

Notes to the Financial Statements

1. Segmental Analysis (continued)

	Ireland		UK		Group	
	2008 €'000	2007 €'000	2008 €'000	2007 €'000	2008 €'000	2007 €'000
Segment liabilities	(332,459)	(310,655)	(207,187)	(286,490)	(539,646)	(597,145)
Unallocated liabilities	-	-	-	-	(739,939)	(805,901)
Total liabilities					(1,279,585)	(1,403,046)

	Ireland		UK		Group	
	2008 €'000	2007 €'000	2008 €'000	2007 €'000	2008 €'000	2007 €'000
Capital expenditure	14,879	27,744	63,713	76,906	78,592	104,650
Non-cash expenditure:						
Depreciation	18,793	19,335	35,494	37,457	54,287	56,792
Intangible amortisation	2,218	2,212	-	-	2,218	2,212
Share-based payments	(1,303)	2,024	(663)	2,441	(1,966)	4,465
	19,708	23,571	34,831	39,898	54,539	63,469

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	
	2008 €'000	2007 €'000	2008 €'000	2007 €'000	2008 €'000	2007 €'000
UK merchanting	1,642,005	1,905,378	968,287	1,230,516	62,003	74,023
Irish merchanting	642,479	819,164	691,919	772,259	7,350	17,272
Total merchanting	2,284,484	2,724,542	1,660,206	2,002,775	69,353	91,295
DIY	303,071	339,849	130,422	127,748	6,735	8,974
Manufacturing	85,429	140,635	69,104	106,976	2,504	4,381
	2,672,984	3,205,026	1,859,732	2,237,499	78,592	104,650
Deferred tax assets			24,904	27,309		
Financial assets			227	850		
Derivative and other financial instruments			38,753	584		
Cash and cash equivalents			224,834	204,489		
			2,148,450	2,470,731		

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2. Comparative Figures

Other income in the prior year relates to profit on disposal of property. The Group realised a profit of €7,254,000 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. This property profit has been reclassified into operating profit in the Group Income Statement in line with the current year presentation.

3. Operating Costs and Income

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

	2008 €'000	2007 €'000
Decrease in inventories	58,064	17,010
Purchases and consumables	1,747,953	2,141,227
Staff costs (note 5)	394,320	427,948
Restructuring costs	17,148	-
Auditor's remuneration	775	1,352
Depreciation	54,287	56,792
Lease rentals and other hire charges	61,209	55,315
Intangible amortisation	2,218	2,212
(Profit) on sale of scaffolding	(1,021)	(1,534)
(Profit) on disposal of other property, plant and equipment	(3,634)	(8,946)
Other operating charges	242,440	242,851
	2,573,759	2,934,227

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

	Group		Company	
	2008 €'000	2007 €'000	2008 €'000	2007 €'000
Audit Services:				
Statutory audit	775	1,352	70	76
Further assurance services	199	128	10	11
Procurement consultancy	1,203	-	-	-
Tax compliance and advisory services	1,162	2,072	1,162	2,072
	3,339	3,552	1,242	2,159

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 30 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	
	2008	2007	2008	2007
Merchanting and DIY retailing	10,819	10,887	-	-
Manufacturing	323	474	-	-
Holding company	20	22	20	22
	11,162	11,383	20	22

The aggregate remuneration costs of employees were:

	€'000	€'000	€'000	€'000
Wages and salaries	347,240	373,164	4,697	5,176
Social welfare	34,316	36,921	538	474
Share-based payments (credit)/charge	(1,966)	4,465	(393)	766
Defined benefit pension	3,987	7,326	83	894
Directors' pension settlement cost	4,738	-	4,738	-
Defined contribution and pension related costs	6,005	6,072	1,297	377
Charged to operating profit	394,320	427,948	10,960	7,687
Actuarial loss/(gain) on pension schemes	37,414	(12,573)	3,405	514
Finance cost on pension scheme liabilities	12,868	12,307	574	959
Expected return on pension scheme assets	(15,820)	(16,426)	(918)	(1,455)
Total employee benefit cost	428,782	411,256	14,021	7,705

Key Management

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

	Group		Company	
	2008	2007	2008	2007
Number of Individuals	13	13	10	10
	2008	2007	2008	2007
	€'000	€'000	€'000	€'000
Short-term employee benefits	4,158	4,708	3,141	3,706
Share-based payment (credit)/charge	(522)	925	(295)	559
Retirement benefits expense	1,072	966	969	834
Charged to operating profit	4,708	6,599	3,815	5,099

Notes to the Financial Statements

6. Finance Expense and Finance Income

	2008	2007
	€'000	€'000
Finance expense:		
Bank overdrafts and loans	32,636	32,629
Net change in fair value of cash flow hedges transferred from equity	(529)	(1,784)
Interest on finance leases	644	696
Finance cost on pension scheme liabilities	12,868	12,307
Interest on loan notes	14,953	17,799
Fair value movement on hedged financial liabilities	57,559	3,147
Fair value movement on fair value hedges	(58,187)	(3,147)
Interest capitalised on joint venture	-	(78)
	59,944	61,569
Finance income:		
Interest income on bank deposits	(9,015)	(10,177)
Expected return on pension plan assets	(15,820)	(16,426)
	(24,835)	(26,603)
Net finance expense recognised in income statement	35,109	34,966
Recognised directly in equity		
Currency translation effects on foreign currency net investments	(180,087)	(44,583)
Currency translation effects on foreign currency borrowings	7,787	829
Effective portion of changes in fair value of cash flow hedges	(55)	521
Net change in fair value of cash flow hedges transferred to income statement	(529)	(1,784)
Deferred tax on cash flow hedges recognised directly in equity	73	158
	(172,811)	(44,859)

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 2008 and 31 December 2007 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 2008 was Stg79.63p (2007: Stg68.43p). The euro/sterling exchange rate at 31 December 2008 was Stg95.25p (2007: Stg73.34p).

Notes to the Financial Statements

8. Income Tax Expense

(a) Income tax expense recognised in the income statement	2008	2007
	€'000	€'000
Current tax expense		
Irish corporation tax	5,640	11,071
UK corporation tax	777	2,498
	6,417	13,569
Deferred tax expense		
Irish deferred tax expense relating to the origination and reversal of temporary differences	(2,565)	587
Irish deferred tax expense resulting from increase in capital gains tax rate	782	-
UK deferred tax expense relating to the origination and reversal of temporary differences	1,784	16,502
Total deferred tax	1	17,089
Total income tax expense in income statement	6,418	30,658

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	2008	2007
	€'000	€'000
Profit before tax	64,116	235,833
Profit before tax multiplied by the standard rate of tax of 12.5% (2007: 12.5%)	8,014	29,479
Effects of:		
Expenses not deductible for tax purposes	3,396	5,815
Differences in effective tax rates on overseas earnings	(4,291)	(3,474)
Income at reduced Irish rates	-	(117)
Effect of increase in Irish capital gains tax rate	782	-
Other differences	(1,483)	(1,045)
Total income tax expense in income statement	6,418	30,658

(c) Deferred tax liability/(asset) recognised directly in equity	2008	2007
	€'000	€'000
Share-based payments	-	2,078
Actuarial movement on pension schemes	(4,730)	2,599
Financing – cash flow hedge	(73)	(158)
	(4,803)	4,519

(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.

Notes to the Financial Statements

9. Purchase of 'A' ordinary shares

	2008	2007
	€'000	€'000
Group and Company		
Purchase of one 'A' ordinary share for 12.0 cent - paid 11 April 2008	27,566	-
Purchase of one 'A' ordinary share for 10.0 cent - paid 3 October 2008	23,019	-
Purchase of one 'A' ordinary share for 10.5 cent - paid 28 March 2007	-	25,129
Purchase of one 'A' ordinary share for 10.0 cent - paid 3 October 2007	-	23,919
	50,585	49,048

The Board resolved to purchase one 'A' ordinary share per Grafton Unit for a cash consideration of 5.00 cent payable on 8 April 2009. Accordingly, no final dividend will be declared in respect of the year ended 31 December 2008. 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 2008 to give total payments for the year of 15.00 cent. The share purchase payable on 8 April 2009 is chargeable to reserves in 2009. The share purchase of 12.00 cent paid on 11 April 2008 was charged to reserves in 2008.

10. Earnings per Share - Group

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

	2008	2007
	€'000	€'000
Numerator for basic, adjusted and diluted earnings per share:		
Profit after tax for the financial year	57,698	205,175
Numerator for basic and diluted earnings per share	57,698	205,175
Other income (property profit) after tax	-	(6,311)
Intangible amortisation after tax	1,941	1,935
Restructuring costs after tax	14,514	-
Numerator for adjusted earnings per share	74,153	200,799
Denominator for basic and adjusted earnings per share:		
Weighted average number of Grafton Units in issue	229,985,105	238,145,757
Effect of potential dilutive Grafton Units	828,985	3,856,396
Denominator for diluted earnings per share	230,814,090	242,002,153
Earnings per Share (cent)		
- Basic	25.09	86.16
- Diluted	25.00	84.78
Adjusted earnings per share (cent)		
- Basic	32.24	84.32
- Diluted	32.13	82.97

Weighted average share entitlements of 9,420,500 Grafton Units (2007: 2,748,194) which are currently anti-dilutive are excluded in the above calculations, for diluted earnings per share and adjusted diluted earnings per share.

Notes to the Financial Statements

11. Goodwill - Group

	2008 €'000	2007 €'000
Cost		
At 1 January	600,793	582,861
Acquired during the year (note 33)	10,804	48,073
Goodwill written off	-	(88)
Translation adjustment	(78,790)	(30,053)
At 31 December	532,807	600,793

Goodwill acquired through business combinations is analysed between the UK and Ireland as follows:

	2008 €'000	2007 €'000
UK	261,425	329,411
Ireland	271,382	271,382
	532,807	600,793

Goodwill is subject to impairment testing on an annual basis and during the year if an indicator of impairment is considered to exist. An impairment loss is recognised for the amount, if any, by which an assets carrying amount exceeds its recoverable amount. The recoverable amount is based on the discounted present value of the future cash flows expected to arise from the cash generating unit to which goodwill relates or from the individual asset or asset group. A cash generating unit is based on individual acquisitions or group of acquisitions.

The cash flow forecasts employed are extracted from the budget for 2009 and cash flows for the subsequent four years are projected for individual cash generating units based on a current assessment of anticipated market conditions over that period. This involves making assumptions concerning turnover trends, gross margins and operating margins. Cash flows beyond this five year period are estimated, in accordance with IFRS, into perpetuity using a terminal growth rate of 3 per cent. The recoverable amount resulting from this exercise represents the present value of the future cash flows, including the terminal value, discounted at a weighted average cost of capital of 8 per cent. An increase in the discount rate to 10 per cent would not indicate any material impairment. A reduction in the growth rate to 2.5 per cent would not indicate an impairment.

If different estimates of the projected future cash flows were made or a different long term growth rate or a higher discount rate was used, these changes could materially alter the discounted present value of future cash flows. No account has been taken of property revaluations. As a consequence the carrying value of goodwill could be materially different from the amount stated in the balance sheet.

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11. (a) Intangible Assets - Group

	Brands €'000	Customer Relationships €'000	Total €'000
Cost			
At 1 January 2008	5,658	12,037	17,695
At 31 December 2008	5,658	12,037	17,695
Amortisation			
At 1 January 2007	1,403	2,985	4,388
Amortised during the year	707	1,505	2,212
At 1 January 2008	2,110	4,490	6,600
Amortised during the year	709	1,509	2,218
At 31 December 2008	2,819	5,999	8,818
Net book amount at 31 December 2008	2,839	6,038	8,877
Net book amount at 31 December 2007	3,548	7,547	11,095

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

	Freehold Land and Buildings €'000	Leasehold Buildings €'000	Plant Machinery and Motor Vehicles €'000	Total €'000
Group				
Cost				
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 1 January 2008	463,707	83,193	351,014	897,914
Additions	18,569	18,785	41,238	78,592
Acquisitions	5,914	444	1,671	8,029
Disposals	(910)	(1,306)	(23,412)	(25,628)
Exchange adjustment	(68,931)	(13,643)	(64,684)	(147,258)
At 31 December 2008	418,349	87,473	305,827	811,649
Depreciation				
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 1 January 2008	23,656	16,380	154,141	194,177
Charge for year	5,716	4,309	44,262	54,287
Disposals	(138)	(329)	(18,863)	(19,330)
Exchange adjustment	(6,256)	(2,566)	(41,999)	(50,821)
At 31 December 2008	22,978	17,794	137,541	178,313
Net book amount				
At 31 December 2008	395,371	69,679	168,286	633,336
At 31 December 2007	440,051	66,813	196,873	703,737
At 31 December 2006	422,131	64,003	200,031	686,165

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, which are located in the United Kingdom, are included at cost less depreciation.

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

	Plant, Machinery & Motor Vehicles		Leasehold Properties	
	2008 €'000	2007 €'000	2008 €'000	2007 €'000
Cost	4,295	8,018	10,281	10,643
Accumulated depreciation	(2,777)	(5,513)	(1,944)	(1,589)
Net book amount	1,518	2,505	8,337	9,054
Depreciation charge for year	568	848	437	449

During the year the Group repaid finance leases amounting to €1.2 million (2007: €1.9 million).

Plant and equipment in the Company is stated as follows:

	Plant and Equipment	
	2008 €'000	2007 €'000
Company		
Cost		
At 1 January	1,396	1,375
Additions	355	21
At 31 December	1,751	1,396
Depreciation		
At 1 January	1,144	1,022
Charge for year	123	122
At 31 December	1,267	1,144
Net book amount		
At 31 December	484	252
At 1 January	252	353

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 2007	414	13	349,705	349,718
Additions	510	-	-	-
Acquisitions	17	-	6,770	6,770
Disposals	(58)	-	-	-
Capital contribution – share-based payments	-	-	3,699	3,699
Translation adjustment	(33)	-	-	-
At 31 December 2007	850	13	360,174	360,187
Additions	-	-	-	-
Acquisitions	3	-	596	596
Disposal	(433)	-	-	-
Capital contribution – share-based payments	-	-	(1,573)	(1,573)
Translation adjustment	(193)	-	-	-
At 31 December 2008	227	13	359,197	359,210

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. 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 €0.9 million (31 December 2007: €3.0 million); other net current assets/(liabilities) of €2.4 million (31 December 2007: (€0.4) million) and reserves of €3.3 million (31 December 2007: €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	
	2008 €'000	2007 €'000
Raw materials	1,601	1,969
Work in progress	850	2,963
Finished goods	8,504	10,265
Goods purchased for resale	320,169	370,982
	331,124	386,179

Notes to the Financial Statements

15. Trade and Other Receivables

	Group		Company	
	2008 €'000	2007 €'000	2008 €'000	2007 €'000
<i>Amounts falling due within one year:</i>				
Trade debtors	273,885	423,080	-	-
Amounts owed by subsidiary undertakings	-	-	697,793	670,515
Other receivables	79,696	112,615	7,016	8,821
	353,581	535,695	704,809	679,336

16. Reconciliation of Total Equity

Group	Notes	2008 €'000	2007 €'000
At beginning of period		1,067,685	1,014,339
Shares bought back and cancelled		-	(67,090)
Treasury shares acquired		-	(5,746)
Issue of ordinary and 'A' ordinary share capital		1,528	2,553
Adjustment for share-based payments (credit)/charge		(1,966)	4,465
Deferred tax on share-based payments expense		-	(2,078)
Purchase of 'A' ordinary shares	9	(50,585)	(49,048)
Total recognised income and expense for the year		(147,797)	170,290
Closing shareholders' funds - equity		868,865	1,067,685
Company	Notes	2008 €'000	2007 €'000
At beginning of period		639,006	647,796
Shares bought back and cancelled		-	(67,090)
Treasury shares acquired		-	(5,746)
Issue of ordinary and 'A' ordinary share capital		1,528	2,553
Adjustment for share-based payments (credit)/charge		(1,966)	4,465
Purchase of 'A' ordinary shares	9	(50,585)	(49,048)
Total recognised income and expense for the year		45,579	106,076
At end of period		633,562	639,006

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17. Share Capital

Group and Company	2008 €'000	2007 €'000
Authorised:		
Equity shares		
300 million ordinary shares of 5c each	15,000	15,000
30 billion 'A' ordinary shares of 0.001c each	300	300
	15,300	15,300

	Issue Price €	Number of Shares	2008 Nominal Value €'000	2007 Nominal Value €'000
Issued and fully paid:				
Ordinary shares				
At 1 January		230,006,517	11,500	11,962
Shares bought back and cancelled		-	-	(502)
Issued under UK SAYE scheme		-	-	1

Grafton Group Share Schemes

Date options and entitlements to acquire shares granted

April 1997	1.07	-	-	2
June 1998	2.21	379,407	19	3
July 1999	1.81	111,435	6	2
May 2000	2.07	118,934	6	4
May 2001	2.83	52,369	3	6
April 2002	4.00	-	-	19
June 2002	4.08	25,473	1	3
		687,618	35	39

At 31 December		230,694,135	11,535	11,500
'A' ordinary shares				
At 1 January		690,019,551	69	120
'A' ordinary shares issued in year		5,501,468	-	-
Ten for one 'A' share split		4,148,578,332	-	-
Shares bought back and cancelled		-	-	(3)
Purchase of 1 'A' ordinary share per Grafton Unit		(230,216,651)	(23)	(24)
Purchase of 1 'A' ordinary share per Grafton Unit		(230,694,135)	(2)	(24)
At 31 December		4,383,188,565	44	69

Total nominal share capital issued			11,579	11,569
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17. Share Capital (continued)

Grafton Units Issued During 2008

The number of Grafton Units issued during the year under the Group's Executive Share Schemes was 687,618 and the total consideration received amounted to €1,540,000.

Grafton Units

At 31 December 2008 a Grafton Unit comprised one ordinary share of 5 cent and nineteen 'A' ordinary shares of 0.001 cent each in Grafton Group plc and one 'C' ordinary share of Stg0.0001p in Grafton Group (UK) plc. 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.

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. On 25 March 2008 a further one 'A' ordinary share was purchased for 12.00 cent leaving two 'A' ordinary shares per Grafton Unit. At the Group's AGM in May 2008 a ten for one 'A' ordinary share split was approved dividing the remaining two 'A' ordinary shares of 0.01 cent each into twenty 'A' ordinary shares of 0.001 cent each. On 12 September 2008 one of these 'A' ordinary shares was purchased for 10.0 cent leaving nineteen 'A' ordinary shares per Grafton Unit at 31 December 2008.

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 0.001 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.

Treasury Shares

The Group holds 500,000 Grafton Units as treasury shares which were bought in June 2007 at a total cost of €5,746,000. In the second half of 2007 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

	2008 €'000	2007 €'000
Group and Company		
At 1 January	287,458	284,945
Premium on shares issued under share schemes	1,505	2,577
Costs of share issues	(12)	(64)
At 31 December	288,951	287,458

19. Capital Redemption Reserve

	2008 €'000	2007 €'000
Group and Company		
At 1 January	875	322
Shares bought back and cancelled	-	505
Purchase of 'A' ordinary shares	25	48
At 31 December	900	875

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

20. Revaluation Reserve

	2008 €'000	2007 €'000
Group		
At 1 January	32,768	32,973
Transfer to retained earnings	(611)	(205)
At 31 December	32,157	32,768

21. Other Reserves

	2008 €'000	2007 €'000
Group and Company		
Shares to be Issued		
At 1 January	10,920	6,455
Transfer to retained earnings	(2,913)	-
(Release)/provision for cost of share-based payments	(1,966)	4,465
At 31 December	6,041	10,920

Notes to the Financial Statements

22. Foreign Currency Translation Reserve

	2008	2007
	€'000	€'000
Group		
At 1 January	(30,534)	13,220
On foreign currency net investments	(180,087)	(44,583)
On foreign currency borrowings	7,787	829
At 31 December	(202,834)	(30,534)

23. Cash Flow Hedge Reserve

	2008	2007
	€'000	€'000
Group		
At 1 January	511	1,616
Adjustment for deferred tax	73	158
Movement in year	(584)	(1,263)
At 31 December	-	511

24. Interest Bearing Loans and Borrowings

	Group		Company	
	2008	2007	2008	2007
	€'000	€'000	€'000	€'000
Non-Current Liabilities				
Sterling bank loans	35,506	129,569	-	-
Euro bank loans	381,373	178,024	-	-
2005 unsecured senior US dollar loan notes	154,038	206,343	-	-
Finance leases	8,416	9,375	-	-
	579,333	523,311	-	-
Current Liabilities				
Bank overdrafts	7	1,000	4	4
Sterling bank loans	35,464	133,981	-	-
Euro bank loans	28,142	48,142	-	-
2005 unsecured senior US dollar loan notes	55,107	20,485	-	-
1998 unsecured senior US dollar loan notes	-	7,482	-	7,482
Vendor loan notes	574	1,460	-	272
Obligations under finance leases	580	1,074	-	-
	119,874	213,624	4	7,758

Notes to the Financial Statements

24. Interest Bearing Loans and Borrowings (continued)

In 1998 the Group completed a US\$55 million debt financing in the US Private Placement Market and issued unsecured senior loan notes maturing up to 2008. The US dollar proceeds were swapped into sterling and a cross currency interest rate derivative effectively changes the interest rate payable on the loan notes to sterling variable by reference to six month London Inter-Bank Offer Rate (LIBOR) rates. These loans were repaid during 2008.

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.

Loan notes were issued to vendors of businesses acquired and are redeemable at the option of the note holders on specified dates between January 2009 and December 2011. The interest rates payable on these loan notes are set at fixed rates or on terms directly related to LIBOR.

Maturity of Financial Liabilities

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

	Bank			Total	Bank			Total
	Loans and Overdrafts	Loan Notes	Finance Leases		Loans and Overdrafts	Loan Notes	Finance Leases	
	2008	2008	2008	2008	2007	2007	2007	2007
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Due within one year	63,613	55,681	580	119,874	183,123	29,427	1,074	213,624
Between one and two years	12,870	36,925	66	49,861	16,363	52,838	141	69,342
Between two and three years	288,286	36,924	-	325,210	16,363	35,826	-	52,189
Between three and four years	115,723	36,924	-	152,647	211,273	35,826	-	247,099
Between four and five years	-	14,422	-	14,422	63,594	35,826	-	99,420
After five years	-	28,843	8,350	37,193	-	46,027	9,234	55,261
	480,492	209,719	8,996	699,207	490,716	235,770	10,449	736,935
Derivatives				(38,753)				17,943
Gross Debt				660,454				754,878
Cash and short-term deposits				(224,834)				(204,489)
Net debt				435,620				550,389
Shareholders' funds				868,865				1,067,685
Gearing				50%				52%

Notes to the Financial Statements

24. Interest Bearing Loans and Borrowings (continued)

The following table indicates the effective interest rates at 31 December 2008 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	2.65%	22,290	22,290	-	-	-
Euro deposits	3.93%	114,357	114,357	-	-	-
Cash at bank	1.50%	88,187	88,187	-	-	-
Cash and cash equivalents		224,834	224,834	-	-	-
Sterling bank overdrafts	2.50%	(7)	(7)	-	-	-
Deposits and cash less overdrafts		224,827	224,827	-	-	-
<i>Floating rate debt:</i>						
Euro loans	4.60%	(409,515)	(383,629)	(25,886)	-	-
Sterling loans	4.26%	(70,970)	(70,970)	-	-	-
Total floating rate debt		(480,485)	(454,599)	(25,886)	-	-
<i>Fixed rate debt:</i>						
Finance leases	6.00%	(8,996)	-	(580)	(66)	(8,350)
Total fixed rate debt		(8,996)	-	(580)	(66)	(8,350)
<i>Floating rate loan notes:</i>						
US dollar loan notes	3.59%	(209,145)	(209,145)	-	-	-
Vendor loan notes	2.50%	(574)	(574)	-	-	-
Total loan notes		(209,719)	(209,719)	-	-	-
Derivatives		38,753	38,753	-	-	-
Total Net Debt		(435,620)	(400,738)	(26,466)	(66)	(8,350)

Borrowing Facilities

The Group had undrawn committed borrowing facilities at 31 December 2008 of €67.4 million (2007: €49.0 million) in respect of which all conditions precedent have been met and which expire in 2011.

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>Floating rate 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

25. Financial Assets and Liabilities

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

Group	31 December 2008		31 December 2007	
	Carrying Amount €'000	Fair Value €'000	Carrying Amount €'000	Fair Value €'000
Financial assets	227	227	850	850
Trade debtors and other receivables	353,581	353,581	535,695	535,695
Cash and cash equivalents	224,834	224,834	204,489	204,489
Interest rate swaps used for hedging	-	-	584	584
Cross currency swaps used for hedging	38,753	38,753	(18,527)	(18,527)
Euro bank loans	(409,515)	(425,847)	(226,166)	(226,166)
Sterling bank loans	(70,970)	(72,436)	(263,550)	(263,550)
Bank overdrafts	(7)	(7)	(1,000)	(1,000)
Finance leases	(8,996)	(8,996)	(10,449)	(10,449)
2005 unsecured senior US dollar loan notes	(209,145)	(216,952)	(226,828)	(232,537)
1998 unsecured senior US dollar loan notes	-	-	(7,482)	(7,482)
Vendor loan notes	(574)	(574)	(1,460)	(1,460)
	(81,812)	(107,417)	(13,844)	(19,553)

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

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 is shown in note 6.

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, fair value 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 part of its credit exposure to trade debtors.

Notes to the Financial Statements

25. Financial Assets and Liabilities (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 2008 was:

	Carrying Amount	
	2008 €'000	2007 €'000
Financial assets	227	850
Trade debtors and other receivables	353,581	535,695
Cash and cash equivalents	224,834	204,489
Cross currency swap used for hedging	38,753	-
Interest rate swaps used for hedging	-	584
	617,395	741,618

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	
	2008 €'000	2007 €'000
Domestic	153,442	249,042
United Kingdom	200,139	286,653
	353,581	535,695

There is no material concentration of credit risk with 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	
	2008 €'000	2007 €'000
Domestic financial institutions	163,598	160,091
United Kingdom financial institutions	61,236	44,398
	224,834	204,489

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

Notes to the Financial Statements

25. Financial Assets and Liabilities (continued)

Group

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

	2008 €'000	2008 €'000	2007 €'000	2007 €'000
	Gross Value	Impairment	Gross Value	Impairment
Not Past Due	320,779	-	490,711	-
Past Due				
0-30 days	23,470	(5,075)	30,686	(2,164)
30-60 days	25,880	(11,663)	22,692	(9,657)
+60 days	10,761	(10,571)	10,747	(7,320)
	60,111	(27,309)	64,125	(19,141)
	380,890	(27,309)	554,836	(19,141)

Movement in Impairment Provision

	2008 €'000
At 1 January	19,141
Written off	(9,088)
Additional provision	20,260
Translation adjustment	(3,004)
At 31 December	27,309

Company

None of the amounts owed from subsidiary undertakings of €697.8 million (2007: €670.5 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 in the Company relate to inter-group balances and transactions.

Borrowings made in a non-functional currency are immediately swapped into a functional currency.

Sensitivity Analysis

A ten per cent strengthening of the euro exchange rate against the sterling exchange rate during the year would have decreased equity and profit after tax by the amount shown below. This assumes that all variables, in particular the results and financial position of each sterling functional currency entity and interest rates, remained 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

25. Financial Assets and Liabilities (continued)

	Equity €'000	Profit after tax €'000
31 December 2008		
10% strengthening of euro currency against sterling	(56,000)	(1,500)
31 December 2007		
10% strengthening of euro currency against sterling	(39,200)	(8,700)

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 matured 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. There were no interest rate swaps at 31 December 2008.

The Group classified its interest rate swaps as cash flow hedges and stated them at their fair value. The fair value of these swaps at 31 December 2007 was €584,000 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 fixed rate US Dollar Private Placements. The Group's policy is to hedge this exposure to currency and fair value movements. 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 to swap the debt into floating rate sterling.

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 2008 was an asset of €38,753,000 and was included in current assets (€10,943,000) and non-current assets (€27,810,000). The fair value of these swaps at 31 December 2007 was a liability of €18,527,000.

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 after tax €'000
31 December 2008	
Effect of reduction of 100 basis points	4,300
31 December 2007	
Effect of reduction of 100 basis points	4,700

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

Notes to the Financial Statements

25. Financial Assets and Liabilities (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.

Details of bank covenants are outlined in the Group Finance Review on page 13.

Funding and Liquidity

The Group has cash resources at its disposal which together with undrawn bank facilities and cashflow from operations should provide flexibility in financing its operations.

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

Group						
31 December 2008	Carrying	Contractual	Within	Between	Between	Greater
	Amount	Cash Flow	1 Year	1 and 2	2 and 5	Than 5
	€'000	€'000	€'000	Years	Years	years
				€'000	€'000	€'000
Non-Derivative Financial Instruments						
Bank Loans	480,485	534,631	83,807	30,238	420,586	-
US dollar loan notes	209,145	224,325	61,234	41,232	92,948	28,911
Vendor loan notes	574	574	574	-	-	-
Finance lease liabilities	8,996	23,156	1,306	1,176	3,331	17,343
Trade and other payables	434,041	434,041	434,041			
Provisions	8,756	8,756	7,076	1,680	-	-
Bank overdraft	7	7	7	-	-	-
Derivative Financial Instruments						
Cross currency swaps used for hedging						
- Outflow	-	138,738	41,746	25,716	58,354	12,922
- Inflow	(38,753)	(175,948)	(53,687)	(33,897)	(72,214)	(16,150)
	1,103,251	1,188,280	576,104	66,145	503,005	43,026

Notes to the Financial Statements

25. Financial Assets and Liabilities (continued)

Group 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 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

* The timing of these contracted cash flows were renegotiated and extended with the lenders during 2008.

Company 31 December 2008	Carrying Amount €'000	Contractual Cash Flow €'000	Within 1 Year €'000
Non-Derivative Financial Instruments			
Bank overdraft	4	4	4

Notes to the Financial Statements

25. Financial Assets and Liabilities (continued)

Company 31 December 2007	Carrying Amount €'000	Contractual Cash Flow €'000	Within 1 Year €'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)
	<u>9,276</u>	<u>9,599</u>	<u>9,599</u>

The following table indicates the periods in which cash flows associated with derivatives that are cash flow hedges are expected to occur. The cash flow hedges below expired in April 2008.

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

26. Derivatives

	Group		Company	
	2008 €'000	2007 €'000	2008 €'000	2007 €'000
<i>Included in current assets:</i>				
Fair value of interest rate swaps	-	584	-	-
	-	584	-	-
<i>Included in non-current assets/(liabilities):</i>				
Fair value of cross currency swaps	27,810	(14,967)	-	-
<i>Included in current assets/(liabilities):</i>				
Fair value of cross currency swaps	10,943	(3,560)	-	(1,518)
	38,753	(17,943)	-	(1,518)

Notes to the Financial Statements

26. Derivatives (continued)

Nature of Derivative Instruments as at 31 December 2008

	Hedge Period	Underlying Hedge	Notional receivable amount of contracts outstanding	Notional payable amount of contracts outstanding	Fair value asset €'000	Fair value liability €'000
Cross Currency Swap	June 2005 to June 2015	Fixed rate USD \$ to floating Stg £	USD \$220,000,000	Stg £121,145,421	38,753	-

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	-
Cross Currency Swap	June 2005 to June 2015	Fixed rate USD \$ to floating Stg £	USD \$250,000,000	Stg £137,665,251	-	17,009
Cross Currency Swap	May 1998 to May 2008	Fixed rate USD \$ to floating Stg £	USD \$11,000,000*	Stg £6,600,000	-	1,518

* Relates to Company only

27. Provisions

	Group		Company	
	2008 €'000	2007 €'000	2008 €'000	2007 €'000
Non-Current Liabilities				
Deferred acquisition consideration	1,680	10,228	-	-
Current liabilities:				
Deferred acquisition consideration	6,831	11,764	-	-
WEEE provision	245	200	-	-
	7,076	11,964	-	-

The deferred acquisition consideration is payable over the period from January 2009 to December 2010 subject to certain conditions.

Notes to the Financial Statements

28. Trade and Other Payables

	Group		Company	
	2008 €'000	2007 €'000	2008 €'000	2007 €'000
<i>Trade and other payables</i>				
Trade payables	290,980	340,795	-	-
Accruals	117,315	129,974	14,365	26,654
Amounts owed to subsidiary undertakings	-	-	423,961	386,743
Social welfare	4,618	2,860	-	-
Income tax deducted under PAYE	3,631	5,712	-	-
Value added tax	17,497	24,862	-	-
	434,041	504,203	438,326	413,397

29. Obligations under Finance Leases

Group	2008			2007		
	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	1,306	726	580	1,811	737	1,074
Between one and five years	4,507	2,216	2,291	4,582	2,130	2,452
Later than five years	17,343	11,218	6,125	20,265	13,342	6,923
	23,156	14,160	8,996	26,658	16,209	10,449

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

Notes to the Financial Statements

30. Deferred Taxation

Recognised deferred tax assets and liabilities	Group			Group		
	Assets	Liabilities	Net Assets/ Liabilities	Assets	Liabilities	Net Assets/ Liabilities
	2008	2008	2008	2007	2007	2007
	€'000	€'000	€'000	€'000	€'000	€'000
Property, plant and equipment	(4,984)	38,262	33,278	(10,498)	44,216	33,718
Intangible assets	-	1,109	1,109	-	1,386	1,386
Financing	(10,920)	1,150	(9,770)	(11,452)	3,267	(8,185)
Other items	(3,890)	211	(3,679)	(2,682)	1,570	(1,112)
Pension	(5,110)	-	(5,110)	(2,677)	-	(2,677)
(Assets)/liabilities	(24,904)	40,732	15,828	(27,309)	50,439	23,130

Recognised deferred tax assets and liabilities	Company			Company		
	Assets	Liabilities	Net Assets/ Liabilities	Assets	Liabilities	Net Assets/ Liabilities
	2008	2008	2008	2007	2007	2007
	€'000	€'000	€'000	€'000	€'000	€'000
Other items	(14)	-	(14)	(2)	-	(2)
Pension	(116)	-	(116)	(232)	-	(232)
(Assets)/liabilities	(130)	-	(130)	(234)	-	(234)

Analysis of net deferred tax (asset)/liability

Group 2008	Balance	Recognised	Recognised	Foreign	Arising on	Balance
	1 Jan 08	in Income	in Equity	Exchange	Acquisitions	31 Dec 08
	€'000	€'000	€'000	Retranslation	€'000	€'000
				€'000		
Property, plant and equipment	33,718	2,922	-	(4,163)	801	33,278
Intangible assets	1,386	(277)	-	-	-	1,109
Financing	(8,185)	(5,542)	(73)	4,030	-	(9,770)
Other items	(1,112)	709	-	(3,276)	-	(3,679)
Pension	(2,677)	2,189	(4,730)	108	-	(5,110)
	23,130	1	(4,803)	(3,301)	801	15,828

Notes to the Financial Statements

30. Deferred Taxation (continued)

Group 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
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

Company 2008	Balance 1 Jan 08 €'000	Recognised in Income €'000	Recognised in Equity €'000	Foreign Exchange Retranslation €'000	Arising on Acquisitions €'000	Balance 31 Dec 08 €'000
Other items	(2)	(12)	-	-	-	(14)
Pension	(232)	542	(426)	-	-	(116)
	(234)	530	(426)	-	-	(130)

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)

31. Income Statement

In accordance with Section 148(8) of the Companies Act, 1963, the income statement of the parent undertaking has not been presented separately in these financial statements. There was a profit after tax of €48.6 million (2007: €106.5 million) attributable to the parent undertaking for the financial year.

Notes to the Financial Statements

32. Movement in Working Capital

Group	Inventory €'000	Trade and Other Receivables €'000	Trade and Other Payables €'000	Total €'000
At 1 January 2007	390,400	542,110	(521,265)	411,245
Translation adjustment	(19,701)	(52,018)	49,705	(22,014)
Interest accrual 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 1 January 2008	386,179	535,695	(504,203)	417,671
Translation adjustment	(51,093)	(146,203)	141,218	(56,078)
Interest accruals and other movements	-	204	(1,413)	(1,209)
Acquisitions	3,009	8,514	(9,562)	1,961
Movement in 2008	(6,971)	(44,629)	(60,081)	(111,681)
At 31 December 2008	331,124	353,581	(434,041)	250,664

Company	Trade and Other Receivables €'000	Trade and Other Payables €'000	Total €'000
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 1 January 2008	8,821	(26,654)	(17,833)
Interest accrual and other movements	(10)	-	(10)
Movement in 2008	(1,795)	12,289	10,494
At 31 December 2008	7,016	(14,365)	(7,349)

33. Acquisition of Subsidiary Undertakings and Businesses

In the twelve months to 31 December 2008 the Group made six UK acquisitions in the merchanting sector adding ten builders and two plumbers merchanting branches. These included, Lloyd Worrall, a seven branch merchanting business based in Milton Keynes (Acquired: 1 April 2008) and five single branch merchants located at Selsey, West Sussex (Acquired: 17 March 2008); Neath, West Glamorgan (Acquired: 28 March 2008); Belfast, Co. Antrim (Acquired: 4 April 2008); Wellingborough, Northants (Acquired: 31 January 2008) and in Brighouse, West Yorkshire (Acquired: 31 December 2008).

During the prior 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.

Notes to the Financial Statements

33. Acquisition of Subsidiary Undertakings and Businesses (continued)

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.

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.

Acquisitions would have contributed €39 million and €103.7 million to turnover in the years ended 31 December 2008 and 2007 respectively assuming that they had been acquired on 1 January of each year.

Acquisitions in each year would have contributed €2.4 million and €10.1 million to operating profit in the years ended 31 December 2008 and 2007 respectively assuming that they had been acquired on 1 January of each year.

2008 Acquisitions contributed €29 million (2007: €47.7 million) to turnover and €1.9 million (2007: €5.7 million) to operating profit since acquisition.

	2008	2007
	€'000	€'000
<i>The fair values of assets and liabilities acquired are set out below;</i>		
Property, plant and equipment	8,029	15,636
Financial assets	3	17
Inventories	3,009	12,789
Trade and other receivables	8,514	16,607
Trade and other payables	(9,562)	(15,635)
Corporation tax	(272)	(2,875)
Deferred tax liability	(801)	(1,216)
Deferred tax asset	-	12,955
Finance leases acquired	-	(404)
Bank debt acquired	(179)	(2,581)
Net assets acquired excluding cash and overdrafts	8,741	35,293
Goodwill	10,804	48,073
Consideration	19,545	83,366
Satisfied by:		
Cash paid	24,460	84,350
Cash acquired	(4,983)	(10,417)
Bank overdrafts assumed on acquisition	68	2,728
Net cash outflow	19,545	76,661
Further payments accrued	-	-
Deferred acquisition consideration	-	6,624
Loan notes issued to vendors of businesses acquired	-	81
	19,545	83,366

Notes to the Financial Statements

33. Acquisition of Subsidiary Undertakings and Businesses (continued)

The fair value of net assets acquired was €8,741,000.

	Fair Values €'000	Consideration €'000	Goodwill €'000
Total acquisitions	8,741	19,545	10,804

The fair values were calculated as follows:

	Book Values €'000	Fair Value Adjustment €'000	Fair Values €'000
Financial assets	3	-	3
Property, plant and equipment	8,029	-	8,029
Working capital	1,937	24	1,961
Corporation tax	(272)	-	(272)
Deferred tax liability	(3)	(798)	(801)
Bank debt	(179)	-	(179)
	9,515	(774)	8,741

The provisional 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 difference between the fair value of the properties acquired and their tax base.

Goodwill on these acquisitions reflects the anticipated purchasing and operational synergies for the businesses acquired as part of the enlarged Group. No intangibles formed part of the acquisition consideration.

The fair value of net assets acquired in 2007 was €35,293,000

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

Notes to the Financial Statements

34. Reconciliation of Net Cash Flow Movement in Net Debt

	Group		Company	
	2008 €'000	2007 €'000	2008 €'000	2007 €'000
Net increase/(decrease) in cash and cash equivalents	56,939	14,443	(14,659)	11,610
Net movement in derivative financial instruments	(584)	(1,263)	-	-
Cash flow from increase/(decrease) in debt and lease financing	13,138	(45,643)	8,593	9,086
Change in net debt resulting from cash flows	69,493	(32,463)	(6,066)	20,696
Loan notes issued on acquisition of subsidiary undertakings	-	(81)	-	-
Finance leases acquired with subsidiary undertakings	-	(404)	-	-
Bank loans and loan notes acquired with subsidiary undertakings	(179)	(2,581)	-	-
Translation adjustment	45,455	36,000	-	-
Movement in net debt in the year	114,769	471	(6,066)	20,696
Net debt at 1 January	(550,389)	(550,860)	14,260	(6,436)
Net debt at 31 December	(435,620)	(550,389)	8,194	14,260

35. Capital Expenditure Commitments

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

	Group	
	2008 €'000	2007 €'000
Contracted for	5,047	13,337
Not contracted for	30,252	79,631
	35,299	92,968

Capital commitments in the UK and Ireland amounted to €32.0 million (2007: €78.2 million) and €3.3 million (2007: €14.8 million) respectively.

Notes to the Financial Statements

36. Operating Leases

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

	Group				Company	
	Land and Buildings 2008 €'000	Other 2008 €'000	Land and Buildings 2007 €'000	Other 2007 €'000	Land and Buildings 2008 €'000	Land and Buildings 2007 €'000
Operating lease payments due:						
Within one year	54,078	1,202	57,059	1,963	429	429
Between two and five years	208,040	1,109	217,444	2,643	1,715	1,715
Over five years	676,693	-	734,711	17	4,285	4,714
	938,811	2,311	1,009,214	4,623	6,429	6,858

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 2008 €61.2 million (2007: €55.3 million) was recognised as an expense in the income statement in respect of operating leases.

37. Pension Commitments

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

The actuarial reports are not available for public inspection.

IAS 19 – Employee Benefits

The Group operates five defined benefit schemes in Ireland and two in the UK. There was a merger of three plans in the UK during 2007. All actuarial valuations were updated to 31 December 2008 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 2008	At 31 Dec 2008	At 31 Dec 2007	At 31 Dec 2007
	Irish Schemes	UK Schemes	Irish Schemes	UK Schemes
Valuation Method	Projected Unit	Projected Unit	Projected Unit	Projected Unit
Rate of increase in salaries	3.0%	2.5%	3.5%	4.25%
Rate of increase of pensions in payment	-	2.8%	0-3%	3.3%
Discount rate	5.6%	6.5%	5.5%	5.7%
Inflation rate increase	1.8%	2.8%	2.3%	3.3%

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

Notes to the Financial Statements

37. Pension Commitments (continued)

The future life expectancy at age 65 for males and females (currently age 55 and 65), inherent in the mortality tables used for the 2008 and 2007 year end IAS19 disclosures are as follows:

2008 Mortality		Years	2007 Mortality		Years
Future pensioner aged 65:	Male	21.1	Future pensioner aged 65:	Male	20.6
	Female	23.6		Female	23.6
Current pensioner aged 65:	Male	20.6	Current pensioner aged 65:	Male	20.2
	Female	23.2		Female	23.1

Scheme Assets

The assets in these schemes and the long-term rates of return expected at 31 December 2008, 31 December 2007, 31 December 2006, 31 December 2005 and 31 December 2004 are set out below:

	2008 Irish Schemes	2008 UK Schemes	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%	8.0%	8.0%	7.5%	7.5%	7.25%	7.25%
Bonds	4.0%	5.0%	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%	6.5%	7.0%	6.0%	7.0%	7.0%	7.0%
Cash	3.5%	2.0%	3.5%	5.5%	3.5%	5.0%	2.5%	4.5%	4.0%	4.5%

		2008 %	2008 €'000	2007 %	2007 €'000	2006 %	2006 €'000	2005 %	2005 €'000	2004 %	2004 €'000
Equities		69	91,825	78	173,696	74	165,609	78	135,128	68	64,783
Bonds		16	22,086	12	27,897	12	26,632	13	22,775	15	14,030
Property		6	8,299	6	12,390	5	11,997	5	9,573	3	2,766
Cash		9	11,645	4	9,717	9	18,887	4	6,436	14	13,203
			133,855		223,700		223,125		173,912		94,782
Actuarial value of liabilities			(174,747)		(239,023)		(257,288)		(232,944)		(130,379)
Deficit in the schemes			(40,892)		(15,323)		(34,163)		(59,032)		(35,597)

Historical information

Experience adjustment on scheme liabilities	3,905	(4,430)	(5,815)	(3,450)	(3,554)
As % of scheme liabilities	2.2%	1.9%	2.3%	1.5%	2.7%
Experience adjustment on scheme assets	(72,585)	(13,792)	10,717	19,531	1,510
As % of scheme assets	54.2%	6.2%	4.8%	11.2%	1.6%

Notes to the Financial Statements

37. Pension Commitments (continued)

The following table provides a reconciliation of the scheme assets (at bid value) and the actuarial value of scheme liabilities:

Group	Year ended 31 December 2008					
	Assets		Liabilities		Net asset/(deficit)	
	2008 €'000	2007 €'000	2008 €'000	2007 €'000	2008 €'000	2007 €'000
At 1 January	223,700	223,125	(239,023)	(257,288)	(15,323)	(34,163)
Expected return on plan assets	15,820	16,426	-	-	15,820	16,426
Contributions by employer	16,331	8,846	-	-	16,331	8,846
Contributions by members	2,730	2,966	(2,730)	(2,966)	-	-
Benefit payments	(31,134)	(4,698)	31,134	4,698	-	-
Current service cost	-	-	(4,325)	(7,326)	(4,325)	(7,326)
Past service cost	-	-	(734)	-	(734)	-
Settlement loss	-	-	(3,104)	-	(3,104)	-
Curtailment gain	-	-	338	-	338	-
Interest cost on scheme liabilities	-	-	(12,868)	(12,307)	(12,868)	(12,307)
Actuarial gains/(losses)	(72,585)	(13,792)	35,171	26,365	(37,414)	12,573
Translation adjustment	(21,007)	(9,173)	21,394	9,801	387	628
At 31 December	133,855	223,700	(174,747)	(239,023)	(40,892)	(15,323)
Related deferred tax asset (net)					5,110	2,677
Net pension liability					(35,782)	(12,646)

Notes to the Financial Statements

37. Pension Commitments (continued)

Company	Year ended 31 December 2008					
	Assets		Liabilities		Net asset/(deficit)	
	2008 €'000	2007 €'000	2008 €'000	2007 €'000	2008 €'000	2007 €'000
At 1 January	21,673	19,270	(23,529)	(20,810)	(1,856)	(1,540)
Expected return on plan assets	918	1,455	-	-	918	1,455
Contributions by employer	7,913	596	-	-	7,913	596
Contributions by members	29	137	(29)	(137)	-	-
Benefit payments	(26,300)	(42)	26,300	42	-	-
Current service cost	-	-	(83)	(894)	(83)	(894)
Past service cost	-	-	(734)	-	(734)	-
Settlement loss	-	-	(3,104)	-	(3,104)	-
Curtailment gain	-	-	-	-	-	-
Interest cost on scheme liabilities	-	-	(574)	(959)	(574)	(959)
Actuarial gains/(losses)	(2,923)	257	(482)	(771)	(3,405)	(514)
At 31 December	1,310	21,673	(2,235)	(23,529)	(925)	(1,856)
Related deferred tax asset (net)					116	232
Net pension liability					(809)	(1,624)

Expense recognised in operating costs

	Group		Company	
	2008 €'000	2007 €'000	2008 €'000	2007 €'000
Past service cost	734	-	734	-
Settlement loss	3,104	-	3,104	-
Curtailment gain	(338)	-	-	-
Current service cost	4,325	7,326	83	894
Total operating charge	7,825	7,326	3,921	894

Recognised directly in equity

	Group		Company	
	2008 €'000	2007 €'000	2008 €'000	2007 €'000
Actuarial (loss)/gains on pensions	(37,414)	12,573	(3,405)	(514)
Deferred tax on pensions	4,730	(2,599)	426	64
	(32,684)	9,974	(2,979)	(450)

Notes to the Financial Statements

37. Pension Commitments (continued)

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

	Group		Company	
	2008 €'000	2007 €'000	2008 €'000	2007 €'000
Operating costs	7,825	7,326	3,921	894
Finance income (expected return on scheme assets)	(15,820)	(16,426)	(918)	(1,455)
Finance expense (interest on scheme liabilities)	12,868	12,307	574	959
Total operating charge	4,873	3,207	3,577	398

Cumulative net actuarial losses reported in the Statement of Recognised Income and Expenses since 1 January 2004, the transition date, to 31 December 2008 is €40.6 million (2007: €3.2 million).

38. Share Based Payments

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

- (i) Basic shares which cannot be converted before the expiration of five years, unless the Remuneration Committee agrees to a shorter period which shall not be less than three years, and may be converted any time after that to the end of their contractual life provided the Company's earnings per share has grown at not less than the rate of growth in the Consumer Price Index plus 5 per cent compounded during that period.
- (ii) Second tier shares which cannot be converted before the expiration of five years and at any time thereafter up to the end of their contractual life, 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. Basic shares granted after 8 May 2008 cannot be converted before the expiration of three years.

Share Schemes

The number of Grafton Units issued during the year under the Company's Executive Share Schemes was 687,618 (2007: 782,517) and the total consideration received amounted to €1,540,000 (2007: €2,545,000). Costs relating to the issues were €12,000. No entitlements to acquire Grafton Units, under the 1999 Grafton Group Share Scheme, were granted during the year (2007: 2,255,900). Entitlements outstanding at 31 December 2008 amounted to 11,875,801 (2007: 12,952,626). 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 2,957,240 (2007: 1,033,139) Grafton Units were outstanding at 31 December 2008, pursuant to a 2008 three year saving contract under Grafton Group (UK) plc Savings Related Share Option Scheme at a price of €2.96. These options are normally exercisable within a period of six months after the third anniversary of the savings contract, being May 2011. No Grafton units were issued during the year under the Company's 2005 SAYE scheme.

Notes to the Financial Statements

38. Share Based Payments (continued)

A summary of the share entitlements granted in 2008 and 2007 are set out below:

Grant Date	UK SAYE Scheme 2008	1999 Grafton Group Share Scheme 2007
	4 November 2008	24 September 2007
Share price at grant date	€2.96	€8.48
Exercise price	€2.96	€8.48
Number of employees	1,628	136
Shares under option	2,957,240	2,255,900
Vesting period	3 years	5 years
Expected volatility	40%	27%
Option life	3.5 years	10 years
Expected life	3.5 years	6 years
Risk free rate	3.31%	4.2%
Expected dividends expressed as dividend yield	4.63%	1.72%
Possibility of ceasing employment before vesting	10%	0%
Valuation model	Binominal model	Binominal model
Fair value per option	€0.48	€2.42

The 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:

	2008		2007	
	Number	Weighted Average exercise price €	Number	Weighted Average exercise price €
Outstanding at 1 January	12,952,626	6.82	11,970,557	6.32
Granted	-	-	2,255,900	8.48
Forfeited	(389,207)	7.50	(491,314)	7.90
Exercised	(687,618)	2.24	(782,517)	3.25
Outstanding at 31 December	11,875,801	7.06	12,952,626	6.82
Exercisable at 31 December	3,252,150	3.47	3,181,126	2.72

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

Notes to the Financial Statements

39. Accounting Estimates and Judgements

The Group's main accounting policies affecting its results and financial condition are set out on pages 45 to 53. 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 €532.8 million at 31 December 2008 (2007: €600.8 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 Group 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 2008.

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 €174.8 million at 31 December 2008 (2007: €239.0 million). Plan assets at 31 December 2008 amounted to €133.9 million (2007: €223.7 million) giving a net scheme deficit of €40.9 million (2007: €15.3 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 Group.

40. Related Party Transactions

Grafton Group plc had an amount of €1.25 million due to Navan Retail Developments Limited, a joint venture company, at 31 December 2008 (2007: Nil).

Details of key management compensation are provided in note 5.

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

Management charge of €18.9 million in the year ended 31 December 2008 (2007: €13.6 million).

Dividend income of €63.0 million in the year ended 31 December 2008 (2007: €110.45 million).

Provision of finance for certain subsidiaries.

41. Guarantees and Principal Operating Subsidiaries

The Company has given guarantees in respect of the bank borrowings of subsidiary undertakings which amounted to €690 million at the balance sheet date. The Company has also guaranteed certain property lease obligations of subsidiary undertakings. 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

Notes to the Financial Statements

41. Guarantees and Principal Operating Subsidiaries (continued)

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, Weeksby 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, 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, Plumbing Distributors Limited, Plumbland Limited, Market Hardware Limited, Powlett Properties Limited, Resadale Properties Limited, Sandtex Ireland Limited, Stettler Properties Limited, Beralt Developments Limited, Raftor Limited.

The Company owns 100 per cent 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.

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
Grafton Merchanting GB 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 Grafton Merchanting GB 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.

42. Approval of Financial Statements

The Board of Directors approved the financial statements on 26 February 2009.