value of defined benefit obligations	Group		Company	
	2007 €'000	2006 €'000	2007 €'000	2006 €'000
At 1 January	257,288	232,944	20,810	13,730
Addition of new member	-	-	-	3,804
Current service cost	7,326	7,492	894	821
Interest cost	12,307	10,270	959	718
Actuarial (gain)/losses	(26,365)	5,778	771	1,654
Contributions by members	2,966	2,688	137	120
Benefits paid	(4,698)	(4,135)	(42)	(37)
Translation adjustment	(9,801)	2,251	-	-
At 31 December	239,023	257,288	23,529	20,810

Movements in fair value of plan assets	Group		Company	
	2007 €'000	2006 €'000	2007 €'000	2006 €'000
At 1 January	223,125	173,912	19,270	11,758
Addition of new member	-	-	-	2,691
Expected return on plan assets	16,426	12,170	1,455	1,033
Actuarial gains/(losses)	(13,792)	10,717	257	2,156
Contributions by employer	8,846	25,841	596	1,549
Contributions by members	2,966	2,688	137	120
Benefits paid	(4,698)	(4,135)	(42)	(37)
Translation adjustment	(9,173)	1,932	-	-
At 31 December	223,700	223,125	21,673	19,270

Expense recognised in operating costs	Group		Company	
	2007 €'000	2006 €'000	2007 €'000	2006 €'000
Current service cost	7,326	7,492	894	821
Total operating charge	7,326	7,492	894	821

Recognised directly in equity	Group		Company	
	2007 €'000	2006 €'000	2007 €'000	2006 €'000
Actuarial gains/(loss) on pensions	12,573	4,939	(514)	(611)
Deferred tax on pensions	(2,599)	(44)	64	76
	9,974	4,895	(450)	(535)

Notes to the Financial Statements

36. Pension Commitments (continued)

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

	Group		Company	
	2007 €'000	2006 €'000	2007 €'000	2006 €'000
Operating costs	7,326	7,492	894	821
Finance income (expected return on scheme assets)	(16,426)	(12,170)	(1,455)	(1,033)
Finance expense (interest on scheme liabilities)	12,307	10,270	959	718
Total operating charge	3,207	5,592	398	506

Cumulative net actuarial losses reported in the Statement of Recognised Income and Expenses since 1 January 2004, the transition date, to 31 December 2007 is €3.2 million (2006: €15.8 million).

Movement in deficit during the year

	Group		Company	
	2007 €'000	2006 €'000	2007 €'000	2006 €'000
Deficit in the schemes at start of year	(34,163)	(59,032)	(1,540)	(1,972)
<i>Movement in year:</i>				
Addition of new member	-	-	-	(1,113)
Current service cost	(7,326)	(7,492)	(894)	(821)
Employer contribution paid	8,846	25,841	596	1,549
Other finance income (net)	4,119	1,900	496	315
Actuarial gain/loss (net)	12,573	4,939	(514)	502
Translation adjustment	628	(319)	-	-
Deficit in the schemes at end of year	(15,323)	(34,163)	(1,856)	(1,540)

37. Share Based Payments

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

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

Notes to the Financial Statements

37. Share Based Payments (continued)

- (ii) Second tier shares which cannot be converted before the expiration of five years and only if over a period of at least five years the growth in the Group's earnings per share would place it in the top 25 per cent of the companies listed on the Irish Stock Exchange Index over the same period and provided that such shares shall be acquired only if the Company's earnings per share growth over the relevant period is greater, by not less than 10 per cent on an annualised basis, than the increase in the Consumer Price Index over that period.

The share scheme has a ten year life and the percentage of share capital which may be issued under the scheme and individual grant limits comply with Institutional Guidelines.

Share Schemes

The number of Grafton Units issued during the year under the Company's Executive Share Schemes was 782,517 (2006: 1,822,720) and the total consideration received amounted to €2,545,000 (2006: €4,102,000). Costs relating to the issues were €64,000. In accordance with the terms of the 1999 Grafton Group Share Scheme entitlements to acquire 2,255,900 (2006: 2,273,500) Grafton Units were granted during the year. Entitlements outstanding at 31 December 2007 amounted to 12,952,626 (2006: 11,970,557). Grafton Units may be acquired, in accordance with the terms of the schemes, at prices ranging between €1.81 and €11.50 during the period to 2017.

UK SAYE Scheme

Options over 1,033,139 (2006: 1,135,499) Grafton Units were outstanding at 31 December 2007, pursuant to a 2005 three year saving contract under Grafton Group (UK) plc Saving's Related Share Option Scheme at a price of €7.64, which represented a discount of 20 per cent to the market price on the date of the grant. These options are normally exercisable within a period of six months after the third anniversary of the savings contract, being April 2008. The number of Grafton units issued during the year under the Company's SAYE scheme for good leavers was 9,446 and the total consideration received amounted to €72,000.

A summary of the share entitlements granted in 2007 and 2006 are set out below:

	1999 Grafton Group Share Scheme 2007	1999 Grafton Group Share Scheme 2006
Grant Date	24 September 2007	8 November 2006
Share price at grant date	€8.48	€11.50
Exercise price	€8.48	€11.50
Number of employees	136	124
Shares under option	2,255,900	2,273,500
Vesting period	5 years	5 years
Expected volatility	27%	27%
Option life	10 years	10 years
Expected life	6 years	6 years
Risk free rate	4.2%	4.64%
Expected dividends expressed as dividend yield	1.72%	1.58%
Possibility of ceasing employment before vesting	0%	0%
Valuation model	Binominal model	Binomial model
Fair value per option	€2.42	€3.55

Notes to the Financial Statements

37. Share Based Payments (continued)

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

	2007		2006	
	Number	Weighted Average exercise price €	Number	Weighted Average exercise price €
Outstanding at 1 January	11,970,557	6.32	11,780,873	4.69
Granted	2,255,900	8.48	2,273,500	11.50
Forfeited	(491,314)	7.90	(261,096)	6.28
Exercised	(782,517)	3.25	(1,822,720)	2.25
Outstanding at 31 December	12,952,626	6.82	11,970,557	6.32
Exercisable at 31 December	3,181,126	2.72	2,684,251	2.25

All share entitlements under all schemes are exercisable within six months upon a change of control of the Company

38. Accounting Estimates and Judgements

The Group's main accounting policies affecting its results and financial condition are set out on pages 45 to 52. Judgements and assumptions have been made by management by applying the Group's accounting policies in certain areas. Actual results may differ from estimates calculated using these judgements and assumptions. Key sources of estimation uncertainty and critical accounting judgements are as follows:

Goodwill

The Group has capitalised goodwill of €600.8 million at 31 December 2007 (2006: €582.9 million). Goodwill is required to be tested for impairment at least annually or more frequently if changes in circumstances or the occurrence of events indicate potential impairment exists. The Company uses the present value of future cash flows to determine implied fair value. In calculating the implied fair value, management judgement is required in forecasting cash flows of the reporting units and in selecting an appropriate discount rate. No impairment resulted from the annual impairment test in 2007.

Post-retirement benefits

The Group operates a number of defined benefit retirement plans. The Group's total obligation in respect of defined benefit plans is calculated by independent, qualified actuaries and updated at least annually and totals €239.0 million at 31 December 2007 (2006: €257.3 million). Plan assets at 31 December 2007 amounted to €223.7 million (2006: €223.1 million) giving a net scheme deficit of €15.3 million (2006: €34.2 million). The size of the obligation is sensitive to actuarial assumptions. These include assumptions concerning mortality and longevity, and economic assumptions concerning medical costs inflation, pension benefits and salary increases together with the discount rate used. Plan assets are sensitive to asset returns and the level of contributions made by the Company.

Notes to the Financial Statements

39. Related Party Transactions

Grafton Group plc had no amounts outstanding from Navan Retail Developments Limited, a joint venture company, at 31 December 2007 (2006: €2.7 million)

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

Management charge of €13.6 million in the year ended 31 December 2007 (2006: €13.6 million).

Dividend income of €110.45 million in the year ended 31 December 2007 (2006: €293.9 million).

Provision of finance for certain subsidiaries.

40. Guarantees and Principal Operating Subsidiaries

The Company has given guarantees in respect of the bank borrowings of subsidiary undertakings which amounted to €719 million at the balance sheet date. Pursuant to the provisions of Section 17, Companies (Amendment) Act, 1986, the Company has guaranteed the liabilities of its Irish subsidiaries the result of which is to exempt them from the provisions of Section 7, Companies (Amendment) Act, 1986.

The principal operating subsidiaries operating in Ireland as set out below are covered by this guarantee.

Name of Company	Nature of Business
Heiton Buckley Limited	Builders merchants
Chadwicks Limited	Builders merchants
Woodie's DIY Limited	DIY superstores
Atlantic Home Care Limited	DIY superstores
Panelling Centre Limited	Kitchen/Bedroom Panel Products

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

The Company owns 100% of the ordinary shares, the only class of shares in issue, of its principal operating subsidiary undertakings. The registered office of principal subsidiary undertakings operating in Ireland is 1 Stokes Place, St. Stephen's Green, Dublin 2.

Notes to the Financial Statements

40. Guarantees and Principal Operating Subsidiaries (continued)

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

The principal operating subsidiaries operating in the United Kingdom are:

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

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

41. Approval of Financial Statements

The Board of Directors approved the financial statements on 7 March 2008.