Grafton Group plc Annual Report 2004

Grafton Group plc

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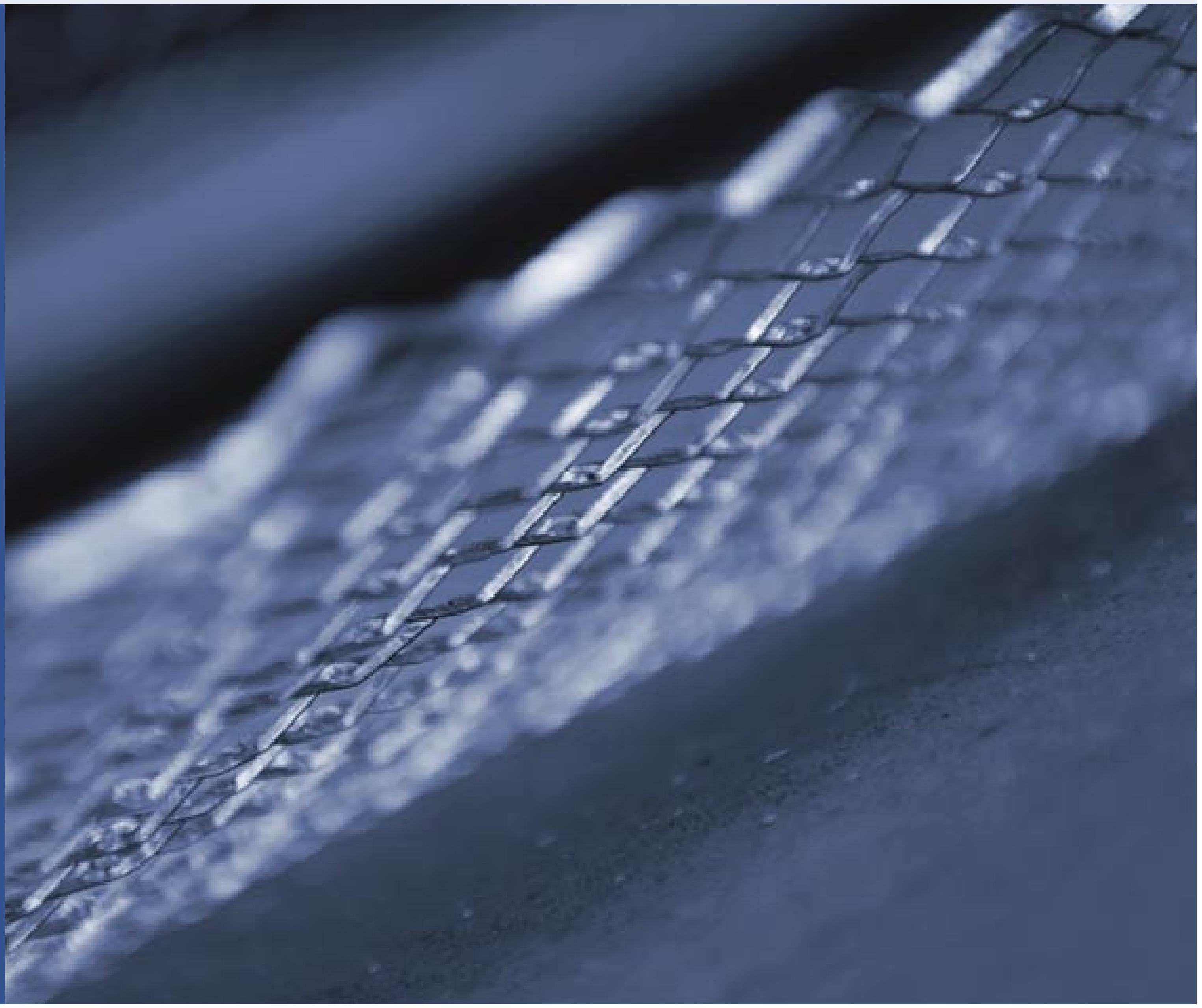
Grafton Group plc

Annual Report 2004



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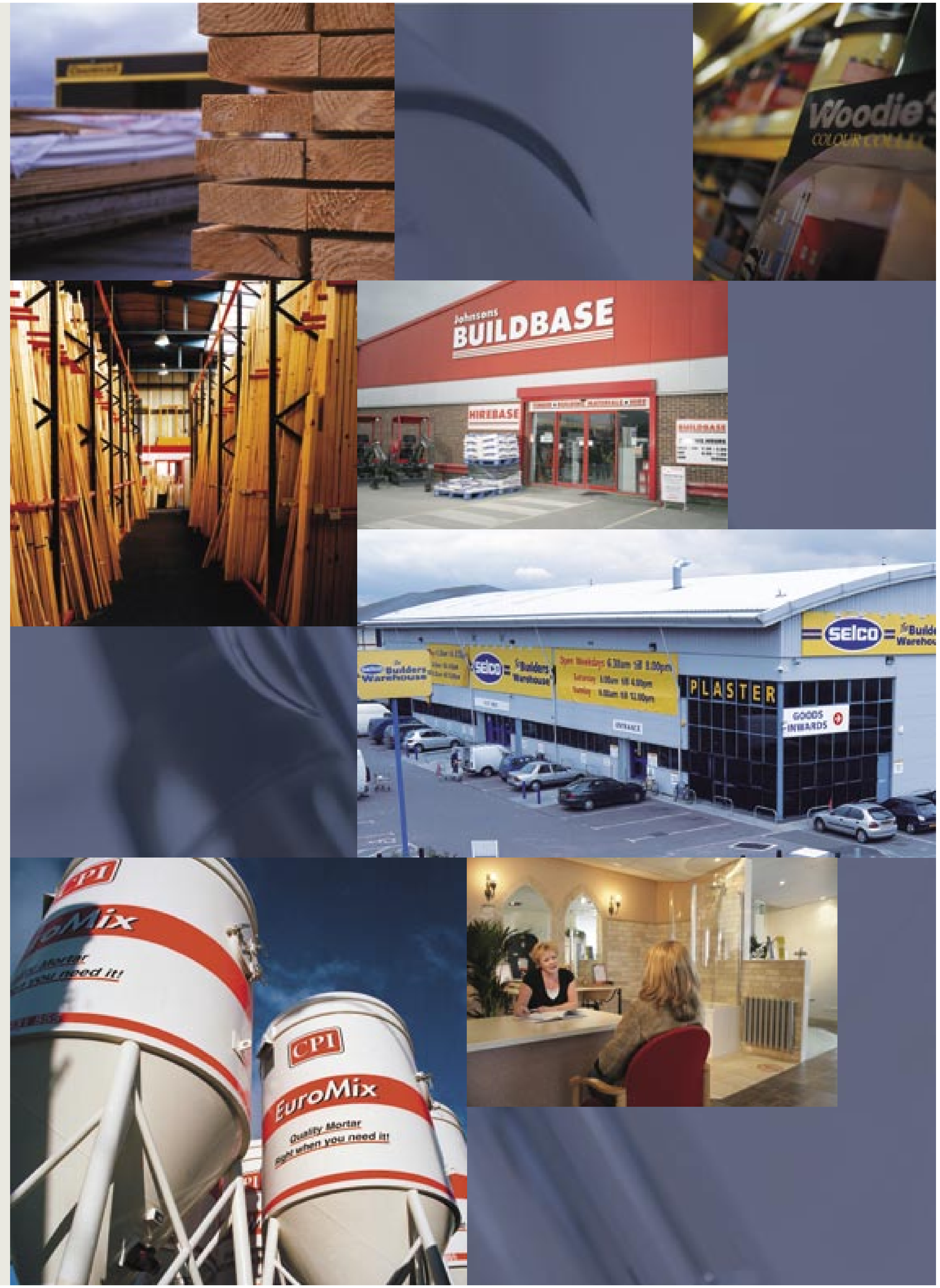


Woodie's
Johnsons
BUILDBASE
HIREBASE
Selco
The Builders Warehouse
PLASTER
GOODS INWARDS
CPI
EuroMix
Quality Mortar
right when you need it!

Group Profile

Grafton Group plc is an independent, profit growth oriented company, operating in the UK and Ireland whose main activities are builders and plumbers merchanting, DIY retailing and mortar manufacturing.

The Group aims to achieve above average returns for its shareholders. Grafton's strategy is to build on strong positions in businesses serving the UK and Irish construction sectors, to develop in related markets, and to grow in businesses with which it is familiar.

In the UK, Grafton's merchanting operations are the fourth largest in the market. These comprise 147 plumbers merchanting branches trading under the Plumbase brand, and 163 builders merchanting branches trading principally under the Buildbase and Jackson brands.

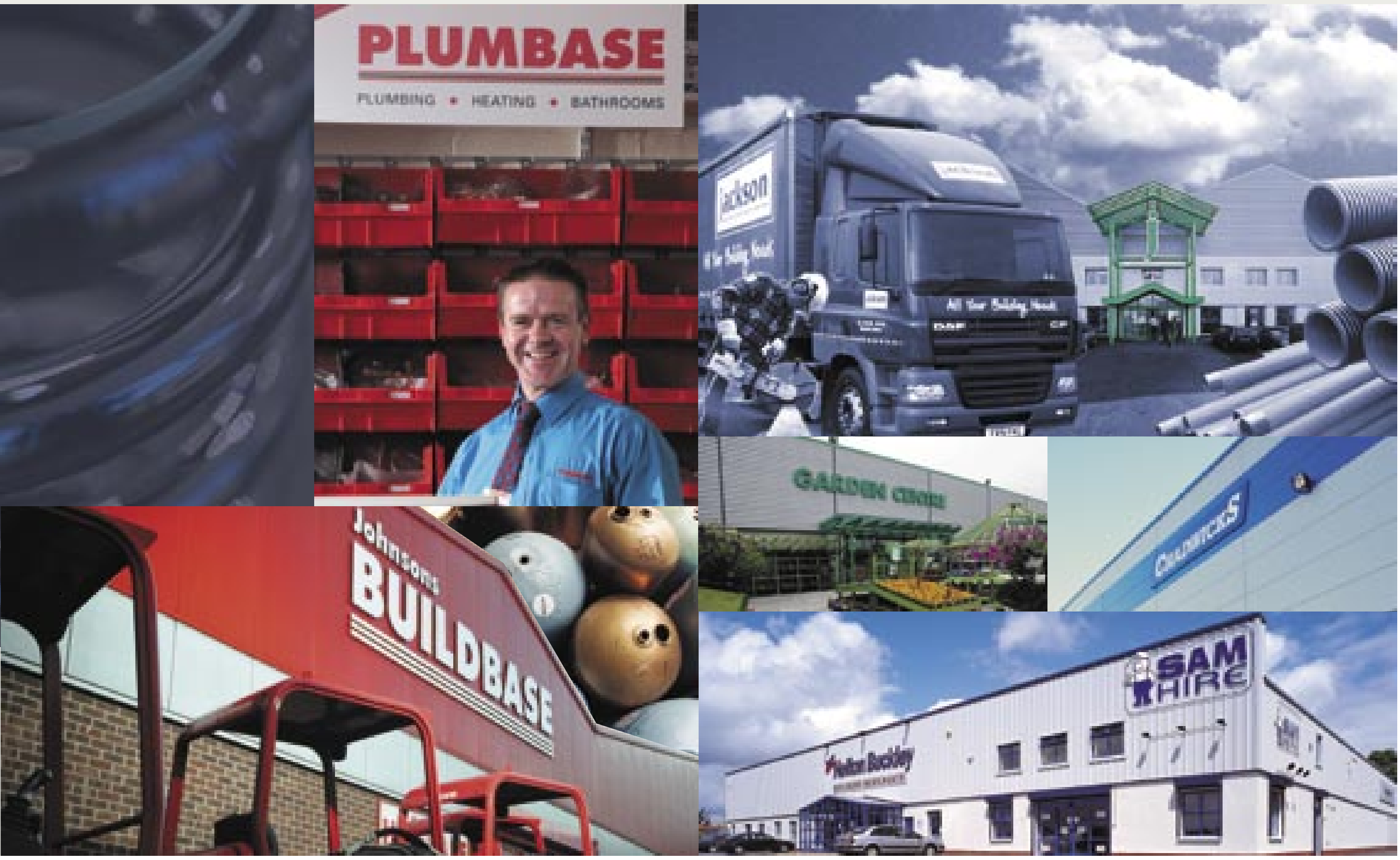
In Northern Ireland, Macnaughton Blair is one of the leading builders merchants trading from 12 locations.

EuroMix is the UK market leader in dry mortar with 7 plants.

In the Republic of Ireland, the Group is the largest builders and plumbers merchanting business trading from 31 branches nationally principally under the Chadwicks brand and from 25 branches nationally under the Heiton Buckley brand.

The Group is the clear leader in Irish DIY retailing with 19 Woodie's and 15 Atlantic Homecare stores nationally and, amongst other activities, has manufacturing plants in plastics and concrete products, including EuroMix dry mortar.

Since becoming an independent Public Limited Company in 1987, Grafton has increased its adjusted earnings per share at an average annual rate of 28%. Grafton Group plc shares are listed on the Irish and London Stock Exchanges.



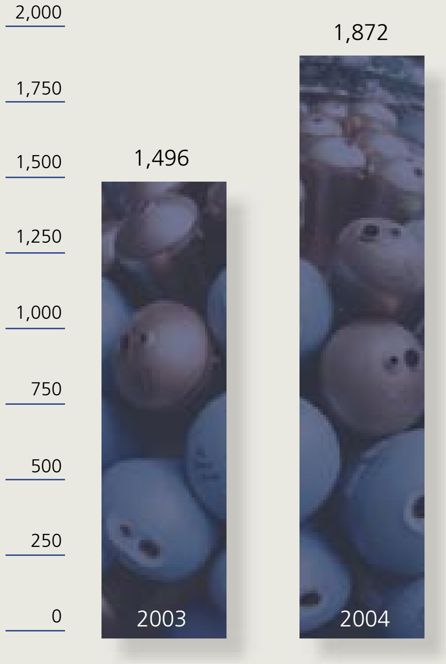
Financial Highlights

	2004	2003	Change
Turnover (€ million)	**1,872**	1,496	**+25%**
EBITDA (€ million)	**201**	157	**+28%**
Operating profit before goodwill (€ million)#	**157**	123	**+28%**
Profit before taxation (€ million)	**132**	102	**+29%**
EPS	**52.6c**	41.9c	**+25%**
Adjusted EPS (before goodwill amortisation & property profit)	**55.6c**	45.1c	**+23%**
Adjusted diluted EPS	**54.2c**	44.2c	**+23%**
Share purchase / share redemption per Grafton Unit	**13.0c**	10.5c	**+24%**
Share purchase/share redemption cover (times)	**4.3**	4.3	
Interest cover (times)	**7.6**	7.5	
Cash flow per share*	**75c**	60c	**+24%**
Net assets per share	**251c**	212c	**+19%**
Net debt to shareholders' funds	**63%**	69%	
Depreciation charge (€ million)	**34.2**	28.2	
Goodwill amortisation (€ million)	**12.8**	9.4	
Acquisition and investment expenditure (€ million)	**85**	220	
Capital expenditure (€ million)	**89**	69	

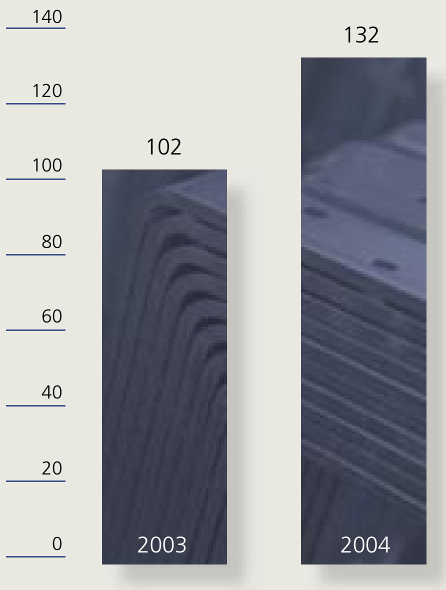
Before property profit.

* *Based on profit after tax plus depreciation and goodwill amortisation.*

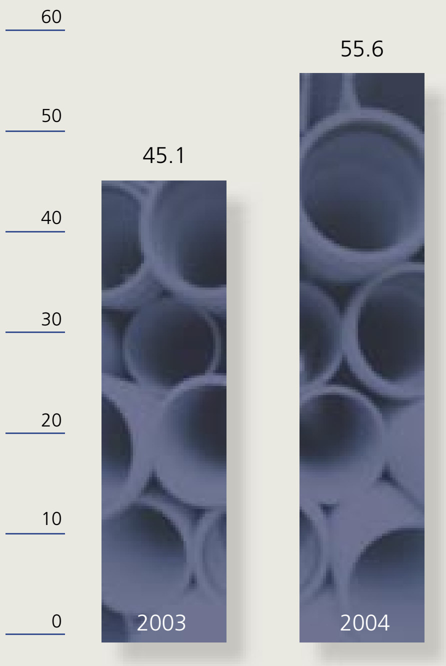
TURNOVER
(€ million)



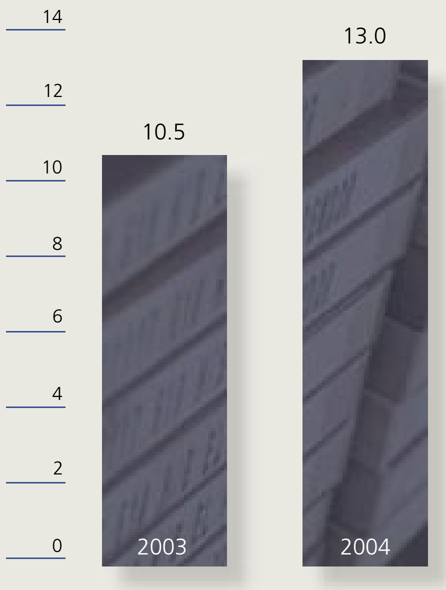
PROFIT BEFORE TAX
(€ million)



ADJUSTED EARNINGS PER SHARE
(€ cent)



SHARE PURCHASE / SHARE REDEMPTION PER GRAFTON UNIT
(€ cent)



Regions and Divisions

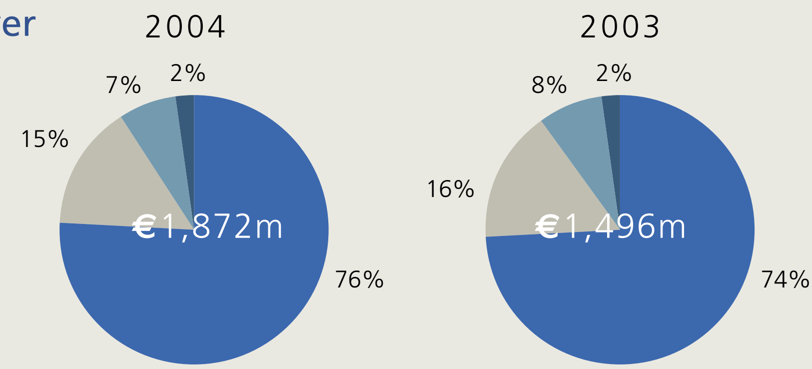
"The Group's consistent strategy has enabled development of builders merchanting, DIY and mortar manufacturing businesses in the UK and Ireland with strong regional and national market positions."

- Builders Merchanting
- Plumbers Merchanting
- Manufacturing
- DIY Retailing

	UK	Ireland	Total
Builders Merchants	163	23	186
Plumbers Merchants	147	8	155
Manufacturing Plants	8	3	11
DIY	-	19	19
Total	318	53	371

Divisional Turnover

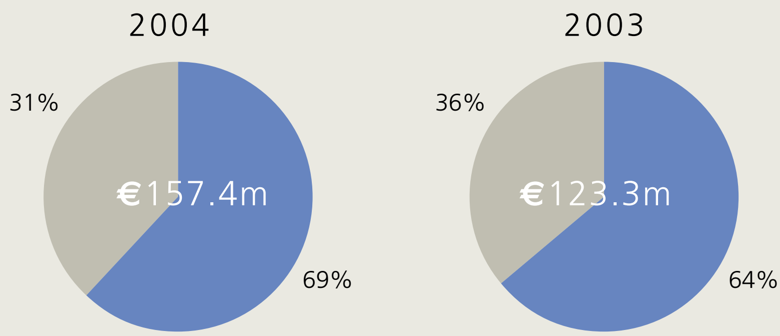
- UK Operations
- Irish Merchanting
- Irish DIY Retailing
- Irish Manufacturing



Operating Profit

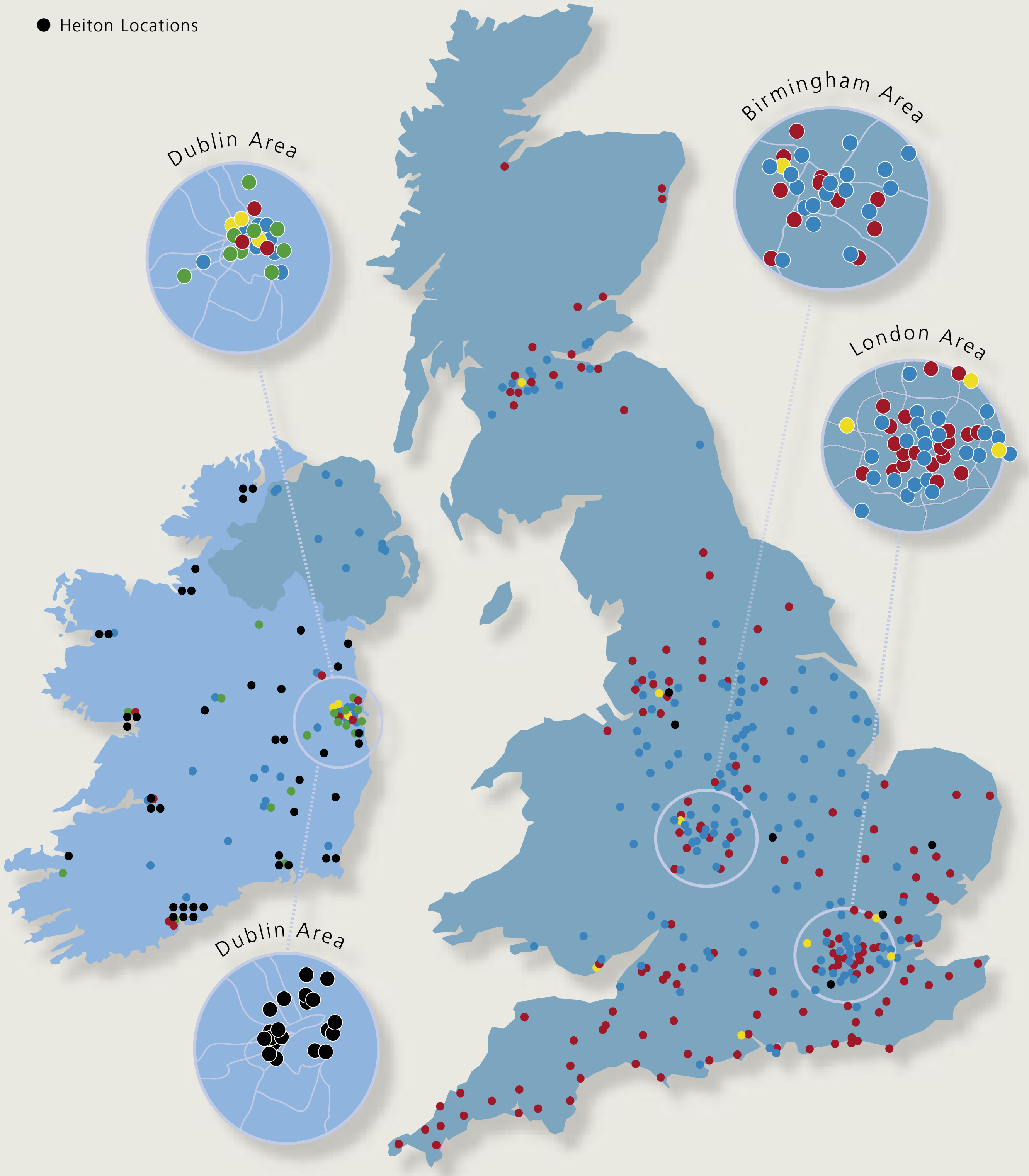
Before Goodwill and Property Development Profit

- UK
- Ireland



Trading Locations

- Builders Merchanting
- Plumbers Merchanting
- Manufacturing
- DIY Retailing
- Heiton Locations



Chairman's Statement

"The Group's consistent strategy has enabled development of builders merchanting, DIY and mortar manufacturing businesses in the UK and Ireland with strong regional and national market positions. These businesses and brands have given the Group a solid platform for continued profitable growth and development as well as diversifying its earnings base between the UK and Ireland and across the construction sector and related markets."

Grafton Group plc is pleased to report that 2004 has been another year of excellent progress and that record sales, profits and earnings have been achieved. This was the Group's thirteenth year of uninterrupted profit growth.

Highlights

- Sales were up 25 per cent to €1.9 billion (2003: €1.5 billion).
- Operating profit before goodwill increased by 28 per cent to €157.4 million (2003: €123.3 million).
- Profit before tax increased by 29 per cent to €131.9 million (2003: €102.0 million).
- Earnings per share before goodwill and property profit increased by 23 per cent to 55.64 cent (2003: 45.07 cent).
- Cash generated from operations was up 36 per cent to €177 million (2003: €129.8 million).

All of the Group's operations performed strongly in 2004 aided by good market conditions in the UK and Ireland and the benefit of acquisitions completed during 2003. The Group's consistent strategy has enabled development of builders merchanting, DIY and mortar manufacturing businesses in the UK and Ireland with strong regional and national market positions. These businesses and brands have given the Group a solid platform for continued profitable growth and development as well as diversifying its earnings base between the UK and Ireland and across the construction sector and related markets.

It was another year of significant progress for the UK businesses. Favourable economic conditions continued to support strong demand in the repair, maintenance and improvement sector. The completion of a significant acquisition and development programme in 2003 and the related integration and scale opportunities resulted in a substantial increase in sales and operating profit. UK turnover grew by 28 per cent to €1.4 billion (2003: €1.1 billion). UK operating profit increased by 38 per cent to €108.4 million (2003: €78.6 million). As anticipated, the UK operating profit margin increased, for the sixth consecutive year, to 7.6 per cent (2003: 7.1 per cent). The UK accounted for 76 per cent of Group turnover (2003: 74 per cent) and 69 per cent (2003: 64 per cent) of Group operating profit.

The Group was also active on the development front in the UK during 2004 with a continuing successful bolt-on strategy which involved completion of 17 acquisitions. The businesses acquired trade from 22 branches with annual sales of €120 million. These businesses enhance coverage of the UK merchanting market and strengthen our position in the North West region where half of the acquired branches are located. The Group also improved coverage of the UK merchanting market with the greenfield development of 12 branches. EuroMix strengthened its leadership position in the UK dry mortar market with the opening of its seventh plant in Southampton.

In the Republic of Ireland, a gradual economic recovery as the year developed and record levels of activity in the residential construction market provided a favourable background for good growth in turnover and operating profit. Irish turnover increased by 17 per cent to €451.7 million (2003: €384.5 million) and operating profit was up 10 per cent to €49.0 million (2003: €44.8 million). Irish merchanting sales increased by 19 per cent due to the Telfords acquisition and good like for like growth. Incremental sales from Woodie's Cavan and Carlow stores which opened during 2003 and the opening of a further three stores in Clonmel, Naas Road, Dublin and Kilkenny together with like for like sales growth enabled Woodie's to increase turnover by 18 per cent.

The Group used its strong operating cash flows and balance sheet strength to fund a significant acquisition and development programme during the year. A record cash flow of €177 million from operations in 2004 enabled the Group to continue to implement its development strategy and provide a sound basis for the future profitable growth of the Group.

Share Purchase / Redemptions

The Board redeemed the remaining six redeemable shares per Grafton Unit for a cash consideration of 5 cent payable on 26 March 2004.

Following restructuring of the Group's share capital in June 2004, the Board approved the purchase of one A Ordinary Share per Grafton Unit for 1 cent and payment was made on 1 October 2004.

The Board has decided to purchase a further A Ordinary Share per Grafton Unit for a cash consideration of 7 cent payable on 29 March 2005. Total redemption / share purchase payments to shareholders for 2004 of 13 cent per Grafton Unit represents an increase of 24 per cent on redemptions of 10.5 cent per Grafton Unit for 2003.

Heiton Group plc

On 7 January 2005, following clearance from the Competition Authority in Ireland, the Group completed the acquisition of Heiton Group plc for a total consideration of approximately €398 million including estimated debt assumed and the cost of the Group's 29 per cent investment in the business held prior to the offer. The consideration payable includes the issue of 21.4 million shares by Grafton to Heiton Group shareholders.

Heiton Group operations, which are located primarily in Ireland, comprises both builders merchanting and DIY activities. The Irish builders merchanting business trades mainly under the Heiton Buckley name and is the largest builders merchanting business in Ireland operating nationally from 25 branches including Cork Builders Providers. The business also incorporates Heiton Steel, the largest steel stockholding business in Ireland, and a 14 branch small plant and tool hire business trading under the Sam Hire brand. The retail operations of Heiton Group trade from 15 branches under the Atlantic Homecare DIY brand and, from 4 stores, under the In-House at the Panelling Centre brand. Heiton Group also operates a small specialist drainage and ground engineering merchanting business from 6 branches in the UK.

Heiton's Irish merchanting and DIY businesses are a good strategic fit with Grafton's existing operations and consolidates the position of Grafton as the leading player in the Irish merchanting and DIY markets.

The acquisition of Heiton Group provides opportunities for scale benefits from two complementary businesses.

Operations Review - United Kingdom

UK sales increased by 28 per cent to €1.4 billion (2003: €1.1 billion) and operating profit increased by 38 per cent to €108.4 million (2003: €78.6 million). The operating profit margin increased to 7.6 per cent (2003: 7.1 per cent), a rate of improvement consistent with that achieved in each of the previous three years.

In 2004 the UK economy continued a long period of stability and growth. The economy slowed from above trend growth rates as the year progressed in response to a tightening of interest rates aimed at slowing growth and the rate of increase in house prices. It was a very good year for the labour market as the unemployment rate edged down to 4.7 per cent.

The UK repair, maintenance and improvement market, which is the principle end user market for the Group's merchants' sales, put in another solid performance in 2004 with industry estimates indicating volume growth of 3.5 per cent.

The excellent results achieved by the UK businesses reflects strong profit growth in the established merchanting businesses, incremental profit from the businesses acquired during 2003 and contributions from the seventeen businesses acquired during 2004.

Like for like merchanting sales growth of 6.5 per cent, margin improvement as a result of purchasing synergies and trading initiatives and benefits of integrating acquisitions contributed to the substantial operating profit improvement in the like for like businesses.

The Jackson and Plumbline acquisitions completed in 2003 joined the Group with very good market positions and performed strongly during 2004.

Development of the UK businesses continued during 2004 with the acquisition of seventeen businesses trading from twenty two branches and thirteen greenfield developments increasing the number of trading locations to 318. Acquisitions made during the year included Keel Supply and Hall and Rogers, two specialist insulation and dry-lining businesses trading from four branches in the North West. These businesses, which traded strongly post acquisition, add critical mass over a narrow product group and offer potential growth opportunities.

Greenfield developments comprised eight plumbers merchanting branches, four builders merchanting and a new mortar plant. Two Scottish builders merchanting branches at East Kilbride and Glasgow successfully relocated to new purpose built facilities.

UK Builders Merchanting

The UK Builders merchanting division had an excellent year with sales and operating profit substantially ahead of 2003. The strong improvement in profit came from good like for like sales growth in the established branch network, incremental profit from acquisitions made during 2003 and contributions from current year acquisitions.

The results reflect the full year benefit of revised purchasing and sourcing arrangements put in place following the Jacksons acquisition and the continued successful integration of the 61 branches acquired in 2002 and 2003.

Regional coverage was strengthened with further geographic expansion during 2004. Completion of 15 small acquisitions added twenty branches and a further four greenfield branches were opened increasing the UK builders merchanting network to 163 branches at the year end.

Buildbase achieved another year of excellent sales and profit growth. Good like for like sales growth, margin improvement through improved purchasing terms and tight control over overheads delivered profit improvement in the like for like business. This combined with incremental contributions from acquisitions made in 2003 resulted in a significant improvement in operating profit. Buildbase continued with the successful integration of businesses acquired during 2003 and 2004 taking advantage of synergy and product growth opportunities while maintaining the ethos of these small chain and single branch merchants with a long established presence in their local markets.

Buildbase continued to consolidate and expand its strong position in the UK builders merchanting market where the brand is now firmly established.

Jacksons, the UK's largest regional independent merchanting business prior to acquisition in March 2003, achieved an excellent result in its first full year as part of the Group. The strong advance in operating profit on 2003 levels reflected good like for like sales growth, tight overhead control and scale related purchasing synergies.

The Jackson acquisition created a market leadership position for the Group in the East Midlands builders merchanting market and complements the Buildbase branch network which is concentrated in the South East and West Midlands. The strong results for 2004 mean that the financial benefits of the acquisition for the enlarged Group were realised in 2004, the first full year of ownership and well ahead of the 2006 time frame anticipated in the original acquisition announcement.

Buildbase acquired nine businesses trading from twelve branches during 2004 and opened two branches in Stratford E15 and Cirencester. Developments completed by Jacksons during the year included the opening of a greenfield branch in Louth, replacement of the Swinton, South Yorkshire branch with a new purpose built facility and a small bolt-on acquisition which provides a platform for further growth in the Lincolnshire market.

In Northern Ireland, Macnaughton Blair strengthened its leading market position in the province with the acquisition of two builders merchanting businesses trading from branches in Bangor and Coleraine. These acquisitions provide the business with a wider geographic coverage in the province and increase the branch network to 12.

The strong trading performance of Macnaughton Blair in recent years continued into 2004 and the business experienced very good like for like sales and operating profit growth with contributions from the Bangor and Coleraine acquisitions.

UK Plumbers Merchanting

Plumbase, a plumbing heating and sanitary ware merchanting business, with 147 branches has strong regional market positions in England and Scotland. The business further strengthened its market position during 2004 through the acquisition of two single branch merchants and the opening of eight new branches.

Plumbase achieved growth in sales and operating profit. Purchasing synergies and increased sales enabled a good advance in profit in the like for like Plumbase business.

The results of the division were significantly boosted by a full year contribution from the Plumbline business acquired in September 2003. Plumbline, a leading regional plumbers merchanting chain trading from seventeen branches provided Plumbase with an important initial presence in the Scottish plumbers merchanting market. The business performed ahead of pre-acquisition expectations as sales growth, purchasing benefits and the continued development of a number of branches in the chain which opened in the years prior to acquisition contributed to the increase in profit.

UK Mortar

The EuroMix mortar business continued to trade well increasing sales and operating profit in a more competitive market. EuroMix, the market leader in the supply of dry mortar, has transformed a traditional market by pioneering the use on-site of dry mortar silo technology to produce a range of quality mortars for the use in block laying and bricklaying.

The EuroMix business operates from a network of seven strategically located plants and provides mortar to key national and regional building and construction companies for use in residential and non-residential construction projects. The distinctive red and white EuroMix silos are now an established feature on construction sites throughout the country.

The plant at Harlow, which commenced production in May 2003, traded strongly and the opening of a plant in Southampton in July provides coverage to house builders, developers and contractors throughout the South of England. Market leadership will be further enhanced with the opening of the eighth dry mortar plant at Severnside, near Bristol. This plant is currently under construction and will provide market coverage in the West Country.

Operations Review - Republic of Ireland

Irish turnover increased by 17 per cent to €451.7 million (2003: €384.5 million) and operating profit increased by 9.5 per cent to €49.0 million (2003: €44.8 million). The operating profit margin declined to 10.9 per cent from 11.6 per cent. This reflected flat operating profit margins in the established merchanting and DIY businesses, costs associated with Woodie's three new stores, an anticipated lower margin in the acquired merchanting business and a more competitive trading environment with increased competition in the DIY and manufacturing businesses.

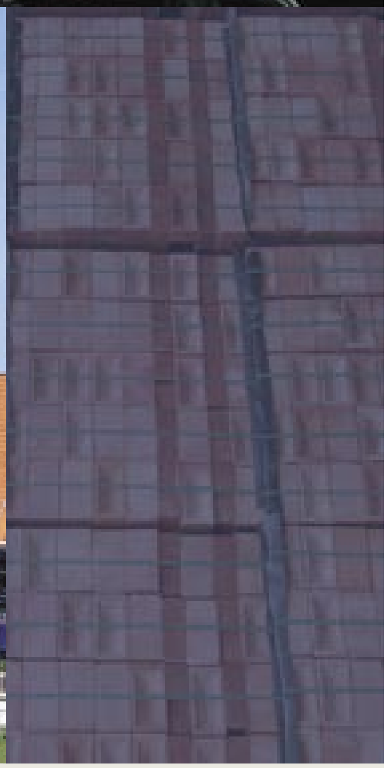
The Irish economy delivered an impressive growth performance in 2004 following two years of below trend growth. The economy steadily gathered pace as the year developed and exceeded growth expectations for the year as a whole. The employment market performed strongly with high employment creation and the inflation environment was benign with the slowest annual growth rate for five years.

The construction market grew by an estimated 9 per cent in 2004 reflecting very strong activity in the residential sector, strong infrastructure demand and unchanged volumes in the commercial and industrial sectors. House completions for 2004 were a record 77,000 units. Record levels of house completions have been influenced by a prolonged period of low interests rates, strong employment creation, net inward migration, demand for second homes and demand from investors in the buy-to-let market.

Irish Merchanting

The Irish Merchanting division increased sales by 19 per cent to €286.1 million (2003: €239.8 million) including like for like growth of 6.8 per cent.

Chadwicks builders and plumbers merchanting business had a busy year due to record demand in the residential construction market and good levels of activity in the repair, maintenance and improvement market. While the merchanting market enjoyed good volume growth, there was strong competition in the sector from both the national chains and independent operators.



Chadwicks Wexford branch, which relocated to a modern out of town purpose built facility at the end of 2003, traded successfully in 2004 and the two Chadwicks Plumb Centre branches in Galway and North Dublin which opened last year made good progress growing market share.

Telfords, the three branch builders merchanting business acquired in October 2003, traded ahead of pre-acquisition expectations benefiting from strong sales growth and purchasing synergies. This long established merchant provides the Group with an important presence in the Midlands market.

Irish Retailing

Woodie's, the leading player in the Irish DIY market, achieved another year of sales and profit growth. Sales increased by 18 per cent to €129.8 million (2003: €110.3 million). Like for like sales growth of 2 per cent for the year reflected good first half demand, influenced by strong sales of seasonal products, and the softening of demand in the DIY Superstore sector generally in the second half of the year in an increasingly competitive market.

The Cavan and Carlow stores which opened in 2003 traded ahead of expectations in 2004. Woodie's continued to consolidate its market leadership position with the opening of stores in Clonmel and Naas Road, Dublin in the first half of 2004 and in Kilkenny in the second half bringing the total network to nineteen.

Development plans for 2005 will involve relocating the Cork and Bray stores and opening new stores in Naas and Carrickmines. Further store openings in Drogheda and Navan are planned for 2006.

Irish Manufacturing

CPI's EuroMix business strengthened its position in the dry mortar market in the greater Dublin area, but its block and readymix divisions suffered from intense competition. MFP, the plastics manufacturing business, experienced difficult market conditions due to increased raw materials prices and intense competition in the sector.

Board

Mr. Leo Martin, Chief Executive of Heiton Group plc, was appointed to the Board of Grafton on completion of the acquisition. As previously announced, the Board is in the process of appointing two additional non-executive directors whose appointment will reflect the scale and geographical spread of the Group's interests.

Mr. Norman Kilroy retired as Managing Director on 30 April 2004 and will retire from the Board on 31 August 2005.

Management and Staff

On behalf of the Board and our shareholders, we are pleased to acknowledge the very important contribution of the management and staff in the UK and Irish businesses to another set of record results for the Group. We also warmly welcome our new colleagues from Heiton Group plc who joined us on the 7 January 2005.

Outlook

The Group's cash generative businesses combined with a strong balance sheet following completion of the Heiton acquisition and high interest cover leave it well placed to continue to pursue its successful strategy.

Growth in the UK economy is expected to ease back to its long term sustainable rate in response to a tightening of monetary policy during 2004 and should continue to be supportive of growth in the repair, maintenance and improvement sector, our principle end user market. The Group will focus on realising integration benefits from acquisitions made during 2004 and also in the wider UK merchanting business. We expect to further strengthen our position in the UK merchanting market by completing further acquisitions and through new developments. The UK mortar business is expected to build on its market leadership position with the opening of its eighth plant later this year.

The Irish economy has consistently outperformed the European economy over the past decade and growth forecasts for 2005 are also very good. Low inflation, a strong employment market and reasonable growth in incomes are expected to lead to stronger consumer spending which should be supportive of RMI growth in the Heiton Buckley and Chadwicks merchanting businesses. We expect the number of house completions in Ireland to gradually moderate to long term sustainable levels which will be more heavily influenced by population and household formations as demand for second homes and rented properties reduce. The Woodie's and Atlantic Homecare DIY businesses are both well placed to benefit from increased retail spending and should also benefit in 2005 from contributions from the five stores opened during 2004.

We look forward to further progress in 2005 confident in the success of our strategy and proven track record of profitable growth in the enlarged Group.

On behalf of the Board

Michael Chadwick
Chairman

Group Finance Review

Results

The Group achieved new records for sales, profits and earnings in 2004. The scale of progress and development in recent years is reflected in an almost doubling of sales over the past three years and a trebling of sales over the past five years. The rate of growth in pre-tax profit doubled in the past three years and increased by 3.5 times over the past five years.

Shareholders Funds

Shareholders funds increased by €86 million to €535.8 million (31 December 2003: €449.8 million). Profit after taxation amounted to €112.1 million (2003: €86.7 million) and share redemption / purchase payments to shareholders were €25.5 million (2003: €18.8 million). The issue of shares under the Group share schemes increased shareholders funds by €1.3 million. Sterling weakness between the end of 2003 and the end of 2004 reduced the euro amount on translation of net assets in the UK businesses by €1.8 million.

Components of Operating Profit Growth

Operating profit before goodwill increased by €34.1 million to €157.4 million from €123.3 million in 2003. Operating profit growth in the Group's like for like UK and Irish businesses amounted to €15.7 million. The incremental effect of acquisitions undertaken during 2003 increased operating profit by €12.1 million while the operating profit contribution from 17 acquisitions completed during 2004 was €4.5 million. The average sterling / euro exchange rate was 2% stronger during 2004 and accounted for a positive translation impact of €1.6 million to operating profit for the year. The incremental result of branch openings in 2003, new branches opened in 2004 and branch consolidations increased operating profit by €200,000.

Measures of Financial Performance

Interest cover, an influential measure of the Group's capacity to service its debt obligations, continued to be very comfortable at 7.6 times (2003: 7.5 times) benefiting from the fixing of interest rates during 2003 on a substantial element of the Group's debt which is denominated in Sterling.

Net debt at 31 December 2004 was €338.2 million (31 December 2003: €311.7 million) giving a debt to equity ratio of 63% (31 December 2003: 69%).

Return on average capital employed, an important measure in the assessment of acquisitions and developments, was 17.3% (2003: 17.1%). The return on average equity of 21.3% for 2004 (2003: 21.0%) reflects the benefit of the Group continuing to utilise its debt capacity to part fund its acquisition and development programme during a prolonged low interest rate environment.

The reduction in the Group's working capital intensity to 12.7% (2003: 13.4%) was due to tighter control of stocks and debtors.

Cash Flow

The generation of strong operating cash flows has traditionally provided the Group with the financial strength to fund a consistent acquisition and development programme. Cash flow from operating activities was up 36% to a record €177.0 million (2003: €129.8 million). The cash flow from operating activities included an investment of €19.1 million (2003: €20.1 million) in working capital to support substantial growth in like for like sales and branch openings.

The Group also generated cash flows of €25.4 million (2003: €31.0 million) from asset disposals and €1.3 million (2003: €69.2 million) from the issue of shares. Total cash flow from operating activities, asset disposals and the issue of shares amounted to €203.8 million (2003: €229.9 million).

Acquisitions

The Group continued to make bolt-on acquisitions during 2004 completing 17 transactions. The 17 businesses trade from 22 branches with annual sales of €120 million. The Group completed 42 acquisitions over the past three years. The businesses concerned trade from 113 branches with annualised turnover in excess of €600 million at the time of acquisition.

The 17 acquisitions made during 2004 cost €71.7 million including debt acquired and the Group's acquisition spend in the three years to 2004 was €380.5 million.

Group Finance Review

The Group plans to continue growing its UK merchanting divisions through the acquisition of businesses which are a good fit with the existing branch network and which present an opportunity for the Group to realise its hurdle rate of return on investments.

Capital Expenditure and Asset Disposals

Capital expenditure during 2004 of €88.9 million (2003: €69.3 million) comprised routine replacement expenditure of €39.9 million (2003: €33.0 million) and expenditure of €49 million (2003: €36.3 million) on development projects. Routine asset replacement expenditure of €39.9 million compares to the Group's depreciation charge of €34.2 million. Expenditure on development projects included the greenfield development of 12 merchanting branches in the UK, 3 Woodie's branches in the Republic of Ireland and a new dry mortar plant in the UK. Development expenditure also includes the cost of acquiring a property in Navan, Co. Meath, which when redeveloped will incorporate a new Woodie's DIY store. The Group also redeveloped a number of its UK merchanting branches during 2004.

A profit of €6.7 million was realised on development of the new Woodie's store on the Naas Road, Dublin.

The Group funds ongoing development principally from operating cash flows and utilising its strong balance sheet to support bank borrowings. The Group also historically holds significant short term cash deposits. At 31 December 2004 cash on hand and short term deposits, with a maturity profile of six months or less, amounted to €135.9 million (31 December 2003: €139.0 million).

The Group had gross debt of €474 million at 31 December 2004. Almost two thirds of gross debt is repayable after more that two years from the balance sheet date. The Group's debt is denominated in Sterling and was mainly drawn for the purpose of funding the Group's UK acquisition and development programme.

The Group had un-drawn committed bank facilities of €91.9 million at 31 December 2004.

Pensions

The Group operates a number of defined contribution and defined benefit pension schemes.

Grafton continues to account for pension costs on the basis of the requirements of SSAP 24 and provides the disclosures regarding the FRS 17 valuation of defined benefit scheme net assets and liabilities. The FRS 17 valuation of the defined benefit schemes showed a deficit, net of deferred tax, of €28.6 million (31 December 2003: €19.5 million). The increased deficit arose due to lower corporate bond rates in 2004, increased life expectancy and higher than anticipated salary increases. The company has substantially increased the funding rates for these schemes to eliminate the deficit over time following actuarial reviews and agreement with the Irish Pensions Board.

International Financial Reporting Standards (IFRS)

The results for 2004 are reported under Irish/UK GAAP. Restated interim and full year results for 2004 under IFRS will be made available during the second quarter of 2005.

Summary

The Group has an excellent track record for generating profitable growth and strong cash flows. The Group's balance sheet was further strengthened with the acquisition in January 2005 of Heiton Group. This acquisition was part funded through the issue of 21.4 million shares and resulted in only a small increase in gearing.

The Group's healthy cash flow from operations and strong balance sheet leave it well positioned to finance ongoing acquisition and development opportunities.

Colm Ó Nualláin
Finance Director

Principal Brands

Builders Merchanting

In the Republic of Ireland, the Group's leading builders and plumbers merchanting businesses trade from 31 branches nationally under the Chadwicks brand and from 25 branches nationally under the Heiton Buckley brand.

Builders Merchanting

The UK builders merchants division trades principally under the Buildbase brand from 143 branches and has a strong presence in the South East, Midlands and North of England.

Builders Merchanting

Jacksons trade from 20 branches in the East Midlands where it is the leading builders merchant.

Plumbers Merchanting

The UK plumbers merchanting division, trading under the Plumbase brand from 147 branches, has a strong presence in the South East, Midlands, East Anglia, West Country and Scotland.

Mortar Manufacturing

EuroMix, the UK's largest manufacturer of silo based mortar, for use in a range of construction projects, trades from 7 plants which provide an almost nationwide coverage. EuroMix is the leading dry mortar brand in the UK and Ireland.

DIY Retailing

Woodie's DIY is the market leader in DIY retailing in the Republic of Ireland, trading from 19 stores nationally. Atlantic Homecare trades from 15 branches nationally.

Board of Directors

Michael Chadwick
BA, MSc

EXECUTIVE CHAIRMAN

Michael Chadwick (53) joined the Group in 1975 and was appointed to the Board in 1979. He was appointed Executive Chairman in 1985.

Colm Ó Nualláin
B Comm, FCA

FINANCE DIRECTOR

Colm Ó Nualláin (51) joined the Group as Financial Controller in 1989 and was appointed Finance Director in 1990. He previously held senior financial positions in a number of public and semi-state companies.

Leo Martin
BBS, FCA

EXECUTIVE DIRECTOR

Leo Martin (53) was appointed to the Board in January 2005 following the acquisition of Heiton Group plc. He was Chief Executive of Heiton Group plc, having joined Heiton and the Board as Finance Director in 1986. Prior to joining Heiton he was a Director of the Switzer Group in Ireland with responsibility for finance and the catalogue export business.

Fergus Malone
BE, MBA

EXECUTIVE DIRECTOR

Fergus Malone (62) joined the Group's Plastics division in 1972, having previously worked as an engineer in various industries. He was appointed to the Board in 1978 and is responsible for the Group's manufacturing businesses in the UK and Ireland.

Anthony E. Collins
MA, B Comm, Solicitor

DEPUTY CHAIRMAN - NON-EXECUTIVE

Anthony Collins (65) became a non-executive Director in 1988 and was appointed Deputy Chairman in 1995. He is the Senior Independent Director. A former President of the Law Society of Ireland, he is Senior Partner of Eugene F. Collins, Solicitors, Chairman of the Advisory Board of the Automobile Association Ireland, Deputy Chairman of The Leinster Leader Ltd and a Director of the Institute of Directors in Ireland Ltd.

Gillian Bowler (UK)

NON-EXECUTIVE DIRECTOR

Gillian Bowler (52) joined the Board in 1995. She is Chairman of Budget Travel Ltd and of Irish Life & Permanent plc and a Director of the VHI. She is also Chairman of Fáilte Ireland. She formerly served as Chairman of The Irish Museum of Modern Art, as a member of the Independent Radio and Television Commission and is Past President of the Institute of Directors in Ireland Ltd.

Richard W. Jewson (UK)
MA

NON-EXECUTIVE DIRECTOR

Richard Jewson (60) joined the Board in 1995. He is Chairman of Archant Ltd and a Director of Temple Bar Investment Trust plc and PFI Infrastructure plc. He was previously Chairman of Savills plc, Queens Moat House plc and Meyer International plc.

Norman D. Kilroy
FCA

NON-EXECUTIVE DIRECTOR

Norman D. Kilroy (65) retired as Managing Director on 30 April 2004 having held this position since 1990. He retires as a non-executive Director on 31 August 2005. He is a Director of Banque Nationale de Paris in Ireland and PEI Surgical and Medical Supplies Ltd. He previously served as an Authority Member of the IDA and as a member of the Irish Trade Board. He is a past President and a Fellow of the Irish Management Institute.

Charles Rinn
MBA, FCCA

GROUP FINANCIAL CONTROLLER AND SECRETARY

Board Committees

Audit	R.W. Jewson (Chairman), G. Bowler, A.E. Collins
Remuneration	G. Bowler (Chairman), A.E. Collins, R.W. Jewson
Nomination	A.E. Collins (Chairman), G. Bowler, M. Chadwick, R.W. Jewson
Finance	M. Chadwick (Chairman), C. Ó Nualláin, C. Rinn

Financial Review

Profit and Loss Accounts	**2004 €m**	2003 €m	2002 €m	2001 €m	2000 €m	1999 €m	1998 €m	1997 €m
Turnover	**1,872.3**	1,496.0	1,152.4	988.8	830.5	620.2	427.6	327.6
Operating profit*	**146.2**	115.8	89.7	77.3	64.6	46.3	33.1	25.6
Exceptional profit	**7.5**	3.4	3.7	2.3	-	-	-	-
Interest payable (net)	**(21.8)**	(17.2)	(13.2)	(12.4)	(11.8)	(8.1)	(4.9)	(2.4)
Profit before taxation	**131.9**	102.0	80.2	67.2	52.8	38.2	28.2	23.2
Taxation	**(19.8)**	(15.3)	(12.0)	(8.7)	(6.9)	(4.6)	(4.0)	(3.5)
Profit after taxation	**112.1**	86.7	68.2	58.5	45.9	33.6	24.2	19.7

Balance Sheets	**2004 €m**	2003 €m	2002 €m	2001 €m	2000 €m	1999 €m	1998 €m	1997 €m
Capital employed								
Goodwill	**234.3**	210.8	100.4	62.5	51.7	31.7	9.8	-
Tangible fixed assets	**396.9**	346.8	302.3	251.5	209.6	175.9	140.7	61.8
Financial fixed assets	**47.0**	33.7	33.6	33.6	18.9	19.0	0.2	12.5
Net current assets#	**231.2**	198.5	144.3	129.5	106.5	76.2	60.2	29.4
Other liabilities	**(35.4)**	(28.3)	(18.0)	(17.7)	(16.1)	(14.1)	(12.4)	(1.2)
	874.0	761.5	562.6	459.4	370.6	288.7	198.5	102.5
Financed as follows:								
Shareholders' funds equity	**535.8**	449.8	322.0	264.5	216.5	181.3	139.8	78.6
Net debt/(cash)	**338.2**	311.7	240.6	194.9	154.1	107.4	58.7	23.9
	874.0	761.5	562.6	459.4	370.6	288.7	198.5	102.5

Other Information								
Acquisition & investment expenditure	**85.0**	220.1	88.8	61.8	56.6	63.6	53.4	29.7
Purchase of tangible fixed assets	**88.9**	69.3	68.0	42.0	43.2	29.5	20.6	14.6
Total capital & investment expenditure	**173.9**	289.4	156.8	103.8	99.8	93.1	74.0	44.3
Depreciation and goodwill amortisation	**47.0**	37.6	26.6	21.9	16.5	12.6	7.2	5.4

Financial Highlights	**2004**	2003	2002	2001	2000	1999	1998	1997
Earnings per share before goodwill & exceptional profit (cent)	**55.6**	45.1	37.0	32.1	25.9	19.5	14.2	11.6
Share purchase/dividend per share (cent)	**13.0**	10.5	8.5	7.5	6.1	4.5	3.3	2.7
Cashflow per share (cent)	**74.7**	60.1	53.9	46.2	36.2	27.5	19.4	15.7
Net assets per share (cent)	**251.0**	211.5	181.6	150.2	124.3	104.9	84.9	48.8
Interest cover (times)	**7.6**	7.5	7.4	6.7	5.7	5.8	6.8	10.6
Share purchase/dividend cover (times)	**4.3**	4.3	4.4	4.3	4.3	4.3	4.3	4.3
Net debt to shareholders' funds	**63%**	69%	75%	74%	71%	59%	42%	30%

* After deducting goodwill amortisation and excluding property profit

\# Excluding cash and debt

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

1996	1995	1994	1993	1992	1991	1990	1989	1988	1987
€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
-	-	-	-	-	-	-	-	-	-
48.5	43.2	40.1	35.9	33.0	33.7	30.6	21.2	19.4	18.1
0.1	-	1.2	3.4	1.0	1.9	1.3	-	-	0.4
21.4	21.5	18.2	17.9	18.4	18.6	18.7	16.1	11.1	9.3
(1.1)	(1.1)	(1.1)	(1.1)	(1.0)	(1.0)	(1.0)	(0.6)	(0.5)	(0.2)
68.9	63.6	58.4	56.1	51.4	53.2	49.6	36.7	30.0	27.6
70.6	57.7	49.9	45.7	42.2	40.7	38.7	36.0	25.1	23.9
(1.7)	5.9	8.5	10.4	9.2	12.5	10.9	0.7	4.9	3.7
68.9	63.6	58.4	56.1	51.4	53.2	49.6	36.7	30.0	27.6
8.0	1.4	5.8	2.7	-	1.2	7.8	0.1	1.6	-
7.6	7.7	5.7	5.2	2.4	5.9	7.8	3.5	2.7	1.3
15.6	9.1	11.5	7.9	2.4	7.1	15.6	3.6	4.3	1.3
4.2	3.6	3.0	2.6	2.1	2.1	1.4	1.0	0.9	1.1

1996	1995	1994	1993	1992	1991	1990	1989	1988	1987
9.0	6.5	4.8	2.5	2.2	2.0	2.7	2.3	1.6	0.9
2.1	1.5	1.0	0.9	0.8	0.7	0.7	0.6	0.5	0.4
13.1	9.5	7.0	4.3	3.7	3.5	3.8	3.3	2.4	1.8
44.2	36.6	31.7	29.3	27.0	26.2	24.9	23.1	20.2	19.4
15.4	13.1	9.8	7.0	4.1	3.8	10.2	6.9	6.7	3.8
4.3	4.3	4.7	2.9	2.9	2.7	3.8	3.8	3.3	2.4
-	10%	17%	23%	22%	31%	28%	2%	19%	16%

Report of the Directors

The Directors present their report to the shareholders, together with the audited financial statements for the year ended 31 December 2004.

Group Results

Group turnover of €1,872 million was 25 per cent higher than Group turnover of €1,496 million in 2003. Group profit before taxation amounted to €131.9 million compared with €102.0 million in the previous year, an increase of 29 per cent. Earnings per share amounted to 52.64c compared with 41.95c in the previous year, an increase of 25 per cent. Adjusted earnings per share (before goodwill amortisation, property development profit and profit on disposal of property) increased by 23 per cent to 55.64c compared to 45.07c in 2003. After deducting taxation of €19.8 million and dividends of €0.3 million, the retained profit of €111.8 million has been transferred to reserves. The cost of redeeming shares on 19 March 2004 and the A share purchase on 24 September 2004 in the amounts of €23.4 million and €2.1 million respectively have been charged to the profit and loss reserve in 2004. The financial statements for the year ended 31 December 2004 are set out in detail on pages 38 to 66.

Special Dividend and New "A" Ordinary shares

The company declared a special dividend of 0.125 cent per ordinary share payable on 14 June 2004 which was used as subscription proceeds for the issue of ten A ordinary shares per Grafton unit.

Share Redemption / Share Purchase

Following the redemption of the remaining six redeemable shares per Grafton Unit for a cash consideration of 5 cent per share on 19 March 2004 and the purchase of one A ordinary share per Grafton Unit for a cash consideration of 1 cent on 24 September 2004, the Board has decided to purchase a further A ordinary share per Grafton Unit for a cash consideration of 7.0 cent, giving total payments for the year of 13.0 cent. This represents an increase of 24 per cent on redemptions of 10.5 cent paid for 2003. The purchase of the A ordinary share will take effect in respect of Grafton Units on the register at the close of business on 18 March 2005 and the cash consideration will be paid on 29 March 2005.

Review of the Business

Shareholders are referred to the Chairman's Statement and Group Finance Review which contain a review of operations, the financial performance of the Group, recent events and the outlook for 2005.

Board of Directors

Mr. A.E. Collins and Mr. J.F. Malone retire from the Board by rotation and, being eligible, offer themselves for re-election. Ms. G. Bowler and Mr R.W. Jewson have served on the Board for more than nine years and, in accordance with Board Policy, they resign and offer themselves for re-election. The Directors seeking re-election do not have service contracts with the Company.

Mr Leo Martin was appointed to the Board on 7 January 2005 and, in accordance with the Articles of Association, holds office until the Annual General Meeting and, being eligible, offers himself for re-election.

Share Capital

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

Substantial Holdings

So far as the Company is aware, in addition to the Chairman, Mr. Michael Chadwick, whose holding of 19,098,900 ordinary shares represents 8.1 per cent of the shares in issue, the following held shares representing three per cent or more of its ordinary share capital at 8 March 2005.

Name	Holding	%
Bank of Ireland Asset Management Limited*	25,241,130	10.7
Bank of Ireland Nominees Ltd NRI Account #	23,482,166	9.9
Bank of Ireland Nominees Ltd NRS Account	16,611,945	7.0
Citibank Nominees (Ireland) Ltd Exempt Account	13,132,258	5.6
Goodbody Stockbrokers Nominees Ltd GSCLT Account	10,927,911	4.6

* This nominee shareholder has informed the company that this shareholding relates to 143 different holdings.

This nominee shareholder has informed the company that this shareholding relates to 81 different holdings.

Report of the Directors

The Directors' and Secretary's interests in the share capital of the Company are set out in the Directors' Report on Remuneration.

Accounting Records
The Directors are responsible for ensuring that proper books and accounting records are kept by the Company as required by Section 202 of the Companies Act, 1990. The Directors believe that they have complied with this requirement by providing adequate resources to maintain proper books and accounting records throughout the Group including the appointment of personnel with appropriate qualifications, experience and expertise. The books and accounting records of the Company are maintained at Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18.

Companies (Auditing and Accountancy) Act 2003
The Directors note that the Companies (Auditing and Accountancy) Act 2003 has been issued and are assessing its implications for the Group.

Health and Safety
The Safety, Health and Welfare at Work Act, 1989 imposes certain obligations on employers and the relevant Group Companies have taken appropriate action to ensure that health and safety standards are complied with at all relevant locations and that all relevant Group Companies meet the requirements of the Act.

Subsidiaries
The Group's principal operating subsidiary undertakings are set out on page 67.

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

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

Annual General Meeting
The Annual General Meeting of the Company will be held at the Burlington Hotel, Upper Leeson Street, Dublin 4 on 9 May 2005 at 12.00pm and your attention is drawn to the circular enclosed with this report which sets out details of the matters to be considered at the Annual General Meeting.

On behalf of the Board

M. Chadwick
C. Ó Nualláin
Directors

8 March 2005

Corporate Social Responsibility

The Group has long recognised the importance of conducting its business in a socially responsible manner. This is demonstrated in the way we deal with our employees, customers, suppliers and the communities where we do business. The Group considers that corporate social responsibility is an integral element of good business management.

The Environment

Group companies are committed to reducing the amount of waste they produce and to limiting the impact which our businesses have on the environment. The Group's Irish Businesses are members of Repak and our UK businesses are members of Biffpack. Continued improvement in environmental performance is sought through various initiatives including reducing waste going to landfill through the use of bailers for recycling packaging.

Health and Safety

The Group is committed to achieving the best practicable standards of health and safety for our employees, customers and visitors to our trading locations. We consider health and safety to be an important element in the overall management of our businesses. Group companies actively work to identify and minimise health and safety risks. They insure that all reasonable precautions are taken to provide and maintain conditions for employees, customers and visitors alike which are safe and healthy and in compliance with statutory requirements. Accidents are monitored so that corrective action may be taken where considered necessary and in order to reduce the number of incidents and the associated cost of claims from employees and customers.

Human Resources

The success of the Group over a long period is due to the exceptional contribution and commitment of its management and staff. The Group's decentralised culture, which is well supported at Group level, gives management and staff the autonomy to use their expertise, skills and talents both for their own career development and for the success of the Group.

The Group and its businesses are committed to high standards of employment practice and are recognised as good employers in the UK and Ireland. We aim to reward management and staff fairly by reference to skills, performance, peers and local market conditions. We provide incentives to management and staff through remuneration policies which promote commitment and reward achievement. It is Group policy that all employees receive fair and equal treatment regardless of gender, age, ethnic origin, nationality, religion or disablilty.

We are committed to offering equal opportunities to all individuals in their recruitment, training and career development, having regard to their particular aptitudes and abilities. Training and development programs are important to the growth and prosperity of our business. Significant attention and resources are devoted to this area. Training programs directly organised by Group businesses, include the Plumbase Academy, and in conjunction with external bodies, such as the Builders Merchant Federation in the UK, cover a range of issues including sales development, customer service, product training, health and safety and leadership skills. These programs help to ensure that we develop, retain and attract the best talent at all levels in our business. We aim to fill vacancies through internal promotions and complement internal appointments with recruitment from outside the organisation.

We have Revenue approved share schemes in place in the UK and Ireland which enable employees to share in the success and future growth of the Group. The majority of our employees in Ireland are members of the Group's Share Participation Scheme which has enabled them to benefit from acquiring shares in the Group tax efficiently. Following a highly successful SAYE scheme which was launched in 2001 and matured earlier this year, the Group will shortly announce the launch of an invitation to almost 5,000 eligible UK employees to acquire attractively discounted shares under the scheme.

Community

We recognise our responsibility as a member of the communities where our branches/plants are located and where we do business. We are committed to developing close relationships with those communities through local management supporting a range of initiatives covering health, welfare, sport, education and community projects. We also support a range of charitable causes, mainly at local level, by giving donations.

In Ireland, Woodie's DIY are sponsor of the senior track and field championships, an important event in the Irish sporting calendar featuring the best athletes in Ireland across almost thirty disciplines of athletics. Oxford, the location of the first Buildbase branch acquired in 1996 and head office to the business, is also home to Oxford United Football Club who are sponsored by Buildbase. Jacksons are sponsor to the Lincoln 10 kilometre race, an important sporting event in the Lincoln area. Employees also take part in different fundraising activities. Staff at Buildbase raised over €100,000 for Macmillan Cancer Relief and staff at Jacksons raised funds for the Lincolnshire and Nottinghamshire Air Ambulance.

Corporate Governance

Compliance with the Combined Code

The Board is committed to and has long recognised the importance of high standards of Corporate Governance. The Board is accountable to the company's shareholders for good governance and this statement describes how the Board applies the principles of good governance set out in the Combined Code (as appended to the Listing Rules of the Financial Services Authority) and the revised Combined Code ("2003 Combined Code") that has applied to the Company with effect from 1 January 2004.

The Board

As at 31 December 2004, the Board of Directors was made up of 7 members comprising the Executive Chairman, two executive Directors and four non-executive Directors, who have been collectively responsible for the success of the Group. Mr. Anthony Collins, Deputy Chairman, is Senior Independent Director. Directors' biographical details are set out on page 19. The Directors of the Group have extensive knowledge of the builders merchanting, DIY and mortar manufacturing businesses which are operated by the Group in the UK and Ireland.

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

Directors have access to the advice and services of the Company Secretary who is responsible for advising the Board through the Chairman on all governance matters. The Company's Articles of Association and Schedule of Matters reserved for the Board for decision provide that the appointment or removal of the Company Secretary is a matter for the full Board.

Directors have full and timely access to all relevant information in a form appropriate to enable them to discharge their duties. Reports and papers are circulated to Directors in preparation for Board and committee meetings. The non-executive Directors, together with the executive Directors, also receive monthly management accounts, reports and information which enables them to review the performance of the Group on an ongoing basis.

Directors have access to independent professional advice at the Group's expense where they consider that advice is necessary to enable them to discharge their responsibilities as Directors.

The Board also periodically holds meetings at Group locations and periodically meets senior management of the Group's businesses in order to help the Board gain a deeper understanding of the Group's operations and markets.

The Board continues to hold the view that there remains a compelling commercial benefit to the Group and its shareholders in the combining of the role of Chairman and Chief Executive, and the holding of that combined office by Mr. Michael Chadwick. The combination of the roles are balanced from a governance point of view by the strong input of the non-executive Directors on the Board and the Board's committee structure.

Directors' Independence and Board Balance

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

One non-executive Director, Mr. Norman Kilroy, is a former Managing Director of the Group. Three non-executive Directors, Mr. Anthony Collins, Ms. Gillian Bowler and Mr. Richard Jewson are considered by the Board to be independent of management and free from any relationship which could materially interfere with the exercise of their independent judgement. The Board has therefore determined all three Directors to be independent.

Corporate Governance

Mr. Collins was appointed to the Board in 1988 and both Ms. Bowler and Mr. Jewson were appointed to the Board in 1995. The length of their service on the Board exceeds nine years and the 2003 Combined Code provides that an explanation be made to shareholders concerning their continued independence. The Board considers that the integrity and independence of these Directors are beyond doubt. All three Directors are financially independent of the company and have other significant commercial commitments. Over the past ten years Grafton Group plc has grown from its small mainly Irish base to being the leading player in the Irish merchanting and DIY markets and the fourth largest builders merchanting business in the UK market. The three non-executive Directors have made a valuable and unique contribution to the Board during this period of growth. Each of these non-executive Directors brings her/his own senior level experience gained in their own field of international business and professional practice. Their experience and long-term perspective on the Group's business provides the Board with stability and an invaluable resource during a time of significant development and opportunity following completion of the Heiton transaction, the Group's largest ever acquisition, earlier this year.

The Company's Articles of Association provide that one third of the Directors retire by rotation each year and that each Director seek re-election at the Annual General Meeting every three years. Additionally, new Directors are subject to election by shareholders at the first opportunity after their appointment. It is the Board's policy that non-executive Directors are normally appointed for an initial period of three years, which is then reviewed.

It is Board Policy that non-executive Directors who have served on the Board for more than nine years will retire annually and will offer himself/herself for re-election in cases where it is proposed to exceed nine years.

Mr. Collins retires by rotation at the AGM on 9 May 2005 and will seek re-election. Ms. Bowler and Mr. Jewson will resign and offer themselves for re-election at the AGM on 9 May 2005 in accordance with Board policy.

The Board recognises that the number of independent non-executive Directors is less than half of the members of the Board. Mr. Leo Martin, former Chief Executive of Heiton Group plc, was appointed to the Board as an executive Director on 7 January 2005 on completion of the acquisition of Heiton Group plc. The overall balance of the Board is currently under review and, as already announced, the Board is in the process of appointing two additional non-executive Directors. These appointments will reflect the scale and geographical spread of the Group's interests.

Mr. Norman Kilroy, who retired as Managing Director in April 2004, is a non-executive Director and will retire from the Board on 31 August 2005. The Board will manage the orderly succession of non-executive Directors over the coming years to sustain the effectiveness of the Board and its committees.

Induction and Training

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

Corporate Governance

Evaluation of Board

The Board has put in place procedures which will involve the conduct of an annual evaluation process to periodically assess its performance, the performance of Board committees and individual Directors and to identify areas in which the effectiveness of the Board might be improved. This is achieved through annual discussion between each Director and the Senior Independent Director. The results of the evaluation process is presented to the Board for consideration of the issues identified.

Succession Planning

The Board plans for succession with the assistance of the nomination committee. The Board believes that it is necessary to have appropriate executive Director representation on the Board and sufficient non-executive Director representation to reflect the scale and geographic spread of the Group's operations.

Communication with Shareholders

The Company recognises the importance of communication with shareholders. Presentations are made to both existing and prospective institutional shareholders principally after the release of interim and annual results. In addition to the annual and interim results, the Group issues development updates twice yearly and a trading update at the Annual General Meeting. Major acquisitions are also notified to the market and the Company's website www.graftonplc.com presents information about the Group including interim and annual results and other announcements. The Chairman gives feedback to the Board on contacts with institutional shareholders and brokers' reports on the Group are circulated to all Directors. non-executive Directors are offered the opportunity to attend meetings with major shareholders. The Annual General Meeting is normally attended by all Directors and shareholders are invited to ask questions during the meeting and to meet with Directors after the formal proceedings have ended. The Senior Independent Director is available to meet with shareholders if they have concerns which have not been resolved through the normal channels of Chairman or Finance Director or where such contacts are not appropriate.

Board Committees

The number of full Board meetings and committee meetings attended by each Director during 2004 was as follows:

	Board	**Audit**	**Finance**	**Remuneration**	**Nomination**
Number of Meetings	**8**	**3**	**38**	**6**	**5**
M. Chadwick	8	-	37	-	5
C. O'Nuaillain	8	-	36	-	-
J. F. Malone	7	-	-	-	-
A. E. Collins	8	3	-	6	5
G. Bowler	7	3	-	6	5
R. W. Jewson	7	3	-	6	4
N. D. Kilroy	6	-	-	-	-

Mr. C. Rinn was appointed to the Finance Committee in March 2004 and attended all 28 meetings of the Committee following his appointment.

The Independent non-executive Directors met during the year both with and without the Chairman present to evaluate his performance. The Board is assisted by committees of Board members which focus on specific aspects of its responsibilities. The terms of reference of the Audit Committee, Remuneration Committee and Nomination Committee were approved by the Board and comply with the 2003 Combined Code and are available from the Company Secretary and can also be found on the company's website at www.graftonplc.com. Membership of the various committees is shown on page 19. The Company Secretary was recently appointed as secretary to all three Board Committees.

Corporate Governance

Audit Committee

During the year the Audit Committee comprised Richard W. Jewson, who chairs the committee, Gillian Bowler and Anthony Collins. All members of the committee are determined by the Board to be Independent non-executive Directors. The Audit Committee met three times during the year.

Mr. Richard Jewson brings to the Committee recent and relevant financial experience. The Board is satisfied that the Directors bring a wide range of experience to the Committee as outlined in the biographical details on page 19.

Under its terms of reference, the Audit Committee monitors the integrity of the Group's financial statements and any formal announcement relating to the Group's performance. The committee is responsible for monitoring the effectiveness of the external audit process and making recommendations to the Board in relation to the appointment, reappointment and remuneration of the external auditor. It is responsible for ensuring that an appropriate relationship between the Group and the external auditors is maintained, including reviewing non-audit services and fees. It also conducts twice yearly reviews of the Group's systems of internal control and the processes for monitoring and evaluating the risks facing the Group. The committee reviews the effectiveness of the internal audit function and approves the appointment and removal of the Head of the Internal Audit function.

Only members of the committee have a right to attend committee meetings. However other individuals such as the Executive Chairman, Finance Director and other Directors are invited to meet with the Audit Committee as appropriate. The committee also meets with both the external and internal auditors. The committee's terms of reference are available from the Company Secretary and are displayed on the Group's website www.graftonplc.com.

In 2004 the Audit Committee discharged its responsibilities by:

- Reviewing the Group's draft Financial Statements and draft Interim Result Statement prior to Board approval and reviewing the external Auditors detailed reports thereon;
- Reviewing the Group's development and trading updates prior to release;
- Reviewing the Internal Audit work program and all reports prepared by Group Internal Audit during the year including a review of the effectiveness of internal control;
- Reviewing the appropriateness of the Group's accounting policies;
- Reviewing the External Auditors plan for the audit of the Group. This included an assessment of the scope of the Audit work and confirmation of auditor independence;
- Reviewing Performance Improvement Observation Reports on internal controls in the Group's businesses prepared by the Auditors as part of the Group's external audit process;
- Reviewing risks associated with the business;
- Reviewing impact for the Group of compliance with International Financial Reporting Standards.

The committee also monitored implementation of the Group's Whistleblowing procedures, ensuring that appropriate arrangements were being put in place for employees to be able to raise matters of possible impropriety in confidence, with suitable follow up action.

The Audit Committee monitors regularly the non-audit services provided to the Group by the External Auditors in order to check that this does not impair their independence and objectivity.

Corporate Governance

Remuneration Committee

The committee comprises Ms. Gillian Bowler, who chairs the committee, Mr. Anthony Collins and Mr. Richard Jewson all of whom are determined by the Board to be independent. The committee met 6 times during the year and the Directors' attendance at each meeting is shown in the table on page 27. The committee is responsible for making recommendations on remuneration to the Board. The committee reviewed its terms of reference and submitted revised terms of reference to the Board for its approval. Copies of the revised terms of reference are available from the Company Secretary or on the Company's website at www.graftonplc.com. The Chairman of the Remuneration Committee is available at the Annual General Meeting to respond to any shareholder questions concerning the committee's activities.

The committee's principal responsibilities are:

- Setting, reviewing and recommending to the Board for approval the Group's overall remuneration policy and strategy;
- Setting, reviewing and approving individual remuneration packages for executive Directors, the Executive Chairman and Company Secretary including terms and conditions of employment and any changes to their packages;
- Reviewing the salary structure and terms, conditions and benefits of employment of other members of the executive management as it is designated to consider;
- Approving the rules of any Group share, share option or cash based incentive scheme and approving the grant, award, allocation or issue of shares, share options or payments under such schemes.

Nomination Committee

During the year the Nomination Committee comprised Mr. Anthony Collins, who chairs the committee, Mr. Michael Chadwick, Ms. Gillian Bowler, and Mr. Richard Jewson. The Nomination Committee meets at least once a year, and additionally if required, to consider the Board's membership, to identify any additional skills or experience which might benefit the Board's performance, to interview candidates and recommend appointments to or, where necessary, removals from the Board. The Committee also reviews the performance of any Director seeking re-election at the forthcoming Annual General Meeting.

During the year the Board initiated the search for two Independent non-executive Directors. The Board began the process by identifying the core competencies required of the candidates to carry out that role. The Nomination Committee has employed a professional search firm to oversee the initial selection process and present the committee with candidates for interview.

The Nomination Committee's terms of reference were recently revised and the revised terms of reference can be found on the Group's website at www.graftonplc.com. Copies can be obtained from the Company Secretary.

Finance Committee

The Finance Committee comprises the Executive Chairman, the Finance Director and the Group Financial Controller. The Committee deals with capital expenditure and treasury activities within prescribed limits and other management issues.

Corporate Governance

Internal Control

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

A process for identifying, evaluating and managing significant risks faced by the Group, in accordance with the Guidance for Directors on the 2003 Combined Code, has been in place throughout the accounting period and up to the date the financial statements were approved.

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

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

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

The internal audit function focuses on areas of greatest risk to the Group, monitors compliance and considers the effectiveness of internal control throughout the Group. The audit committee receives reports and meets with internal and external auditors in order to satisfy itself on the adequacy of the Group's internal control system. The Chairman of the audit committee reports to the Board on significant matters considered by the committee.

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

Going Concern

The Directors, having made enquiries, believe that the Group has adequate resources to continue in operational existence for the foreseeable future and, on this basis, they continue to adopt the going concern basis in preparing the financial statements.

Compliance Statement

The company applied the principles set out in section 1 of the 2003 Combined Code for the period under review and has complied with the provisions of the 2003 Combined Code except that the roles of Chairman and Chief Executive are held by the same person and the number of independent non-executive Directors is less than half of the Board. The Board is in the process of appointing two additional non-executive Directors. During the year the Senior Independent Director has not attended meetings with major shareholders but has been available to meet shareholders. No meetings were requested by shareholders with the Senior Independent Director.

Directors' Report on Remuneration

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

The remuneration of the non-executive Directors is determined by the Board within the limits set out in the Articles of Association.

Remuneration Policy

In making its recommendations the Remuneration Committee has given consideration to the provisions of the 2003 Combined Code and the Irish Stock Exchange's requirements on Directors' remuneration. The remuneration policy adopted by the Group is to reward its executive Directors competitively having regard to comparable companies and the need to attract, retain and motivate executives of appropriate calibre. The Executive Chairman is fully consulted about remuneration proposals and outside advice is sought by the Remuneration Committee when necessary. The elements of the remuneration package for executive Directors are basic salary and benefits, performance related bonus, pension and the ability to participate in the 1999 Grafton Group Share Scheme and the Grafton Group Employee Share Participation Scheme.

Service Contracts

No service contract exists for any Director.

Basic Salary and Benefits

The basic salaries of executive Directors are reviewed annually having regard to personal performance, company performance and competitive market practice.

Performance Related Bonus

The level of performance bonus is determined for each individual executive Director. The level earned in any one year depends on the Remuneration Committees' assessment of each individual's performance for that year and also on an assessment of the overall performance of the Group.

Pensions

Executive Directors participate in either a defined contribution scheme or a Group defined benefit scheme. Pensions are calculated on basic salary only in the case of the defined contribution scheme and in the case of the defined benefit scheme on basic salary and bonus which is limited to a pre-determined maximum percentage of basic salary. The calculation of pensions under the defined benefit scheme is consistent with the calculation of pension benefits for certain senior executives in the Group except that pensions are calculated on basic pay and full bonus for certain senior executives.

Share Scheme

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 shares may be acquired by conversion subject to the conditions set out below:

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

(ii) Second tier shares which cannot be acquired 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.

Directors' Report on Remuneration

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

Share Participation Scheme

The Grafton Group Employee Share Participation Scheme is open to all Irish based employees who have at least eighteen months continuous service and executive Directors are entitled to participate in the scheme on the same basis as all other employees.

Directors' Remuneration and Pension Entitlements

The following table sets out the remuneration of the Directors in accordance with the Irish Stock Exchange Listing Rules.

Remuneration for 2004	**Basic salary 2004 €'000**	**Performance related bonus 2004 €'000**	**Other benefits 2004 €'000**	**Total 2004 €'000**	Total 2003 €'000
Executive Directors					
M. Chadwick	439	298	37	**774**	712
N.D. Kilroy	-	-	-	**-**	352
C.Ó Nualláin	350	237	31	**618**	567
J.F. Malone	230	150	30	**410**	399
	1,019	685	98	**1,802**	2,030

	Other remuneration 2004 €'000	**Fees 2004 €'000**	**Total 2004 €'000**	Total 2003 €'000
Non-Executive Directors				
A.E. Collins	-	50	**50**	47
G. Bowler	-	40	**40**	38
R.W. Jewson	-	50	**50**	49
N.D. Kilroy	35	40	**75**	-
	35	180	**215**	134
Sub-total			**2,017**	2,164
Pension contribution on behalf of executive Directors			**1,776**	806
Total			**3,793**	2,970

A payment of €79,000 was made to Eugene F. Collins Solicitors for Board Committee work undertaken by Anthony Collins in 2004.

Directors’ Report on Remuneration

Directors’ Pensions

The pension contribution shown on page 32 includes a contribution of €221,000 (2003: €105,000) to a defined contribution pension scheme on behalf of Mr. Norman Kilroy, of which €200,000 was a special contribution on his retirement as Managing Director.

Pension benefits earned by Directors who are members of a defined benefit pension scheme were as follows:

	Increase in accrued pension during the year	Accumulated total accrued pension at year end	Transfer value of the increase in accumulated accrued benefits at year end
	€’000	€’000	€’000
M. Chadwick	32	341	446
C. Ó Nualláin	24	189	240
J.F. Malone	3	189	56

Directors’ and Secretary’s Interests

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

Director	**31 December 2004 Grafton Units***	31 December 2003 Grafton Units
M. Chadwick	**19,098,900**	19,097,022
A.E. Collins	**390,000**	390,000
N.D. Kilroy	**65,230**	65,230
J.F. Malone	**520,972**	519,014
C. Ó Nualláin	**658,176**	656,298
G. Bowler	**132,000**	132,000
R.W. Jewson	**42,204**	42,204

Mr. M. Chadwick also holds a non-beneficial interest in 2,986,560 (2003: 2,986,560) Grafton Units in his capacity as a Trustee of a family trust. Mr. M. Chadwick and Mr. C. Ó Nualláin have a non-beneficial interest in 985,032 (2003: 1,323,521) Grafton Units in their capacities as Trustees of the Grafton Group plc Share Participation Scheme.

Mr. Fergus Malone had a beneficial interest in 80 ordinary shares in Tribiani Limited, a subsidiary undertaking at 31 December 2004 (31 December 2003: Nil). This represented 5 per cent of the issued ordinary shares of the company. Mr. Norman Kilroy had a beneficial interest in 80 ordinary shares in Tribiani Limited, a subsidiary undertaking at 31 December 2004 (31 December 2003: 76 shares). This also represented 5 per cent of the issued ordinary shares of the company. Mr. Malone and Mr. Kilroy therefore have entitlements on retirement to have the option to invest in an Approved Retirement Fund (ARF). The registered number of the company is 316401.

There have been no changes in the interests of the Directors between 31 December 2004 and the date of this report.

Mr. C. Rinn, Secretary, had an interest in 27,760 Grafton Units at 31 December 2004 (2003: 25,882).

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

Directors' Report on Remuneration

Directors' and Secretary's Interests under the Grafton Group Share Schemes

The interests of the Directors granted in accordance with the Grafton Group Share Schemes, to acquire Grafton Units are shown below:

	Number of Units						
	1 January 2004	31 December 2004	Basic	Second Tier	Price €	Period over which Grafton Units may be acquired	
N.D. Kilroy	72,379	72,379	72,379	-	0.65	April 2000	April 2005
C. Ó Nualláin	74,192	74,192	74,192	-	2.21	June 2003	May 2008
	159,192	159,192	90,209	68,983	1.81	July 2004	July 2009
	159,192	159,192	84,902	74,290	2.07	May 2005	April 2010
	159,192	159,192	5,306	153,886	2.83	May 2006	April 2011
	127,354	127,354	31,839	95,515	4.00	April 2007	March 2012
	160,000	160,000	80,000	80,000	5.45	Nov 2008	Oct 2013
	-	160,000#	80,000	80,000	6.20	May 2009	April 2014
	839,122	999,122	446,448	552,674			
J.F. Malone	159,192	159,192	159,192	-	2.21	June 2003	May 2008
	159,192	159,192	90,209	68,983	1.81	July 2004	July 2009
	159,192	159,192	84,902	74,290	2.07	May 2005	April 2010
	477,576	477,576	334,303	143,273			

Entitlement by conversion issued on 5 May 2004

The mid-market price of a Grafton Unit at 31 December 2004 was €8.00 and the price range during the year was between €5.50 and €8.25.

Mr. C. Rinn had an interest to acquire 451,852 Grafton Units at 31 December 2004 (31 December 2003: 371,852) in accordance with the Grafton Group plc Share Schemes including an interest to acquire 80,000 Grafton Units granted on 5 May 2004 at €6.20 per unit.

There has not been any contract or arrangement with the Company or any subsidiary undertaking during the year in which a Director of the Company was materially interested and which was significant in relation to the Company's business.

Statement of Directors' Responsibilities

Irish Company law requires the Directors to prepare financial statements for each financial year which, in accordance with applicable Irish law and accounting standards, give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial year and of the profit or loss of the Group for that year. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- comply with applicable accounting standards, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The Directors are responsible for keeping proper books of account which disclose with reasonable accuracy at any time the financial position of the Company and of the Group and which enable them to ensure that the financial statements comply with the Companies Acts, 1963 to 2003 and all Regulations to be construed as one with those Acts. They are also responsible for safeguarding the assets of the Company and of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

On behalf of the Board

M. Chadwick
C. Ó Nualláin

Independent Auditors' Report

To the Members of Grafton Group plc

We have audited the financial statements on pages 38 to 66.

This report is made solely to the Company's members, as a body, in accordance with Section 193 of the Companies Act, 1990. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors in relation to the Annual Report

The Directors are responsible for preparing the Annual Report including, as described on page 35 the financial statements in accordance with applicable Irish law and accounting standards. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the Irish Stock Exchange and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Acts. As also required by the Acts, we state whether we have obtained all the information and explanations we require for our audit, whether the financial statements agree with the books of account and report to you our opinion as to whether

- the Company has kept proper books of account;
- the Report of the Directors is consistent with the financial statements;
- at the balance sheet date a financial situation existed that may require the Company to hold an extraordinary general meeting, on the grounds that the net assets of the Company, as shown in the financial statements, are less than half of its share capital.

We also report to you if, in our opinion, information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Company is not disclosed. We review whether the Corporate Governance statement on pages 25 to 30 reflects the Company's compliance with the nine provisions of the 2003 Combined Code on Corporate Governance specified for our review by the Irish Stock Exchange Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

Independent Auditors' Report

To the Members of Grafton Group plc

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Acts, 1963 to 2003 and all Regulations to be construed as one with those Acts.

We have obtained all the information and explanations we considered necessary for the purposes of our audit. In our opinion, proper books of account have been kept by the Company. The Company's balance sheet is in agreement with the books of account. In our opinion, the information given in the Report of the Directors on pages 22 and 23 is consistent with the financial statements.

The net assets of the Company, as stated in the balance sheet on page 42, are more than half of the amount of its called up share capital and, in our opinion, on that basis there did not exist at 31 December 2004 a financial situation which, under Section 40(1) of the Companies (Amendment) Act, 1983, would require the convening of an extraordinary general meeting of the Company.

KPMG
Chartered Accountants
Registered Auditors
Dublin

8 March 2005

Group Profit and Loss Account

For the year ended 31 December 2004

	Note	2004 €'000	2003 €'000
Turnover			
Continuing operations		**1,809,052**	1,496,018
Acquisitions		**63,294**	-
Total turnover	1	**1,872,346**	1,496,018
Operating profit before goodwill amortisation and property development profit	2		
Continuing operations		**152,861**	123,323
Acquisitions		**4,540**	-
		157,401	123,323
Property development profit	3(a)	**6,729**	-
Goodwill amortisation	11	**12,820**	9,358
Operating profit		**151,310**	113,965
Profit on disposal of property	3(b)	**792**	3,437
Trading profit	2	**152,102**	117,402
Income from financial assets		**1,541**	1,788
Interest payable (net)	6	**21,792**	17,169
Profit on ordinary activities before taxation		**131,851**	102,021
Tax on profit on ordinary activities	8	**19,788**	15,320
Profit for the financial year		**112,063**	86,701
Dividends on ordinary shares	9	**266**	-
Profit retained for the financial year	26	**111,797**	86,701
Earnings per share	10	**52.64c**	41.95c
Adjusted earnings per share	10	**55.64c**	45.07c
Diluted earnings per share	10	**51.29c**	41.15c
Adjusted diluted earnings per share	10	**54.21c**	44.20c

On behalf of the Board

M. Chadwick
C. Ó Nualláin
Directors

8 March 2005

Other Statements

For the year ended 31 December 2004

Statement of Total Recognised Gains and Losses

		2004 €'000	2003 €'000
Profit for the financial year attributable to ordinary shareholders		**112,063**	86,701
Currency translation adjustment	– on foreign currency net investments	**(1,815)**	(13,095)
	– on foreign currency borrowings	**20**	3,908
Total recognised gains and losses for the year		**110,268**	77,514

Historical Cost Profits and Losses

	2004 €'000	2003 €'000
Profit on ordinary activities before taxation	**131,851**	102,021
Difference between historical cost depreciation charge and actual depreciation charge for the year calculated on the revalued amount	**273**	273
Historical cost profit on ordinary activities before taxation	**132,124**	102,294
Historical cost profit retained for the financial year	**112,070**	86,974

Movements on Group Profit and Loss Account

	2004 €'000	2003 €'000
At 1 January	**296,391**	236,934
Retained profit for the financial year	**111,797**	86,701
Redemption of redeemable shares	**(23,392)**	(18,816)
Purchase of A ordinary shares	**(2,131)**	-
Currency translation adjustment	**(1,795)**	(9,187)
Re-issue of treasury shares	**-**	486
Transfer from revaluation reserve	**273**	273
At 31 December	**381,143**	296,391
The profit and loss account reserve is analysed as follows:		
Parent company	**63,622**	49,756
Subsidiary undertakings	**317,521**	246,635
	381,143	296,391

Reconciliation of Movements in Group Shareholders' Funds

	Note	2004 €'000	2003 €'000
Total recognised gains and losses for the year		**110,268**	77,514
Dividends	9	**(266)**	-
Redemption of redeemable shares	9	**(23,392)**	(18,816)
Purchase of A ordinary shares	9	**(2,131)**	-
Issue of ordinary and A ordinary shares (net of issue expenses)	22/23	**1,501**	68,684
Re-issue of treasury shares		**-**	486
Net addition to shareholders' funds		**85,980**	127,868
Opening shareholders' funds		**449,841**	321,973
Closing shareholders' funds – equity		**535,821**	449,841

Group Balance Sheet

As at 31 December 2004

	Note	2004 €'000	2003 €'000
Fixed assets			
Goodwill	11	**234,309**	210,840
Tangible assets	12	**396,886**	346,812
Financial assets	13	**47,019**	33,665
		678,214	591,317
Current assets			
Stock	14	**237,680**	194,436
Debtors	15	**322,838**	272,797
Cash and short term bank deposits	31	**135,868**	138,956
		696,386	606,189
Creditors (amounts falling due within one year)	16	**435,559**	354,798
Net current assets		**260,827**	251,391
Total assets less current liabilities		**939,041**	842,708
Creditors (amounts falling due after more than one year)	18	**369,325**	369,926
Provisions for liabilities and charges	21	**33,895**	22,941
		403,220	392,867
Net Assets		**535,821**	449,841
Capital and reserves			
Share capital	22	**10,864**	10,781
Share premium account	23	**103,600**	102,352
Capital redemption reserve	24	**227**	57
Revaluation reserve	25	**39,987**	40,260
Profit and loss account	26	**381,143**	296,391
Shareholders' funds – equity		**535,821**	449,841

On behalf of the Board

M. Chadwick
C. Ó Nualláin
Directors

8 March 2005

Group Cash Flow Statement

For the year ended 31 December 2004

	Note	2004 €'000	2003 €'000
Net cash inflow from operating activities	27	**177,049**	129,793
Returns on investments and servicing of finance	29	**(19,197)**	(15,824)
Taxation		**(7,301)**	(7,057)
		150,551	106,912
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(88,917)**	(69,267)
Disposal of tangible fixed assets		**25,437**	30,951
		(63,480)	(38,316)
Purchase of financial fixed assets		**(13,351)**	-
		(76,831)	(38,316)
Acquisitions			
Acquisition of subsidiary undertakings and businesses	30	**(61,805)**	(187,497)
Net cash/(debt) acquired with subsidiary undertakings	30	**718**	(1,912)
Deferred acquisition consideration		**(3,750)**	(1,342)
		(64,837)	(190,751)
Dividends/redemption of shares/share purchase			
Equity dividends paid	9	**(53)**	-
Redemption of redeemable shares		**(23,392)**	(18,816)
Purchase of A ordinary shares		**(2,131)**	-
		(25,576)	(18,816)
Cash outflow before use of liquid resources and financing		**(16,693)**	(140,971)
Cash inflow/(outflow) from movement in liquid resources	31	**506**	(40,312)
Financing			
Issue of ordinary share capital		**1,288**	69,170
Increase in term debt		**64,170**	78,889
Redemption of loan notes payable		**(24,758)**	(11,240)
Capital element of finance leases repaid		**(23,404)**	(1,080)
Financing from lease and leaseback		**-**	22,501
		17,296	158,240
Increase/(decrease) in cash in the year	31	**1,109**	(23,043)

Reconciliation of Net Cash Flow to Movement in Net Debt

	Note	2004 €'000	2003 €'000
Increase/(decrease) in cash in the year		**1,109**	(23,043)
Cash inflow from increase in debt and lease financing		**(16,008)**	(89,070)
Cash flow from management of liquid resources		**(506)**	40,312
Change in net debt resulting from cash flows		**(15,405)**	(71,801)
Loan notes issued on acquisition of subsidiary undertakings		**(9,085)**	(24,567)
Finance leases acquired with subsidiary undertakings		**(1,388)**	(478)
Translation adjustment		**(578)**	25,775
Movement in net debt in the year	31	**(26,456)**	(71,071)
Net debt at 1 January		**(311,715)**	(240,644)
Net debt at 31 December	31/32	**(338,171)**	(311,715)

Company Balance Sheet

As at 31 December 2004

	Note	2004 €'000	2003 €'000
Fixed assets			
Tangible assets	12	**334**	400
Financial assets	13	**19,477**	18,407
		19,811	18,807
Current assets			
Debtors	15	**295,894**	277,244
Cash at bank and in hand		**2,087**	1,505
		297,981	278,749
Creditors (amounts falling due within one year)	16	**101,713**	97,153
Net current assets		**196,268**	181,596
Total assets less current liabilities		**216,079**	200,403
Creditors (amounts falling due after more than one year)	18	**37,258**	37,457
Provision for liabilities and charges	21	**508**	-
		37,766	37,457
Net assets		**178,313**	162,946
Capital and reserves			
Share capital	22	**10,864**	10,781
Share premium account	23	**103,600**	102,352
Capital redemption reserve	24	**227**	57
Profit and loss account	26	**63,622**	49,756
Shareholders' funds – equity		**178,313**	162,946

On behalf of the Board

M. Chadwick
C. Ó Nualláin
Directors

8 March 2005

Accounting Policies

A summary of the principal Group accounting policies are set out below which have been applied consistently throughout the year and the preceding year.

Basis of accounting

The financial statements are prepared under the historical cost convention, as modified by the revaluation of certain tangible fixed assets, and comply with the accounting standards applicable in the Republic of Ireland and the United Kingdom.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the parent undertaking and its subsidiary undertakings all of which are made up to 31 December 2004. The results of companies acquired are dealt with in the profit and loss account from the date on which control passes. Rationalisation and integration costs relating to acquisitions are charged to the profit and loss account in the year in which they are incurred.

Goodwill

Purchased goodwill in respect of acquisitions before 1 January 1998 was charged directly to reserves in the year of acquisition. Goodwill arising on acquisitions since 1 January 1998, being the excess of the cost of acquisition over the fair value of the net assets acquired, is included within fixed assets and amortised over its expected useful economic life of 20 years.

Euro and Foreign currencies

The results and cashflows of non-euro subsidiary undertakings are translated into euro using the average exchange rate and related balance sheets have been translated at the rates of exchange ruling at the balance sheet date. Exchange rate differences arising on translation of results of non-euro subsidiary undertakings and on the restatement of opening net assets are dealt with through retained profit net of differences on related foreign currency borrowings.

Foreign currency transactions during the year have been converted at the rate of exchange ruling at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated into euro at the rates of exchange ruling at the balance sheet date. The resulting profits or losses are dealt with in the profit and loss account.

Turnover

Turnover represents the fair value of goods, excluding value added tax, delivered to/collected by third party customers in the year. Goods are deemed to have been delivered to customers, when the customer has access to the significant benefits inherent in the goods and exposure to the risks inherent in those benefits.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at historical cost less accumulated depreciation except for certain freehold and leasehold properties which are carried at revalued amounts less accumulated depreciation. The Group is availing of the transitional provisions of FRS 15, Tangible Fixed Assets, in continuing to carry such property assets at their previously revalued amount, which is not being updated for subsequent changes in value, but is adjusted for subsequent additions, disposals, depreciation and impairment as applicable.

Land is not depreciated. Depreciation is calculated to write-off the cost or valuation of other tangible fixed assets over their estimated useful lives in equal annual instalments as follows:

Buildings	50 to 100 years
Plant and machinery	5 to 20 years
Motor vehicles	5 years
Plant hire equipment	4 to 8 years

The carrying value of tangible assets is reviewed for impairment if events or changed circumstances indicate that the carrying value in the financial statements may not be recoverable.

Accounting Policies

Financial fixed assets
The investment in subsidiary undertakings in the Company balance sheet and other listed investments are shown at cost less provision for any impairment in value where applicable. Dividends from listed securities are accrued once they are declared.

Stocks
Stocks are valued at the lower of cost and net realisable value. In the case of finished goods and work in progress, cost includes direct materials, direct labour and attributable overheads. Net realisable value is based on estimated selling price less any further costs expected to be incurred.

Deferred taxation
Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. Provision is made at the rates expected to apply when the timing differences reverse. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in taxable profits in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Liquid resources
Liquid resources represent bank deposits of less than one year.

Pension costs
Pension costs are recognised on a systematic basis so that the costs of providing retirement benefits to employees are evenly matched, so far as is possible, to the service lives of the employees concerned. Any excess or deficiency of the actuarial value of assets over the actuarial value of liabilities of the pension scheme is allocated over the average remaining service lives of the relevant current employees.

Leased assets
Assets held under leasing arrangements that transfer substantially all the risks and rewards of ownership to the Group are capitalised. Amounts payable under such leases are shown, net of finance charges, as short or medium term obligations, as appropriate. The interest element of the lease obligations is charged to the profit and loss account annually on the outstanding balance.

Operating lease rentals are charged to the profit and loss account in the year to which they relate.

Financial instruments
Hedging instruments, principally forward exchange contracts and interest rate swaps, are matched with the underlying hedged transaction. Gains and losses on forward foreign exchange contracts, which relate primarily to purchases of stock for re-sale or for use in manufacturing processes, are included in the carrying amount of stock when purchased and are recognised in the profit and loss account when the sales transactions occur.

Interest rate swap agreements are used where appropriate to manage interest rate exposures. Amounts payable or receivable in respect of these derivatives are recognised as adjustments to interest payable over the period of the contracts.

Notes to the Financial Statements

Year ended 31 December 2004

1 Turnover

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

2 Operating Profit and Trading Profit

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

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

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

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

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

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

Notes to the Financial Statements

Year ended 31 December 2004

3 Property Development Profit and Profit on Disposal of Property

(a) Property Development Profit

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

(b) Profit on Disposal of Property

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

4 Directors' Remuneration, Pension Entitlements and Interests

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

5 Employment

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

	2004	2003
Merchanting and DIY retailing	**7,105**	5,874
Manufacturing	**414**	405
	7,519	6,279

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

6 Interest Payable (net)

	2004 €'000	2003 €'000
Interest payable and similar charges:		
Bank overdrafts and loans repayable within five years	**16,942**	11,341
Bank loans repayable by instalments within five years	**2,869**	2,593
Bank loans repayable by instalments after five years	**1,944**	2,828
Interest on finance leases	**1,300**	77
Interest on loan notes	**3,493**	3,319
	26,548	20,158
Interest receivable	**(4,756)**	(2,989)
	21,792	17,169

7 Foreign Currencies

The results and cash flows of the Group's United Kingdom subsidiaries have been translated into euro using the average exchange rate. The related balance sheets of the Group's United Kingdom subsidiaries at 31 December 2004 and 31 December 2003 have been translated at the rate of exchange ruling at the balance sheet date.

The average euro/sterling rate of exchange for the year ended 31 December 2004 was Stg67.86p (2003: Stg69.20p). The euro/sterling exchange rate at 31 December 2004 was Stg70.51p (2003: Stg70.48p).

8 Tax on Profit on Ordinary Activities

(a) Analysis of charge for the year

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

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

(b) Group tax reconciliation

	2004	2003
	€'000	€'000
Profit on ordinary activities before taxation	**131,851**	102,021
Profit on ordinary activities at standard corporation tax rate in Ireland of 12.5% (2003: 12.5%)	**16,481**	12,753
Effects of:		
Expenses not deductible for tax purposes (permanent)	**178**	512
Adjustment for earnings taxed at higher rates	**-**	6,565
Adjustment for earnings taxed at lower rates	**(6,298)**	(4,596)
Profits on disposals of fixed assets	**(321)**	86
Capital allowances for year in excess of depreciation	**(16)**	(1,555)
Other timing differences	**(3,241)**	(1,241)
Corporation tax charge for the year	**6,783**	12,524

(c) Factors that may affect future tax rates

No provision has been made for deferred tax on gains recognised on revaluing property to its market value or on the sale of the properties where taxable gains have been rolled over into replacement assets. Such tax would become payable only if the property were sold without it being possible to claim rollover relief. The total amount unprovided is €8.0 million (2003: €8.1 million). No amount has been recognised as there is no binding agreement to sell any property at the year end.

Rollover relief claimed in respect of property disposals in 2004 was nil (2003: nil). Relief previously claimed will be withdrawn if assets into which the gains were rolled over are sold without further re-investment, into qualifying assets, but this is not anticipated.

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

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

Notes to the Financial Statements

Year ended 31 December 2004

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

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

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

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

10 Earnings per Share

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

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

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

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

10 Earnings per Share *(continued)*

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

The calculation of adjusted diluted earnings per share of 54.21c (2003: 44.20c) uses the same earnings figure as for adjusted earnings per share and the weighted average number of Grafton Units as adjusted to reflect the dilutive effect of outstanding shares under the share schemes.

11 Goodwill

	2004 €'000	2003 €'000
Cost		
At 1 January	**229,863**	111,034
Acquired during the year (note 30)	**37,574**	129,422
Translation adjustment	**(1,723)**	(10,593)
At 31 December	**265,714**	229,863
Amortisation		
At 1 January	**19,023**	10,591
Amortised during the year	**12,820**	9,358
Translation adjustment	**(438)**	(926)
At 31 December	**31,405**	19,023
Net book amount	**234,309**	210,840

12 Tangible Fixed Assets

	Freehold Land and Buildings €'000	**Leasehold Land and Buildings €'000**	**Plant Machinery and Motor Vehicles €'000**	**Total €'000**
Group				
Cost or Valuation				
At 1 January 2004	**208,928**	**41,696**	**180,676**	**431,300**
Additions	**26,908**	**10,590**	**51,419**	**88,917**
Acquisitions	**11,638**	**2,255**	**3,868**	**17,761**
Disposals	**(12,132)**	**(596)**	**(19,707)**	**(32,435)**
Exchange adjustment	**(600)**	**(104)**	**(526)**	**(1,230)**
At 31 December 2004	**234,742**	**53,841**	**215,730**	**504,313**
Comprising				
Cost	**188,088**	**42,449**	**215,198**	**445,735**
Valuation	**46,654**	**11,392**	**532**	**58,578**
	234,742	**53,841**	**215,730**	**504,313**
Depreciation				
At 1 January 2004	**7,114**	**4,960**	**72,414**	**84,488**
Charge for year	**2,917**	**2,212**	**29,068**	**34,197**
Disposals	**(126)**	**(186)**	**(9,657)**	**(9,969)**
Exchange adjustment	**(94)**	**(85)**	**(1,110)**	**(1,289)**
At 31 December 2004	**9,811**	**6,901**	**90,715**	**107,427**
Net book amount				
At 31 December 2004	**224,931**	**46,940**	**125,015**	**396,886**
At 31 December 2003	201,814	36,736	108,262	346,812

Notes to the Financial Statements

Year ended 31 December 2004

12 Tangible Fixed Assets *(continued)*

The Group's freehold and long leasehold properties located in the Republic of Ireland were professionally valued as at December 1998 by professional valuers in accordance with the Appraisal and Valuation Manual of the Society of Chartered Surveyors. The valuations, which were made on an open market for existing use basis, amounted to €58.0 million. The remaining properties, which are located in the United Kingdom, are included at cost less depreciation.

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

	2004	2003
	€'000	€'000
Cost	**247,209**	209,250
Accumulated Depreciation	**(16,634)**	(12,269)
Net book amount	**230,575**	196,981

	Tangible Fixed Assets €'000
Company	
Cost	
At 1 January 2004	**992**
Additions	**10,615**
Disposals	**(10,550)**
At 31 December 2004	**1,057**
Depreciation	
At 1 January 2004	**592**
Charge for year	**131**
Disposals	**-**
At 31 December 2004	**723**
Net book amount	
At 31 December 2004	**334**
At 31 December 2003	400

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

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

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

13 Financial Fixed Assets

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

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

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

14 Stocks

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

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

15 Debtors

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

16 Creditors

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

17 Loan Notes

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

18 Creditors

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

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

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

19 Loans

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

20 Obligations under Finance Leases

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

21 Provision for Liabilities and Charges

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

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

Notes to the Financial Statements

Year ended 31 December 2004

22 Share Capital

	2004 €'000	2003 €'000
Authorised:		
Equity shares		
300 million ordinary shares of 5c each	**15,000**	15,000
3 billion A ordinary shares of 0.01c each	**300**	-
Redeemable shares		
2.8 billion redeemable shares of 0.01c each	**-**	280
	15,300	15,280

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

Grafton Units

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

22 Share Capital *(continued)*

Redeemable Shares

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

A Ordinary Shares

The authorised share capital of the Company was increased by the creation of 3 billion 'A' ordinary shares on 11 May 2004. On 14 June 2004 the Company issued 10 A ordinary shares per Grafton Unit. A special dividend of 0.125c paid on 14 June 2004 was partly used to subscribe for the issue of the 10 A ordinary shares per Grafton Unit. The Company purchased one of the 10 A ordinary shares on 1 October 2004 for a cash consideration of 1 cent, leaving nine A ordinary shares per Grafton Unit at 31 December 2004.

Share Schemes

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

UK SAYE Scheme

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

Treasury Shares

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

23 Share Premium Account

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

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

24 Capital Redemption Reserve

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

25 Revaluation Reserve

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

26 Profit and Loss Account

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

In accordance with Section 3(2) of the Companies (Amendment) Act, 1986, the profit and loss account of the parent undertaking has not been presented separately in these financial statements. There was a profit after tax of €39.4 million (2003: €17.3 million) attributable to the parent undertaking for the financial year.

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

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

28 Movement in Working Capital

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

29 Returns on Investments and Servicing of Finance

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

30 Acquisition of Subsidiary Undertakings and Businesses

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

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

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

There was no difference between the book value and the fair value of assets acquired. No provisions were made in respect of reorganisation and rationalisation costs or asset write-downs in the financial statements of the businesses acquired during the twelve months preceding the date of acquisition.

30 Acquisition of Subsidiary Undertakings and Businesses (continued)

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

	Operating Cash Flow €'000	Servicing of Finance €'000	Taxation €'000	Capital Expenditure €'000	Total €'000
All acquisitions	3,894	(574)	(299)	(991)	2,030

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

31 Analysis of Net Debt

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

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

32 Group Net Debt

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

33 Financial Instruments and Risk Management

Interest rate and currency profile

The interest rate and currency profile of the Group's net debt and net worth as at 31 December 2004 was as follows:

	Euro	Sterling	Total
Weighted average fixed interest rates	-	4.5%	4.5%
Weighted average fixed debt periods – years	-	2.98	2.98

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

Notes to the Financial Statements

Year ended 31 December 2004

33 Financial Instruments and Risk Management *(continued)*

The interest rate and currency profile of the Group's net debt and net worth as at 31 December 2003 was as follows:

	Euro	Sterling	Total
Weighted average fixed interest rates	-	**4.55%**	**4.55%**
Weighted average fixed debt periods – years		**3.81**	**3.81**

	Euro €'000	Sterling €'000	Total €'000
Fixed rate debt	-	(194,809)	(194,809)
Floating rate debt	(1,448)	(254,414)	(255,862)
Cash and short term bank deposits	89,423	49,533	138,956
Net debt by currency	87,975	(399,690)	(311,715)
Financial fixed assets	33,472	193	33,665
Deferred acquisition consideration due after more than one year	(4,425)	(948)	(5,373)
Net financial assets and liabilities (excluding short term debtors and creditors)	117,022	(400,445)	(283,423)
Capital employed	230,830	502,434	733,264
Shareholders' funds (net worth)	347,852	101,989	449,841

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

Maturity of Financial Liabilities

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

	Bank and other debt 2004 €'000	**Other financial liabilities 2004 €'000**	**Total 2004 €'000**	Bank and other debt 2003 €'000	Other financial liabilities 2003 €'000	Total 2003 €'000
Due within one year	**106,266**	**4,433**	**110,699**	86,118	2,945	89,063
Between one and two years	**61,534**	**1,552**	**63,086**	52,765	3,198	55,963
Between two and five years	**255,227**	**-**	**255,227**	266,287	2,175	268,462
After five years	**51,012**	**-**	**51,012**	45,501	-	45,501
	474,039	**5,985**	**480,024**	450,671	8,318	458,989

Borrowing Facilities

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

33 Financial Instruments and Risk Management (continued)

Fair Value of Financial Assets and Financial Liabilities

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

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

Gains and Losses on Hedges

At 31 December 2004 there were no gains or losses on forward foreign exchange contract hedges carried forward for future recognition in the profit and loss account.

Treasury Policy

The Group's treasury policies, which are regularly reviewed, are designed to reduce financial risk in a cost efficient way. A limited number of foreign exchange swaps, forward and spot foreign currency contracts and interest rate swaps are undertaken periodically to hedge underlying trading and interest rate exposures.

Foreign Currency Risk Management

The majority of trade conducted by the Group's Irish businesses is in euro. Sterling is the principal currency for the Group's UK businesses. The Group uses a limited number of forward currency contracts to manage currency risks arising in the ordinary course of business where considered appropriate.

The Group's current policy in relation to its UK operations is to hedge the balance sheet exposure by means of matching sterling assets with sterling borrowings to the extent not financed from the cash flow of the business.

Interest Rate Risk

The majority of the Group's ongoing operations are financed from a mixture of cash generated from operations and borrowings. Borrowings are initially secured at floating interest rates and interest rate risk is monitored on an ongoing basis. Interest rate swaps and forward rate agreements are used to manage interest rate risk when considered appropriate having regard to the interest rate environment.

Funding and Liquidity

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

Notes to the Financial Statements

Year ended 31 December 2004

34 Capital Expenditure Commitments

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

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

35 Operating Leases

Annual commitments under non cancelable operating leases are as follows:

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

36 Guarantees

The Company has given guarantees in respect of the bank borrowings of subsidiary undertakings which amounted to €436 million at the balance sheet date.

Pursuant to the provisions of Section 17, Companies (Amendment) Act, 1986, the Company has guaranteed the liabilities of its Irish subsidiaries the result of which is to exempt them from the provisions of Section 7, Companies (Amendment) Act, 1986. The principal operating subsidiaries operating in Ireland as set out on page 67 are covered by this guarantee. This guarantee also applies to the following wholly owned subsidiaries, whose Registered Office is 1 Stokes Place, St. Stephen's Green, Dublin 2: CPI Limited, MFP Plastics Limited, MFP Sales Limited, Pulsar Direct Limited, Telford Group Limited, Telfords (Portlaoise) Limited, Telfords (Athy) Limited, J.E. Telford Limited, 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, Circle Paints Manufacturing Ireland Limited, Cheshunt Limited, Kenn Truss Limited, Tiska Limited, Topez Limited, Denningco Limited, Universal Providers Limited, Heron Financial Services Limited, Grafton Group Management Services Limited, Grafton Group Holdings Limited, Grafton Group Investments Limited and Grafton Group Secretarial Services Limited.

37 Pension Commitments

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

37 Pension Commitments (continued)

(a) SSAP 24 Disclosures

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

Contributions to the schemes are charged to the profit and loss account based on the recommendations of independent qualified actuaries, so as to spread the cost of pensions over employees' working lives with the Group using the projected unit credit or attained age methods of funding. The most recent actuarial valuations were carried out in January 2004 and July 2004 for the six Irish schemes and in March 2002, December 2002 and April 2004 for the three UK schemes and confirmed that the total market value of the schemes' assets were €71,589,000. The value of the schemes assets are insufficient to cover the value of the schemes liabilities and show a deficit of €9.0 million on a current funding level basis. Special additional contributions totaling €0.3 million (2003: €13.6 million of which €9.2 million was part of the acquisition cost of Jackson Building Centres and formed part of the goodwill calculation in 2003) were made during the year to reduce the deficits in the schemes.

The assumptions which have the most significant effect on the results of the valuations are those relating to the rate of return on investments and the rates of increase in pensionable remuneration. In most of the valuations it was assumed that the investment return would be three per cent per annum in excess of the assumed rate of growth in pensionable remuneration. In the period after retirement, an investment return assumption of 5.5 per cent per annum was used in most valuations.

Allowing for expected future increases in pensionable remuneration up to the assumed retirement dates of members, the actuarial value of the schemes' assets before future contributions, represented 73% of the benefits that had accrued to members. The employer's contribution rate over the average remaining service lives of the members of the schemes takes account of the current actuarial funding level.

The pension charge for the year was €9,093,000 (2003: €7,291,000) of which €4,951,000 relates to defined benefit schemes and €4,142,000 relates to defined contribution schemes.

The actuarial reports are not available for public inspection.

(b) FRS 17 Retirement Benefits

The Group operates six defined benefit schemes in Ireland and three in the UK. Full actuarial valuations were carried out at 1 January 2004, 1 July 2004 and 4 July 2004 for the six Irish schemes and at 1 March 2002, 31 December 2002 and 1 April 2004 for the three UK schemes and all updated to 31 December 2004 by a qualified independent actuary. All schemes except for one are closed to new entrants and as a result the current service cost will increase as members of the schemes approach retirement.

Financial Assumptions

The financial assumptions used to calculate the retirement benefit liabilities under FRS 17 were as follows:

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

37 Pension Commitments *(continued)*

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

Scheme Assets

The assets in these schemes and the long term rates of return expected at 31 December 2004, 31 December 2003 and 31 December 2002 are set out below:

	2004 Irish Schemes %	**2004 UK Schemes %**	2003 Irish Schemes %	2003 UK Schemes %	2002 Irish Schemes %	2002 UK Schemes %
Equities	**7.25%**	**7.25%**	7.25%	7.25%	7.0%	7.0%
Bonds	**3.8%**	**5.1%**	4.75%	5.3%	4.75%	5.5%
Property	**7.0%**	**7.0%**	7.0%	7.0%	7.0%	7.0%
Cash	**4.0%**	**4.5%**	4.0%	4.0%	4.0%	4.0%

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

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

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

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

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

37 Pension Commitments *(continued)*

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

Analysis of amount that would have been recognised in statement of total recognised gains and losses (STRGL)

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

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

37 Pension Commitments *(continued)*

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

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

38 Principal Operating Subsidiary Undertakings

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

39 Post Balance Sheet Event

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

40 Approval of Financial Statements

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

Principal Operating Subsidiary Undertakings

Details of principal operating subsidiary undertakings, all of which are wholly owned, are set out below as at 31 December 2004:

Incorporated and Operating in Ireland:

Name of Company	Nature of Business
Chadwicks Limited	Builders merchants
Woodie's DIY Limited	DIY superstores

Incorporated and Operating in the United Kingdom:

Name of Company	Nature of Business
Buildbase Limited	Builders merchants
Jackson Building Centres Limited	Builders merchants
Plumbase Limited	Plumbers merchants
Macnaughton Blair and Company Limited	Builders merchants
CPI Mortars Limited	Mortar manufacturers

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. The registered office of Buildbase Limited, Plumbase Limited and CPI Mortars 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 and for Macnaughton Blair and Company Limited the registered office is 4 Balmoral Road, Balmoral Industrial Estate, Belfast, Northern Ireland.

Corporate Information

Auditors KPMG

Bankers Bank of Ireland
Ulster Bank Markets
AIB Bank
Lloyds TSB Bank
IIB Bank
Barclays Bank

Solicitors Arthur Cox, Dublin
Lyons Davidson, Bristol

Stockbrokers Goodbody Stockbrokers, Dublin

Corporate & Registered Office Heron House
Corrig Road
Sandyford Industrial Estate
Dublin 18
Phone: 00-353-1-216 0600
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Email: email@graftonplc.com

Registrars Capita Corporate Registrars plc
Unit 5, Manor Street Business Park,
Manor Street, Dublin 7.
Phone; 00-353-1-8102400
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www.capitacorporateregistrars.ie

Financial Calendar

Results

Interim results	8 September 2004
Full year results	9 March 2005
Annual report issued	4 April 2005
Annual general meeting	9 May 2005

Share Redemption/Purchase

Payment date for Share Redemption	26 March 2004
Payment dates for Purchase of A Ordinary Shares	1 October 2004 29 March 2005

Notes