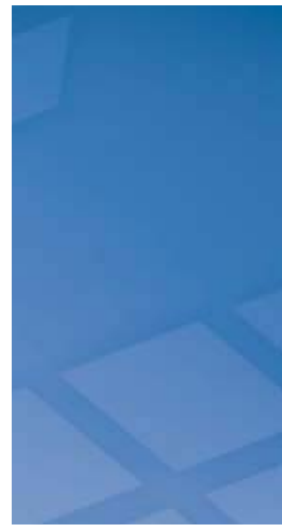




Grafton Group plc
Annual Report 2007



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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 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 is the fourth largest merchanting business trading from 426 locations comprising 221 Builders Merchanting branches trading principally under the Buildbase and Jackson brands and 205 Plumbers Merchanting branches trading under the Plumbase brand.

EuroMix is the market leader in the UK dry mortar market where it trades from a network of nine manufacturing plants in England and Scotland.

In Northern Ireland, Macnaughton Blair is one of the leading builders merchants in the province where it trades from 19 locations.

In the Republic of Ireland, the Group is the largest builders and plumbers merchanting business trading nationally from 31 branches under the Chadwicks brand and from 31 branches principally under the Heiton Buckley brand. The Group also operates the largest steel stock holding business in Ireland trading as Heiton Steel and, under the Chadwicks Hire and Sam Hire brands, the Group is market leader in the hire of scaffolding, small tool and plant equipment.

The Group is the market leader in DIY retailing in the Republic of Ireland, trading nationally from 26 Woodie's DIY and 15 Atlantic Homecare stores. The Group is also engaged in the manufacture of mortar, plastics and windows in the Republic of Ireland.

Since becoming an independent public limited company in 1987, Grafton increased its adjusted earnings per share at an average annual rate of 26 per cent. Grafton Group plc shares are listed on the Irish and London Stock Exchanges.

Financial Highlights 2007

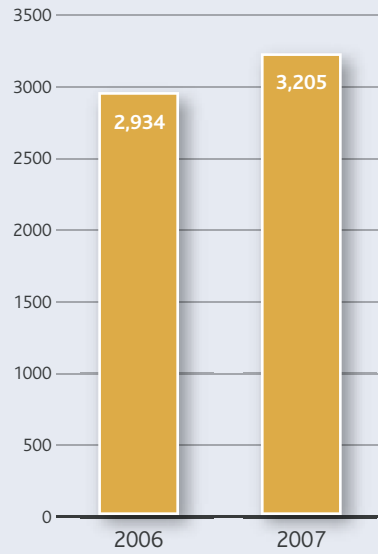
	2007	2006	Change
Revenue (€ million)	3,205	2,934	+9%
EBITDA (€ million)#	323	298	+8%
Operating profit (€ million)*	266	245	+9%
Profit before taxation (€ million)#	229	211	+8%
EPS – basic (cent)	86.2	91.0	
Adjusted EPS (cent)*	84.3	78.0	+8%
Share purchase per Grafton unit (cent)	22.0	18.75	+17%
Share purchase cover (times)	3.8	4.2	
Net finance cost cover (times)	7.8	9.0	
Cash flow per share (cent)**	108	100	+8%
Net assets per share (cent)	464	424	+9%
Net debt to shareholders' funds	52%	54%	
Depreciation charge (€ million)	56.8	53.2	
Intangible amortisation (€ million)	2.2	2.2	
Acquisition expenditure (€ million)	89	87	
Capital expenditure (€ million)	105	124	

Excludes property profit.

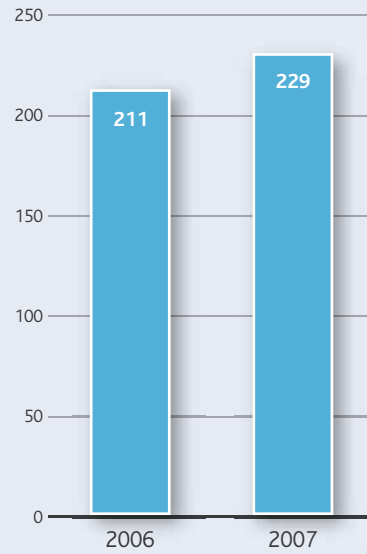
* Before property profit and intangible amortisation.

** Based on profit after tax, excluding property profit, plus depreciation and intangible amortisation.

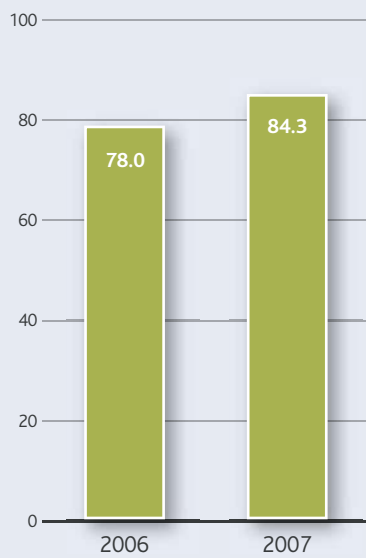
REVENUE
(€ million)



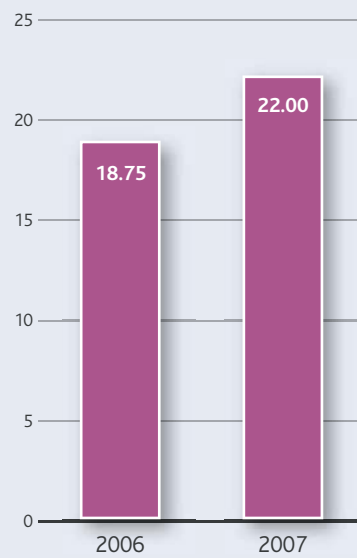
PROFIT BEFORE TAX
(€ million)



ADJUSTED EARNINGS PER SHARE
(€ cent)



SHARE PURCHASE PER GRAFTON UNIT
(€ cent)

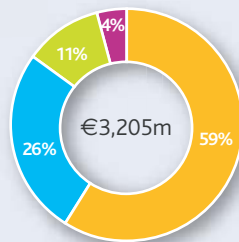


Regions and Divisions

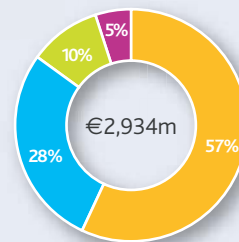
	Trading Locations		
	UK	Ireland	Total
Builders Merchants	221	71	292
Plumbers Merchants	205	8	213
Manufacturing Plants	9	4	13
DIY	-	47	47
Total	435	130	565

Divisional Turnover

- UK Merchanting
- Irish Merchanting
- Irish DIY Retailing
- Irish and UK Manufacturing



2007

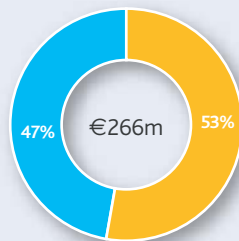


2006

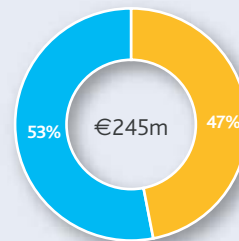
Operating Profit

Before intangible amortisation and property profit

- UK
- Ireland



2007



2006

Trading Locations

- Builders Merchenting
- Plumbers Merchenting
- Manufacturing
- DIY Retailing



Principal Brands

Irish Builders Merchanding

In the Republic of Ireland, the Group operates the largest builders and plumbers merchanding business trading from 62 branches nationally under the Chadwicks and Heiton Buckley brands.



UK Builders Merchanding

The UK builders merchants division trades from 221 branches, principally under the Buildbase and Jackson brands, and has a strong presence in the South East, Midlands and North of England.



UK Plumbers Merchanding

The UK plumbers merchanding division, trading primarily under the Plumbase brand from 205 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 residential and commercial construction projects, trades from nine plants which provide market coverage across England and Scotland.



DIY Retailing

In the Republic of Ireland, the Group is the largest DIY retailer trading from 41 stores nationally under the Woodie's DIY and the Atlantic Homecare brands.



Chairman's Statement

Grafton Group plc reports good growth in sales, profits and earnings per share for 2007.

Highlights

- Sales were up 9 per cent to €3.21 billion (2006: €2.93 billion).
- Operating profit* increased by 9 per cent to €265.8 million (2006: €244.9 million).
- Profit before tax and property profit up 8 per cent to €228.6 million (2006: €211.4 million).
- Adjusted earnings per share increased by 8 per cent to 84.3 cent (2006: 78.0 cent).
- Adjusted diluted earnings per share up 8 per cent to 83.0 cent (2006: 76.5 cent).
- Cash generated from operations was up 21 per cent to €303.8 million (2006: €251.9 million).
- Strong balance sheet with shareholders' funds of €1.07 billion.
- Lower net debt, gearing at a nine year low of 52 per cent and interest cover of 7.8 times.
- Sixteenth consecutive year of increased share purchase/dividend payments.
- Buyback of 10.5 million Grafton Units.

*Before intangible amortisation and property profit.

The Group delivered a good performance for the year against the background of a strong UK economy and continued expansion in the Irish economy despite some easing of growth in the second half as the anticipated slowdown in the Irish housing market materialised.

In the UK, the improvement in market conditions experienced in the second half of 2006 continued throughout the year. UK profits were at record levels due to good growth in the established business and contributions from acquisitions. The business experienced good like for like sales growth and this was reflected in an increased operating margin in the overall business.

The Irish business outperformed in a market that was influenced by a significant decline in activity in the new housing market during the year which was partially offset by continued growth in the repair, maintenance and improvement and DIY markets.

The overall results for 2007 reflect the benefit of pursuing a consistent strategy over the past two decades which has led to the creation of businesses with national or regional leadership positions in the builders merchanting, DIY and mortar markets in the UK and Ireland.

The UK business increased turnover by 14 per cent to €1.98 billion (2006: €1.73 billion) and operating profit increased by 24 per cent to €142.1 million (2006: €114.6 million). The record results were driven by good volume growth and generally positive trading conditions in the merchanting market.

Irish turnover increased by 2 per cent to €1.23 billion (2006: €1.20 billion). Operating profit declined by 5 per cent to €123.7 million (2006: €130.4 million). 2007 was a satisfactory year for the Irish business despite the decline in profit from the previous year's record level. The Irish Merchanting business was, as expected, impacted by the significant decline in new residential construction.

Development and Finance

The Group continued to consolidate and expand from its existing strong positions in the UK and Irish merchanting and Irish DIY markets. The spend on acquisitions in 2007 amounted to €89.2 million (2006: €87.1 million), of which €74 million related to trading businesses acquired by the Group, including deferred acquisition consideration of €9.5 million (2006: €11.9 million) relating to prior year transactions. Capital expenditure on development projects was €55.7 million (2006: €72.8 million). The combined acquisition and development commitments for the year resulted in expenditure of €144.9 million (2006: €159.9 million).

Chairman's Statement

Thirteen acquisitions in the UK increased scale and further strengthened the Group's position in the merchanting market through securing a presence in locations which complement the established branch network as well as providing enhanced product and additional route to market opportunities. A single branch acquisition improved coverage in the Irish builders merchanting market. The businesses acquired in the UK and Ireland trade from thirty three locations with annual sales of over €100 million.

Considerable resources were also devoted to organic development opportunities to expand the merchanting and retailing branch networks and to enable the Group to more effectively serve these markets into the future. Thirteen merchanting branches were opened in the UK. In Ireland, one DIY store, one builders merchanting branch and one In House at the Panelling Centre store were opened.

The addition of these forty nine trading locations marked a continuation of a successful focus and commitment to growth orientated development opportunities which will contribute to increased profitability in the future.

The Group's operations have traditionally been strongly cash generative and this trend continued in 2007 leaving the Group in a strong financial position with lower net debt at the year end. Shareholders' funds were €1.07 billion at the end of 2007 and gearing was a modest 52 per cent. The Group has retained financing flexibility by holding significant cash balances and more than adequate committed facilities are in place to refinance term debt maturing over the next three years. The Group's overall financial position leaves it well placed to take advantage of acquisition and development opportunities which continue to be available and represent good value and are a good strategic fit.

Share Purchase

The Company purchased 1 'A' ordinary share per Grafton Unit for a cash consideration of 10.0 cent (2006: 8.25 cent) which was paid on 3 October 2007.

The Board approved the purchase of a further ordinary share per Grafton Unit for cash consideration of 12.0 cent (2006: 10.5 cent) payable on 11 April 2008.

The total purchase payments to shareholders for 2007 amount to 22.0 cent per Grafton Unit. This is an increase of 17 per cent on total share purchase payments for 2006 of 18.75 cent per Grafton Unit. This is the sixteenth consecutive year for the Group to increase its share purchase/dividend payments to shareholders. Group earnings per share cover the share purchase payments 3.8 times (2006: 4.2 times). The increase in share purchase payments over the prior year reflects the good results for 2007, strong cash flow from operations and management's confidence in the Group's future prospects.

Share Buybacks

The Group's highly cash generative trading operations, high interest cover and low gearing provided the financial strength to complete unit buybacks in the market while continuing to take advantage of ongoing acquisition and development opportunities. A total of 10.5 million Grafton Units, equivalent to 4.4 per cent of the Group's share capital, were bought back at a total cost of €72.8 million. This will have a positive impact on earnings per share in 2008 and beyond.

Operations Review – United Kingdom

UK sales increased by 14 per cent to €1.98 billion (2006: €1.73 billion) and operating profit increased by 24 per cent to €142.1 million (2006: €114.6 million). The UK operating margin increased to 7.2 per cent from 6.6 per cent reported for 2006.

The UK continued to be a good market in which to do business. The economy experienced stable conditions in 2007 with growth above its trend rate, the strongest employment growth in a decade and unemployment at a thirty year low.

The supply of housing in the UK continued to be lower than the level of demand implied by household formation rates. House prices showed good overall growth for the year although the market weakened in

Chairman's Statement

the second half. Mortgage approvals were also down due to higher interest rates and tighter conditions in the credit markets.

The residential repair, maintenance and improvement market, which is the primary end-use market for the Group's UK merchanting sales, enjoyed modest volume growth in demand in 2007. Like for like sales in the Group's merchanting business increased by 4.8 per cent.

UK Builders Merchanting

Buildbase had an excellent year reporting strong growth in sales and profit due to a combination of good trading and operational improvements in the underlying business together with contributions from acquisitions and greenfield developments. Volume growth due to reasonable market conditions, a more positive pricing environment, continued rationalisation of sourcing arrangements and tight control of overheads contributed to the improvement in profit. Regionally, all areas of the branch network benefited from the improved trading environment and internal initiatives to improve profitability although demand was firmer across the Midlands and South East.

Flemings, the leading independent builders and timber merchant trading from seven branches in Scotland acquired in 2006, was integrated into the Buildbase network and achieved a good level of profitability through operational efficiencies and purchasing gains. There were also good incremental contributions from three single branch acquisitions completed in 2006.

Expansion of the Buildbase branch network continued with the completion of eight acquisitions adding ten branches. The three Buildbase branch openings in Melksham, Wiltshire; Yeovil, Somerset and Stowmarket, Suffolk traded in line with expectations.

Buildbase branches in Poole, Dorset; Belper, Derbyshire and Wakefield, West Yorkshire were relocated to extensive modern facilities and now offer a wider range of products. The trading area of the Southend-on-Sea, Essex; Buckingham, Buckinghamshire and Inverness branches was expanded and new hire centres were opened in seven branches. A major refurbishment

of the Cirencester, Gloucestershire branch was undertaken as well a number of smaller branch development projects.

Jacksons, the leading regional merchanting business, had a good year increasing sales and profit despite tougher competition due to significant capacity expansion in the East Midlands market in recent years. The four locations acquired in 2006 were integrated into the branch network and provide a sound basis for future growth in sales and profit. Market coverage improved with the acquisition of a single branch ironmongery business and the opening of a second branch in Lincoln. Tool hire centres were added in a number of branches.

In Northern Ireland, activity in the housing and commercial markets was strong against the backdrop of an improving local economy. Macnaughton Blair reported a strong advance in sales and profits with all of the gains realised in the established branch network. Good progress was made in developing a presence in the Larne and Lisburn, Co. Antrim market following completion of two small acquisitions at the end of 2006.

Selco, a trade only warehouse format set in a modern self service environment, benefited from good levels of activity in the small project segment of the RMI market. Last year's store openings in London, Manchester and Reading traded to expectations. The opening of three further stores in London increased the network to twenty stores with the majority of these stores located in major metropolitan areas.

UK Plumbers Merchanting

The plumbers merchanting division incorporates Plumbase, the UK's fourth largest plumbers merchanting chain which trades from one hundred and eighty three branches, and the bathroom products distribution business. The division delivered a substantial increase in sales and operating profit in a stable but competitive segment of the merchanting market. Acquisitions contributed very positively to increased profitability.

Chairman's Statement

Plumbase continued to improve market coverage with the opening of six branches and the completion of a two branch acquisition.

Progress, a seventeen branch boiler and heating spares business, was acquired in June 2007. The acquisition improves the Group's position in the heating spares market through a better geographical spread of branches. The Group successfully entered the internet retail market for bathroom products at the end of 2006 with the acquisition of plumbworld.co.uk, the UK's largest online retailer of bathroom products. The business traded in line with demanding pre-acquisition expectations.

UK Mortar

CPI EuroMix manufactures a range of mortars for use in residential, commercial and public sector construction projects, which it supplies from a network of nine plants in England and Scotland. EuroMix consolidated its leadership position in the silo based mortar market with further growth in volumes and sales. Operating profit was maintained at last year's level in a good market but with continuing competitive pricing pressure linked to the introduction of capacity in the sector in recent years. The Leeds plant that opened in July 2006 successfully increased volumes in the West Yorkshire market and traded profitably in 2007.

Operations Review – Republic of Ireland

Irish turnover increased by 2 per cent to €1.23 billion (2006: €1.2 billion). Operating profit was down 5 per cent to €123.7 million (2006: €130.4 million).

The Irish economy performed strongly in 2007 with growth of five per cent driven by domestic demand and an impressive recovery in export growth. The volume of consumer expenditure is estimated to have increased by six per cent due to higher disposable income as a result of growth in employment and earnings and income tax reductions. Maturing SSIA's also contributed to increased consumer spending. Employment growth held up well with the rate of job creation substantially ahead of the euro zone area.

Following the slowdown in construction activity during the year the financial and business services sectors replaced the construction sector as the principal source of job creation in the economy.

House building levels adjusted following a long period of strong supply that reached a level of output which exceeded the economy's medium term requirements. During 2007 house building levels responded to the weaker demand and pricing environment. The fall in the market reflected reduced affordability due to rising interest rates, which were at their highest level for six years, and the high level of house prices achieved in recent years. Housing output responded to the changing market conditions with completions falling to 78,000 units from a peak of 88,000 units in 2006. Housing registrations, an indicator of housing starts, progressively weakened as the year progressed.

Investment in non-residential building increased with good levels of activity in the commercial, industrial, civils and infrastructure markets. The housing repair, maintenance and improvement market benefited from increased spending and continued to grow.

Irish Merchandising

Sales were marginally higher at €819.2 million (2006: €816.6 million). The Irish merchandising business has developed rapidly having almost tripled its turnover over the past three years. 2007 was a satisfactory year for the business despite a small decline in profits from the record levels achieved in 2006. The business benefited from reasonably positive market conditions in the first half with relatively flat new housing activity and good growth in the non-residential construction segments of the market. Market conditions became more challenging in the second half due to the significant decline in housing starts and completions. Weakness in the housing market was partially offset by the continuing growth in the residential RMI and non-residential new build markets. Like for like sales declined by one per cent for the year.

The Heiton Buckley and Chadwicks brands delivered a good performance in a market that experienced

Chairman's Statement

a sharp decline in volumes. The mix of the business benefited from a significant exposure to the housing repair maintenance and improvement and non-residential markets. More subdued house building related demand in a number of the Dublin branches was largely offset by better trading in the provincial branches which continued to experience positive trading conditions and less of an impact from a reduction in scheme house and apartment development. These branches experienced good demand in the RMI and one-off housing segments of the market.

Irish merchanting grew through both acquisition and organic development. The business gained a presence in the Mid West market through the purchase of Market Hardware in Ennis. The opening of a new branch in South Dublin City provided an important base to grow market share within a catchment area that offers significant development opportunities in the years ahead. The branch in Mullingar, which opened in the second half of 2006, had a successful year and now has a well established presence in the Midlands market. Relocation of the Tullamore branch to a new purpose built facility enabled the branch to expand its product offering and strengthen its market leading position in the region.

The business continued to focus on margin improvement making gains from purchasing efficiencies and tight control of costs. The opening of a Chadwicks Plumb Centre in Sligo provides a base for sales growth in the plumbing and heating products category. The Athlone branch was relocated from the town centre continuing the programme of branch relocations designed to increase capacity and improve customer service.

Cork Builders Providers achieved higher sales despite the more challenging market place. This reflected the benefit of measures taken to expand turnover in the one-off housing and non-residential markets helping the business to overcome the impact of a volume reduction in residential development schemes. Davies, the Dublin based specialist plumbing, heating and civils merchant continued to benefit from positive market

conditions in the commercial and infrastructure markets. Telfords, the Midlands based merchant, performed well benefiting from a solid customer base and investment in its Portlaoise branch.

Heiton Steel, the market leading steel stock-holding business, had a satisfactory year. Strength in the civils and commercial markets and improved pricing helped to offset softness in housing related volumes. The Cork branch relocated to a new facility to enable it to offer a wider range of products and achieve operational efficiencies.

Chadwicks Hire Centres and Sam Hire, the plant and tool hire business, continued to increase market coverage with the opening of branches in Tullamore and Limerick. The Group now trades from thirty four hire locations primarily sharing facilities with builders merchanting branches.

Irish Retailing

Sales increased by 9 per cent to €339.8 million (2006: €311.7 million). The Irish retailing business trades from forty one stores under the Woodie's DIY and Atlantic Homecare brands and from six In House at the Panelling Centre stores. The trading environment for the business was very positive. Retail sales volumes showed the highest rate of growth since 2000. Against this favourable background, the business achieved significant sales and profit growth.

The increase in profitability was due to strong trading in the established stores and good contributions from store openings in 2006. This outcome was achieved despite absorbing increased property costs. Like for like sales growth for the year was 5.3 per cent. The first half benefited from very favourable trading in the gardening season measured against more subdued prior year trading.

Store openings in 2006 in Castlebar, Co. Mayo, Navan, Co. Meath and in Nenagh, Co. Tipperary traded in line with expectations making good profit contributions for the year.

Chairman's Statement

The strong internal growth strategy for developing the Irish retailing business was sustained with the opening of a new Woodie's DIY store in Limerick and relocation of the Woodie's DIY store in Tallaght to a facility which doubles the store's trading area. The capacity of Woodie's DIY Waterford store was substantially expanded. These initiatives support the geographic development of the retail customer base and enable the marketing of a wider range of products.

The Woodie's and Atlantic Homecare support offices and management were successfully merged during the year.

The In House at the Panelling Centre business, which markets a range of quality kitchen and bedroom panelling products to trade and retail customers, benefited from strong volume growth in consumer spending, a good level of housing transactions and solid demand in the replacement market. The business achieved good sales and profit growth. The Galway store that opened at the end of 2006 traded in line with expectations and prior to the year end a sixth store was successfully opened in Waterford. Further store openings are planned.

Irish Manufacturing

The Irish manufacturing business delivered a resilient performance in the first half but second half trading conditions became more challenging and volumes declined in line with the slowdown in new house building activity.

Management and Staff

A key strength of the Group is the commitment and loyalty of the management and staff throughout the business in the UK and Ireland. On behalf of the Board, we wish to thank the management and staff for their commitment and support and warmly welcome all of those who have joined the Group during 2007.

Outlook

UK sales continued to increase in the first two months of 2008 albeit at a slightly lower rate than achieved in 2007. Sales were lower in the Irish merchandising business due to the much weaker new housing market.

In Ireland, economic growth is expected to be lower than the record levels of recent years but still good by international standards. The Irish housing market will continue to adjust to a more sustainable supply and pricing environment in response to more moderate demand. Underlying demand for housing is however expected to remain strong due to favourable demographics and growth in employment and incomes. Affordability has been improving due to lower house prices and rising incomes and the current interest rate tightening cycle appears to have come to an end. The strength of demand for rented accommodation has pushed up rents and this should begin to translate into an improvement in housing starts.

Growth in the repair, maintenance and improvement market and the non-residential and infrastructure markets is expected to continue through 2008 and should mitigate some of the impact of lower output in the new housing market. The Irish merchandising business will encounter weaker trading conditions with the prospect that there may be some improvement in housing starts later in the year.

A clear focus is now in place within Irish Merchandising to achieve closer integration, thereby driving further scale related benefits, a lower cost base, and product sourcing gains. Our policy of being the preferred first choice supplier to our trade customers is both resilient and consistent and we expect to gain further benefit from the success of this policy in 2008.

Volume growth in consumer spending is forecast although at a somewhat lower level than the very high growth rates of recent years. The Irish retailing business will also benefit from the internal initiatives and developments undertaken in 2007. A new Woodie's store in Carrick-on-Shannon was successfully opened earlier this month.

Chairman's Statement

UK economic growth is expected to moderate from a rate of expansion that has been at or above trend for over two years. Consumer spending and investment in housing is easing on the back of interest rate increases and generally tighter conditions in the credit markets. The residential repair, maintenance and improvement market has historically been less cyclical and we expect to see continued growth and development opportunities in the merchanting sector. The recent sterling interest rate reduction combined with further interest rate cuts expected in 2008 should help stimulate activity in the merchanting sector as we move into the last quarter and early 2009. The continuing weakness of sterling will reduce the value of the Group's earnings when translated into euro for reporting purposes if the current exchange rate continues throughout 2008.

As in previous years the focus in the UK will be on closer integration of the merchanting business in order to achieve further scale related benefits including operational efficiencies and product sourcing gains. The Group also expects to continue making progress in developing its position in the merchanting market with a good pipeline of organic development opportunities and acquisitions. The further strengthening of the UK business in 2008 should result in financial rewards coming through in 2009 and beyond.

The Group's strong brands in the UK and Ireland and its healthy financial position leave it well placed to respond to more demanding market conditions while continuing to pursue the consistent growth orientated strategy that has been successful for the past two decades.

On behalf of the Board

Michael Chadwick
Chairman

Group Finance Review

Results

The Group's merchanting, DIY and manufacturing business reported excellent profit and cash flow for 2007.

The extent of the Group's development in the five years to the end of 2007 is reflected in an almost trebling of turnover to €3.2 billion from €1.1 billion in 2002. Profit before tax grew at the same rate over this period to €235.8 million in 2007 from €80.2 million in 2002. Turnover and profit increased ten fold over the past decade.

Components of Operating Profit Growth

Operating profit before property profit and amortisation of intangibles increased by €20.8 million to €265.75 million from €244.94 million in 2006.

Incremental operating profit from 16 bolt-on UK acquisitions completed during 2006 amounted to €5.2 million. The operating profit contribution from 14 bolt-on acquisitions in the UK completed during 2007 amounted to €5.4 million.

Like for like operating profit in the Irish business reduced by €8.3 million due to the weak housing market while operating profit in the like for like UK business increased by €20.0 million reflecting the benefit of good like for like sales growth, purchasing benefits and the effect of cost reduction measures taken in 2006.

The Group opened 16 branches during 2007 in the UK and Ireland. The result for these branches together with the incremental result from the 18 branches which were opened in 2006 was an overall operating loss of €1.3 million.

The results of the UK business are translated at the average euro / sterling exchange rate for the year of Stg68.43p (2006: Stg68.17p). Sterling was marginally weaker during 2007 leading to a translation related reduction in Group operating profit of €0.4 million.

Cash Flow

The Group's businesses continued to be strongly cash generative in 2007. Cash generated from operations was €303.8 million. (2006: €251.9 million). In addition Group cash flow from the disposal of assets was €22.1 million (2006: €77.7 million).

Free cash flow for the year was €236.0 million (2006: €252.6 million) after providing for replacement capital expenditure of €49.0 million (2006: €51.6 million), the payment of interest and taxation of €61.0 million (2006: €57.8 million) and additional investment in working capital of €14.4 million (2006: €26.1 million)

Group Financing

Net borrowings at 31 December 2007 of €550.4 million (31 December 2006: €550.9 million) were marginally down despite a total spend of €266.7 million on acquisitions, routine replacement and development capital expenditure and share buybacks. Net debt was reduced by €36 million due to the favourable translation impact of converting sterling debt to the euro at the weaker year end exchange rate of Stg73.34p compared to the rate of Stg67.15p at 31 December 2006.

The Group has historically retained financial flexibility by holding significant short term cash deposits which amounted to €204.5 million at 31 December 2007 (31 December 2006: €231.5 million). Eighty two per cent or €454.0 million of the Group's net debt is repayable after more than two years from the end of 2007. This includes seventy three per cent of net debt or €401.8 million repayable after more than three years.

Group Finance Review

The Group had undrawn committed facilities of €49.0 million at the year end and since the year end refinanced loans of €73.9 million repayable in 2008 for a period of three years. The maturity of the Group's gross debt of €335.2 million repayable up to three years from the end of 2007 is covered by committed facilities, debt refinanced since the year end and cash resources.

Shareholders' Funds

Shareholders' funds at the year end were €1.07 billion (31 December 2006: €1.01 billion). Retained profit after taxation for the year was €205.2 million. Year end shareholders' funds are stated after accounting for the €72.8 million cost of buying back 10.5 million Grafton Units during 2007.

Reserves were reduced by €43.8 million due to exchange rate movements during 2007. Sterling weakness reduced the euro equivalent of the Group's net investment in the UK business on translation at the year end rate of exchange.

The purchase of two 'A' ordinary shares per Grafton Unit resulted in the return of €49.0 million (2006: €39.9 million) to shareholders and this amount was written-off against revenue reserves.

The issue of 782,517 Grafton Units under the Group's executive share schemes increased shareholders' funds by €2.5 million. The issue price of these units was determined by reference to the market value on the date entitlements to acquire Units were originally granted under the rules of the share schemes.

Acquisitions and Capital Expenditure

The total cash outflow on acquisitions and capital projects was €193.9 million (2006: €211.5 million).

Fourteen bolt-on merchanting acquisitions resulted in a cash outlay of €79.7 million (2006: €75.2 million). Deferred acquisition expenditure of €9.5 million (2006: €11.9 million) was paid during the year in respect of prior year transactions.

Capital expenditure of €104.7 million (2006: €124.4 million) reflected routine replacement expenditure of €49.0 million and an investment of €55.7 million in the branch network across the Group including the opening of 16 new branch locations together with branch expansion and development initiatives designed to improve customer service and broaden the range of products available.

Pensions

The actuarial gain net of taxation on the Group's defined benefit pension schemes credited to the Group Statement of Recognised Income and Expense amounted to €10.0 million (2006: €4.9 million).

Net assets and actuarial liabilities of the Group's defined benefit pension schemes are included in the balance sheet in accordance with IAS 19. At the end of 2007 the net retirement benefit obligation, after deferred taxation, reduced to €12.6 million (31 December 2006: €27.3 million). The reduction of €14.7 million in the net liability was due to employer contributions, an increase in the discount rates used to value liabilities and investment income which were partially offset by more conservative assumptions concerning life expectancy. The Group's total obligations under defined benefit pension schemes as determined by independent qualified actuaries at 31 December 2007 was €239.0 million (31 December 2006: €257.3 million). The related scheme assets amounted to €223.7 million (31 December 2006: €223.1 million). The net liability of €12.6 million after deferred taxation (31 December 2006: €27.3 million) represented one per cent of the Group's market capitalisation at the year end. The overall assets in the Group's defined benefit pension schemes represent 94 per cent of liabilities (31 December 2006: 87 per cent) as shown in the Group's balance sheet under IFRS.

Group Finance Review

Property

Property profit of €7.3 million was reported for 2007 (2006: €38.0 million). Property profit averaged €10.3 million over the past seven years and is excluded in arriving at adjusted earnings per share.

The book value of the Group's freehold property portfolio at 31 December 2007 was €440.1 million (31 December 2006: €422.1 million). The Group's freehold properties in Ireland were valued in December 1998. Properties owned by Heiton Group plc which was acquired in January 2005 are carried in the balance sheet at fair value at the date of acquisition based on professional valuations undertaken at 30 April 2004. The Group's UK freehold properties have not been revalued since the Group entered the UK merchanting market in 1994 and are reflected in the balance sheet at fair value on the date of acquisition or cost where purchased.

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 7.8 times (2006: 9.0 times).

Net borrowings at 31 December 2007 were €550.4 million (31 December 2006: €550.9 million) equivalent to a gearing ratio of 52 per cent (31 December 2006: 54 per cent), the lowest level since in 1998.

Return on average capital employed in 2007, a critical measure in the assessment of acquisition and development opportunities, was 16.4 per cent (2006: 16.5 per cent). Return on equity was 19.2 per cent.

Working capital was well controlled with an additional net investment of €14.4 million (2006: €26.1 million) required to finance like for like and new branch turnover growth of €142 million.

Summary

The Group's very strong financial position at the year end, high interest cover and cash generative operations continue to leave it well placed to finance acquisition and organic development opportunities which are a good fit and have the potential to deliver acceptable long term returns for shareholders.

On behalf of the Board

Colm Ó Nualláin
Finance Director

Board of Directors



Michael Chadwick
BA, MSc

EXECUTIVE CHAIRMAN

Michael Chadwick (56) joined the Group in 1975, was appointed to the Board in 1979 and became Executive Chairman in 1985. He is a Director of Pochin's Plc and other companies in which he has invested.



Anthony E. Collins
MA, B Comm, Solicitor

**DEPUTY CHAIRMAN –
NON-EXECUTIVE**

Anthony Collins (68) became a non-executive Director in 1988 and was appointed Deputy Chairman in 1995. A former President of the Law Society of Ireland, he is Senior Partner of Eugene F. Collins, Solicitors and a Director of the Institute of Directors in Ireland Ltd. He was formerly Chairman of the Automobile Association Ireland and Deputy Chairman of the Leinster Leader Ltd.



Colm Ó Nualláin
B Comm, FCA

FINANCE DIRECTOR

Colm Ó Nualláin (54) 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 J. Martin
BBS, MA, FCA

CHIEF OPERATING OFFICER

Leo Martin (56) was appointed to the Board in January 2005 following the acquisition of Heiton Group plc and was appointed Chief Operating Officer with overall responsibility for Irish and UK merchandising in September 2006. He was Chief Executive of Heiton Group plc, having joined Heiton and the Board of Heiton as Finance Director in 1986. He is a Director of Buy4Now and is a member of the Chartered Accountants Regulatory Board.



Fergus Malone
BE, MBA

EXECUTIVE DIRECTOR

Fergus Malone (65) 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.



Gillian Bowler
(UK)

NON-EXECUTIVE DIRECTOR

Gillian Bowler (55) joined the Board in 1995. She is Chairman of Irish Life & Permanent plc and is a Director of the VHI. She is also Chairman of Fáilte Ireland and is a member of the Advisory Board of the Smurfit Business School. She formerly served as Chairman of The Irish Museum of Modern Art, was 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 (63) joined the Board in 1995. He is non-executive Chairman of Archant Ltd and non-executive Chairman of Raven Russia plc. He is also a Director of Temple Bar Investment Trust plc and Clean Energy Brazil plc. He was previously Chairman of Savills plc, Queens Moat House plc, Meyer International plc and PFI Infrastructure plc.



Roderick Ryan
B.Comm, FCA, AITI

NON-EXECUTIVE DIRECTOR

Roderick Ryan (51) joined the Board in 2006. He is a non-executive Director of Glen Dimplex and of Education Media and Publishing Group Limited. He was Managing Partner of Arthur Andersen in Ireland from 1995 to 2002 and a member of Andersen's European Executive Committee from 1998 to 2002. He was formerly a member of the Government appointed IFSC Banking and Treasury Committee, the Executive Committee of the Financial Services Industry Association, the Revenue Powers Group and previously served as Chairman of the Foundation for Fiscal Studies.



Peter S. Wood
(UK) FCA

NON-EXECUTIVE DIRECTOR

Peter Wood (60) joined the Board in 2006. He is non-executive Chairman of White Young Green Plc and non-executive Director of RPC Group Plc and Yule Catto Plc. He was formerly Chief Executive of BSS Group Plc and Ellis & Everard Plc.



Charles Rinn
MBA FCCA

**GROUP FINANCIAL
CONTROLLER AND
SECRETARY**

Board Committees

Audit

R.W. Jewson (Chairman)
G. Bowler
A.E. Collins
R. Ryan

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
L. J. Martin
C. Rinn

Financial Review

	IFRS				Under Irish GAAP				
	2007 €'m	2006 €'m	2005 €'m	2004 €'m	2003 €'m	2002 €'m	2001 €'m	2000 €'m	1999 €'m
Group Income Statements									
Revenue	3,205.0	2,933.9	2,629.5	1,872.3	1,496.0	1,152.4	988.8	830.5	620.2
Operating profit*	263.5	242.7	213.8	161.1	115.8	89.7	77.3	64.6	46.3
Property profit	7.3	38.0	9.6	7.5	3.4	3.7	2.3	-	-
Finance cost (net)	(35.0)	(31.4)	(31.2)	(22.8)	(17.2)	(13.2)	(12.4)	(11.8)	(8.1)
Profit before taxation	235.8	249.3	192.2	145.8	102.0	80.2	67.2	52.8	38.2
Taxation	(30.6)	(32.4)	(26.1)	(19.9)	(15.3)	(12.0)	(8.7)	(6.9)	(4.6)
Profit after taxation	205.2	216.9	166.1	125.9	86.7	68.2	58.5	45.9	33.6
	2007	2006	2005	2004	2003	2002	2001	2000	1999
Balance Sheets	€'m	€'m	€'m	€'m	€'m	€'m	€'m	€'m	€'m
Capital employed									
Goodwill and intangibles	611.9	596.2	547.8	247.1	210.8	100.4	62.5	51.7	31.7
Property, plant and equipment	703.7	686.2	623.2	406.2	346.8	302.3	251.5	209.6	175.9
Financial assets	0.9	0.4	0.3	47.0	33.7	33.6	33.6	18.9	19.0
Net current assets#	350.3	335.6	303.2	195.2	198.5	144.3	129.5	106.5	76.2
Other net non-current liabilities	(48.7)	(53.2)	(76.5)	(50.8)	(28.3)	(18.0)	(17.7)	(16.1)	(14.1)
	1,618.1	1,565.2	1,398.0	844.7	761.5	562.6	459.4	370.6	288.7
Financed as follows:									
Shareholders' funds equity	1,067.7	1,014.3	813.8	495.5	449.8	322.0	264.5	216.5	181.3
Net debt/(cash)	550.4	550.9	584.2	349.2	311.7	240.6	194.9	154.1	107.4
	1,618.1	1,565.2	1,398.0	844.7	761.5	562.6	459.4	370.6	288.7
Other Information									
Acquisition & investments	89.2	87.1	477.7	88.7	220.1	88.8	61.8	56.6	63.6
Purchase of property, plant and equipment	104.7	124.4	100.6	88.9	69.3	68.0	42.0	43.2	29.5
	193.9	211.5	578.3	177.6	289.4	156.8	103.8	99.8	93.1
Depreciation and intangible amortisation	59.0	55.4	50.4	34.6	37.6	26.6	21.9	16.5	12.6
Financial Highlights	2007	2006	2005	2004	2003	2002	2001	2000	1999
Earnings per share before amortisation & property profit (cent)	84.3	78.0	67.8	56.1	45.1	37.0	32.1	25.9	19.5
Share purchase/dividend per share (cent)	22.0	18.75	15.75	13.0	10.5	8.5	7.5	6.1	4.5
Cashflow per share (cent)**	108.3	100.4	88.3	72.4	58.7	52.0	44.9	36.2	27.5
Net assets per share (cent)	464.2	424.0	342.8	232.2	211.5	181.6	150.2	124.3	104.9
Net finance cost cover (times)	7.8	9.0	7.2	7.4	7.5	7.4	6.7	5.7	5.8
Share purchase/dividend cover (times)	3.8	4.2	4.3	4.3	4.3	4.4	4.3	4.3	4.3
Net debt to shareholders' funds	52%	54%	72%	70%	69%	75%	74%	71%	59%

The summary financial information is stated under IFRS for 2004 to 2007 and under Irish GAAP for all years from 1987 to 2003.

* Including income from financial assets and after charging intangible amortisation

Excluding net debt/(cash)

** Based on profit after tax, excluding property profit, plus depreciation and intangible amortisation

Under Irish GAAP

1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987
€'m	€'m	€'m	€'m	€'m	€'m	€'m	€'m	€'m	€'m	€'m	€'m
427.6	327.6	244.0	195.7	169.0	133.2	122.4	119.9	109.5	87.8	67.6	62.8
33.1	25.6	19.1	14.2	11.3	6.1	6.5	6.1	7.3	5.7	3.3	2.2
-	-	1.8	0.8	-	-	-	-	-	-	-	-
(4.9)	(2.4)	(1.3)	(1.1)	(1.2)	(0.9)	(1.6)	(1.6)	(0.7)	(0.8)	(0.5)	(0.6)
28.2	23.2	19.6	13.9	10.1	5.2	4.9	4.5	6.6	4.9	2.8	1.6
(4.0)	(3.5)	(2.9)	(2.5)	(2.1)	(1.1)	(1.2)	(1.1)	(2.1)	(1.8)	(0.7)	(0.4)
24.2	19.7	16.7	11.4	8.0	4.1	3.7	3.4	4.5	3.1	2.1	1.2
1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987
€'m	€'m	€'m	€'m	€'m	€'m	€'m	€'m	€'m	€'m	€'m	€'m
9.8	-	-	-	-	-	-	-	-	-	-	-
140.7	61.8	48.5	43.2	40.1	35.9	33.0	33.7	30.6	21.2	19.4	18.1
0.2	12.5	0.1	-	1.2	3.4	1.0	1.9	1.3	-	-	0.4
60.2	29.4	21.4	21.5	18.2	17.9	18.4	18.6	18.7	16.1	11.1	9.3
(12.4)	(1.2)	(1.1)	(1.1)	(1.1)	(1.1)	(1.0)	(1.0)	(1.0)	(0.6)	(0.5)	(0.2)
198.5	102.5	68.9	63.6	58.4	56.1	51.4	53.2	49.6	36.7	30.0	27.6
139.8	78.6	70.6	57.7	49.9	45.7	42.2	40.7	38.7	36.0	25.1	23.9
58.7	23.9	(1.7)	5.9	8.5	10.4	9.2	12.5	10.9	0.7	4.9	3.7
198.5	102.5	68.9	63.6	58.4	56.1	51.4	53.2	49.6	36.7	30.0	27.6
53.4	29.7	8.0	1.4	5.8	2.7	-	1.2	7.8	0.1	1.6	-
20.6	14.6	7.6	7.7	5.7	5.2	2.4	5.9	7.8	3.5	2.7	1.3
74.0	44.3	15.6	9.1	11.5	7.9	2.4	7.1	15.6	3.6	4.3	1.3
7.2	5.4	4.2	3.6	3.0	2.6	2.1	2.1	1.4	1.0	0.9	1.1
1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987
14.2	11.6	9.0	6.5	4.8	2.5	2.2	2.0	2.7	2.3	1.6	0.9
3.3	2.7	2.1	1.5	1.0	0.9	0.8	0.7	0.7	0.6	0.5	0.4
19.4	15.7	12.2	9.0	7.0	4.3	3.7	3.5	3.8	3.3	2.4	1.8
84.9	48.8	44.2	36.6	31.7	29.3	27.0	26.2	24.9	23.1	20.2	19.4
6.8	10.6	15.4	13.1	9.8	7.0	4.1	3.8	10.2	6.9	6.7	3.8
4.3	4.3	4.3	4.3	4.7	2.9	2.9	2.7	3.8	3.8	3.3	2.4
42%	30%	-	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 2007.

Group Results

Group revenue of €3.2 billion was 9 per cent higher than Group revenue of €2.93 billion in 2006. Group profit before taxation, excluding property profits of €7.3 million (2006: €38.0 million), amounted to €228.6 million compared with €211.4 million in the previous year, an increase of 8 per cent. Basic earnings per share amounted to 86.2 cent compared with 91.0 cent in the previous year. Adjusted earnings per share (before profit on disposal of property and intangible amortisation) increased by 8 per cent to 84.3 cent compared to 78.0 cent in 2006. After deducting taxation of €30.7 million, retained profit of €205.2 million was transferred to reserves.

The cost of purchasing two 'A' ordinary shares per Grafton Unit on 28 March 2007 and 3 October 2007 amounted to €49.0 million. The financial statements for the year ended 31 December 2007 are set out in detail on pages 38 to 96.

Share Purchase

Following the purchase of one 'A' ordinary Share per Grafton Unit for a cash consideration of 10.00 cent paid on 3 October 2007, the Board approved the purchase of one 'A' ordinary Share per Grafton Unit for a cash consideration of 12.00 cent payable on 11 April 2008, giving total payments for the year of 22.00 cent. This represents an increase of 17 per cent on share purchase payments of 18.75 cent paid in respect of 2006.

At each Annual General Meeting, the Directors seek shareholders' approval to make purchases of 'A' ordinary shares under section 213 of the Companies Act, 1990. The Directors exercise this power to purchase 'A' ordinary shares only at price levels which they consider to be in the best interests of the shareholders generally, after taking account of the Company's overall financial position. If such purchases take place, it is unlikely that a dividend would also be paid, and vice versa.

Share Buybacks

The Directors exercised their rights during the year and bought back 10.5 million Grafton Units equivalent to 4.4 per cent of the Group's share capital at a total cost of €72.8 million. At the Annual General Meeting each year, shareholders are requested to give the Company authority to make market purchases of up to 10% of the Company's own shares. The Directors keep the Company's share price under review on an ongoing basis and will only exercise the power to make market purchases of the Company's own shares, if they consider it to be in the best interests of the Company and its shareholders generally, after taking account of the Company's overall financial position. The minimum price which may be paid for any market purchase of the Company's own shares is currently the nominal value of the shares and the maximum price which may be paid is 105% of the average market price of the shares.

Review of the Business

Shareholders are referred to the Chairman's Statement and Group Finance Review which contain a review of operations and the financial performance of the Group for 2007 and the outlook for 2008. The Group Finance review also sets out the key performance indicators used to assess the performance of the Group.

Principal Risks and Uncertainties

The Group is required under Irish Company Law to give a description of the principal risks and uncertainties which it faces. The principal risks are set out below:

Trading in the Group's businesses is influenced by the macro economic environment in both Ireland and the UK. The level of activity in the residential and non-residential construction and in the residential repair, maintenance and improvement markets in particular influence demand in the Group's UK and Irish builders merchanting, mortar and DIY businesses. Demand in these markets is sensitive to economic conditions generally including economic growth, interest rate movements, inflation, unemployment and demographic trends.

Report of the Directors

In the Republic of Ireland, the performance of the Irish business in 2007 was influenced by a decline in activity in the new housing market in the second half of the year which was partially offset by continued growth in the repair, maintenance and improvement and DIY markets.

In the UK, the improvement in market conditions experienced in the second half of 2006 continued throughout the year.

Shareholders are referred to the Outlook for the Group on pages 12 and 13.

An important element of the Group's strategy over the past thirteen years has been growth through bolt-on acquisitions combined with a small number of larger strategically based acquisitions. The Group cannot control the pace of consolidation in the UK and Irish merchanting markets and the pace of acquisition activity going forward is not predictable although the Group continues to have a relatively good pipeline of acquisition opportunities.

The Group's objective is to maintain or develop strong market positions in the markets in which Group companies operate. The Group faces strong ongoing competition in its Irish merchanting, DIY and manufacturing businesses and in its UK merchanting and mortar businesses. The Group has traditionally grown a number of its businesses primarily or mainly through organic and greenfield development. The Group is committed to this development process as long as suitable opportunities can be identified and capitalised upon.

Adverse changes in the sterling/euro exchange rate could adversely affect the results and cash flow of the Group on translation into euro, as noted in the Outlook for the Group.

The Group's financial risk management policies and details of hedging are set out in Note 24 to the financial statements.

Board of Directors

Mr. A.E. Collins, 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, being eligible, offer themselves for re-election. Mr. M. Chadwick, Mr. C. Ó Nualláin and Mr. F. Malone retire by rotation and, being eligible, offer themselves for re-election. Further details on the appointment and re-election of Directors is set out on page 26.

The Directors seeking re-election do not have service contracts with the Company with a period of notice extending beyond twelve months.

Share Capital

At 31 December 2007, a Grafton Unit comprised one ordinary share of 5c and three 'A' ordinary shares of 0.01 cent each in Grafton Group plc and one 'C' ordinary Share of Stg0.0001p in Grafton Group (UK) plc. The structure of the Company's capital including rights and obligations attaching to the components of a Grafton Unit is set out in note 17 to the financial statements.

The Company has in place a number of employee share schemes, the details of which are set out in note 37 to the financial statements.

At each Annual General Meeting, in addition to the power to buy back shares referred to earlier, the Directors seek power to allot shares for cash, otherwise than in accordance with statutory pre-emption rights, by way of rights issues up to the amount of the unissued share capital of the Company, or otherwise up to approximately 5 per cent of the nominal value of the issued share capital of the Company. Under the Articles of Association, shareholders are requested to renew this power at each year's Annual General Meeting.

Substantial Holdings

So far as the Company is aware, in addition to the Chairman, Mr. Michael Chadwick, whose holding of 19,653,230 ordinary shares represents 8.6 per cent of the shares in issue (excluding treasury shares), the following held shares representing 3 per cent or more of its ordinary share capital (excluding treasury shares) at 7 March 2008:

Report of the Directors

Name	Holding	%
Bank of Ireland Asset Management Limited*	14,076,963	6.1
Sprucegrove Investment Management Limited*	13,638,083	5.9
Goodbody Stockbrokers Nominees Ltd. GSCLT Account*	12,562,616	5.5
Capital Group Companies	9,500,000	4.1
Bank of Ireland Nominees Ltd NRI Account*	7,853,011	3.4
Allied Irish Banks, p.l.c. and its subsidiaries	7,824,263	3.4
Irish Life Investment Managers	7,267,055	3.2

*These shares are held on behalf of a range of clients who are each the beneficial owner of a portion of the holding.

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.

Subsidiaries

The Group's principal operating subsidiary undertakings are set out on pages 95 and 96.

Auditor

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

Annual General Meeting

The Annual General Meeting of the Company will be held at the IMI Conference Centre, Sandyford Road, Dublin 16 on Thursday 8 May 2008 at 10.30 am 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

7 March 2008

Corporate Social Responsibility

The Group recognises 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 in which 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. The Woodie's DIY business stocks a range of environmentally friendly products including energy-saving lamps, solar garden lights and composters for recycling garden and household waste. Buildbase works closely with its timber suppliers and the Forest Stewardship Council ("FSC") and stocks FSC certified timber at its branches. Jacksons joined the Carbon Trust in 2006 with a view to the business minimising carbon emissions. Heiton Buckley branches stock a range of products to reduce the impact of climate change through better building including heat pumps, solar panels and condensing boilers that reduce demand for fossil fuel. Controlled ventilation systems and insulation products designed to conserve heat are also stocked.

Health and Safety

The Group is committed to achieving the best practicable standard 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 aim to ensure 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 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 is recognised as a good employer in both the UK and Ireland. The Group aims to reward management and staff fairly by reference to skills, performance, peers and local market conditions. The Group provides 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 disability.

The Group is 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 programmes are important to the growth and prosperity of our business. Significant attention and resources are devoted to this area. Training programmes organised internally by Group businesses 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 programmes help to ensure that we develop, retain and attract the best individuals at all levels in the business. We aim to fill vacancies through internal promotions and complement internal appointments with recruitment from outside the organisation.

The Group has Revenue approved share schemes in place in the UK and Ireland which enable employees to share in the success and growth of the Group. The majority of our employees in Ireland are members of the Group's Share Participation Scheme which enables them to benefit from acquiring shares in the Group tax efficiently. Following a highly successful first offer under the Group's UK Save As You Earn Scheme which matured in 2005, the Group provided eligible UK employees with the opportunity to acquire Grafton Units at the end of a three year savings period.

Corporate Social Responsibility

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. The Group also supports a range of charitable causes, mainly at local level, by giving donations.

The Group supports the Irish Landmark Trust, a charitable trust established to save heritage and architecturally interesting buildings in Ireland that are abandoned or at risk. The Trust undertakes their conservation and converts them to domestic use suitable for short-term holiday letting. Woodie's DIY has extended its sponsorship of Athletics Ireland during 2007 to cover all cross country championships at senior, intermediate and juvenile level and also the Indoor National Championships. Irish Merchanting branches provided financial support to local sports clubs, drama groups and agricultural shows. Group companies in Ireland support the Irish Hardware and Building Materials Association Benevolent Fund and The Lighthouse Club, both of which are dedicated to providing aid and assistance to construction workers and their families who suffer accident, ill health or bereavement. Staff in Atlantic Homecare stores supported Our Lady's Hospital for Sick Children in Dublin by participating in the Dublin Marathon and fundraising in the DIY stores.

Buildbase was the first builders merchant to become a patron of the Construction and Property Industry Charity for the Homeless, a charity which provides support to homeless people throughout the UK. During 2007, Buildbase staff at the Oxford branch and head office raised over Stg£63,000 to support Oxford Children's Hospital through a range of fundraising activities.

Corporate Governance

Compliance with the Combined Code

The Board is committed to maintaining the highest standards of Corporate Governance. The Board is accountable to the Company's shareholders and this statement describes how it applies the principles of good governance set out in the 2006 FRC Combined Code on Corporate Governance which is appended to the Listing Rules of the Irish and London Stock Exchanges.

The Board

As at 31 December 2007, the Board of Directors was made up of nine members comprising the Executive Chairman, three other executive Directors and five non-executive Directors. Mr. Anthony Collins, Deputy Chairman, is Senior Independent Director. Directors biographical details are set out on page 17. The Board believes that the overall Board has the skills, knowledge and experience required by the scale, geographic spread and complexity of the Group's operations.

The Board routinely meets seven 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 strategic development of the Group. The Board's responsibilities also include ensuring that appropriate management, development and succession plans are in place; reviewing the environmental and health and safety performance of the Group; approving the appointment of Directors and the Company Secretary; approving policies relating to Directors' remuneration and severance and ensuring that satisfactory dialogue takes place with shareholders.

The 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, various reports and other information to enable them to review the performance of the Group on an ongoing basis.

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

The Board continues to hold the view that there are compelling commercial benefits to the Group and its shareholders in combining the roles of Chairman and Chief Executive and the holding of the combined roles by Mr. Michael Chadwick. The combination of the roles is balanced from a governance point of view by the strong input of the five independent 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.

Five non-executive Directors, Mr. Anthony E. Collins, Ms. Gillian Bowler, Mr. Richard W. Jewson, Mr. Roderick Ryan and Mr. Peter S. Wood 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 five 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 2006 FRC 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 is beyond doubt. All three Directors are financially independent of the Company and have other significant commercial and professional commitments. Over the past fourteen years Grafton Group plc has grown from its small mainly Irish base to being the market leader in the Irish merchanting and DIY markets and the fourth largest builders merchanting business in the UK market. Mr. Collins, Ms. Bowler and Mr. Jewson have made a valuable 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 to support its continued growth and development.

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. New Directors are subject to election by shareholders at the next Annual General Meeting following their appointment. It is Board Policy that non-executive Directors are normally appointed for an initial period of three years, which is then reviewed. It is also Board Policy that a non-executive Director who has served on the Board for more than nine years will retire annually and will offer himself/herself for re-election in any case where it is proposed to exceed nine years.

Mr. Collins, Ms. Bowler, Mr. Jewson, Mr. Chadwick, Mr. Ó Nualláin and Mr. Malone retire from the Board and offer themselves for re-election at the AGM on 8 May 2008 in accordance with Board Policy and rules governing retirement by rotation as applicable.

The overall composition and balance of the Board is kept under review. Mr. Roderick Ryan and Mr. Peter S. Wood were appointed to the Board during 2006.

The Board plans to manage the orderly succession of non-executive Directors over the coming years without compromising the effectiveness and continuity 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 meetings with Senior Management in the Group's businesses 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 of their obligations as Directors of a listed company.

Evaluation of Board

The Board has put in place procedures which involve the conduct of an annual evaluation process to periodically assess its performance, the performance of Board committees and the performance of individual Directors. This process also seeks to identify areas in which the effectiveness of the Board may be improved. Evaluation of the Board is achieved through annual discussion between each Director and the Senior Independent Director. The Independent non-executive Directors met during the year both with and without the Chairman present to evaluate his performance. The results of the evaluation process are presented to the Board for consideration of 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 provide Board balance and to provide the Board with the breadth of experience required by the scale, geographic spread and complexity of the Group's operations.

Corporate Governance

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 trading and development updates twice yearly and a trading update is issued at the Annual General Meeting. Commencing in 2008, trading updates will be replaced by Interim Management Statements in compliance with the EU Transparency Directive Regulations 2007. 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 announcements. The Chairman and Finance Director give feedback to the Board on issues raised by investors during the course of presentations following the annual and interim results and Analysts' reports on the Group are circulated to all Directors. Non-executive Directors are offered an 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 Board meetings and committee meetings attended by each Director was as follows:

Number of Meetings	Board		Audit Committee		Finance Committee		Remuneration Committee		Nomination Committee	
	A	B	A	B	A	B	A	B	A	B
M. Chadwick	8	8	-	-	74	69	-	-	1	1
A. E. Collins	8	8	3	3	-	-	5	5	1	1
C. Ó Nualláin	8	8	-	-	74	72	-	-	-	-
L. J. Martin	8	8	-	-	74	51	-	-	-	-
J. F. Malone	8	8	-	-	-	-	-	-	-	-
G. Bowler	8	7	3	2	-	-	5	5	1	-
R. W. Jewson	8	7	3	3	-	-	5	5	1	1
R. Ryan	8	8	3	3	-	-	-	-	-	-
P. S. Wood	8	8	-	-	-	-	-	-	-	-
Column A-refers to the number of meetings held during the period the Director was a member of the Board and/or Committee										
Column B-refers to the number of meetings attended during the period the Director was a member of the Board and/or Committee										

Mr. C. Rinn, Secretary and Group Financial Controller attended 57 meetings of the Finance Committee during the year.

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 2006 FRC Combined Code and are available from the Company and can also be found on the Group's website at www.graftonplc.com. Membership of the various committees is shown on page 17. The Company Secretary is secretary of the Audit, Remuneration and Nomination Committees.

Corporate Governance

Audit Committee

During the year the Audit Committee comprised Mr. Richard W. Jewson, who chairs the committee, Ms. Gillian Bowler, Mr. Anthony E. Collins and Mr. Roderick Ryan. 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.

The Board believes that Mr. Richard W. Jewson brings to the Committee recent and relevant financial experience. It will be seen from the Directors' biographical details appearing on page 17 that members of the Committee bring a wide range of financial, taxation, legal, commercial and business experience to the Committee.

Under its terms of reference, the Audit Committee monitors the integrity of the Group's financial statements and announcements 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 auditor is maintained, including reviewing non-audit services and fees. A new Group Audit Partner is appointed every five years and senior audit staff are rotated on an ongoing basis. Non-audit tax and secretarial services were provided by KPMG during 2007. The Committee believes that the provision of these services by KPMG does not conflict with its independence as auditor.

The Committee reviews the Group's systems of internal control and the processes in place for monitoring and evaluating the risks facing the Group.

The Committee is satisfied that its role and authority include those matters envisaged by the 2006 FRC Combined Code to fall within its jurisdiction and the Board has delegated authority to the Committee to address those tasks for which it has responsibility. The Chairman of the Committee reports to the Board at each Board meeting.

The KPMG Audit Partner and Tax Partners, together with the Finance Director attend Audit Committee meetings at the request of the Chairman of the Committee. The Committee also meets in private session and twice yearly the Committee meets with the external auditor without the executive management present. The Committee's terms of reference are available from the Company and are displayed on the Group's website www.graftonplc.com.

In 2007 the Audit Committee discharged its responsibilities by:

- Reviewing the Group's draft Financial Statements and draft Interim Results before recommending their approval to the Board. The Committee discussed with the Finance Director and KPMG any significant accounting policies, estimates and judgements that had been applied in preparing these reports and received their views in relation to these matters;
- Reviewing the Group's development and trading updates prior to release;
- Reviewing the Internal Audit work programme and reports prepared by the Group Internal Audit Manager and the Group Internal Audit function during the year including consideration of the effectiveness of internal control;
- The Committee received regular reports prepared by the Group Internal Audit Manager which summarised the findings of internal audit reports prepared by the Group Internal Audit function and twice yearly received copies of the full reports issued by the Group Internal Audit function. These reports covered the work undertaken, findings made, actions recommended and the response of executive management of the Group's businesses to recommendations made;
- Reviewing the External Auditor's plan for the 2007 audit of the Group. This included an assessment of the scope of the audit work and key risk areas and confirmation of auditor independence;
- Reviewing the External Auditor's Reports on internal controls in the Group's businesses prepared by KPMG as part of the Group's audit process;
- Reviewing risks associated with the business;

Corporate Governance

- The Committee continued to monitor compliance with the Group's Whistleblowing Policy ensuring that appropriate arrangements were maintained for employees to raise matters of possible impropriety in confidence with suitable follow up action.

Remuneration Committee

The Committee comprises Ms. Gillian Bowler, who chairs the Committee, Mr. Anthony E. Collins and Mr. Richard W. Jewson all of whom are determined by the Board to be independent. The Committee met five times during the year. The Committee's responsibilities include making recommendations on the terms of engagement and remuneration of the executive Directors. The terms of reference of the Committee are available from the Company and can also be found on the Group'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 receives independent advice concerning matters within its remit when considered necessary.

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 including salary, bonus, pension and other benefits 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 any other members of the executive management it is designated to consider;
- Approving the rules of any Group share, share option or other share incentive scheme and approving the grant, award, allocation or issue of shares, share options or other benefits conferred by such schemes;
- Further details of the Committee's remit and work are set out in the Report on Directors' Remuneration on pages 31 to 34.

Nomination Committee

The Nomination Committee comprises Mr. Anthony E. Collins, Chairman of the Committee, Mr. Michael Chadwick, Ms. Gillian Bowler, and Mr. Richard W. Jewson. The Nomination Committee met once during the year to consider the Board's membership and to consider additional skills and experience which might benefit the Board's performance.

The Nomination Committee's terms of reference are available from the Company and can also be found on the Group's website at www.graftonplc.com.

Finance Committee

The Finance Committee comprises Mr. Michael Chadwick, Executive Chairman, Mr. Colm Ó Nualláin, Finance Director, Mr. Leo J. Martin, Chief Operating Officer and Mr. Charles Rinn, Secretary and Group Financial Controller. The Committee deals with acquisition opportunities up to Board approval stage, capital expenditure under the limit reserved for the Board, and day to day Group finance and management issues.

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 misstatement or loss.

Corporate Governance

A process for identifying, evaluating and managing significant risks faced by the Group, in accordance with the Guidance for Directors on the 2006 FRC 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 implementation of appropriate internal controls to manage such risks. Group management report to the Board on key risks and internal control issues including the way in which these issues 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 major capital expenditure proposals and all 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 all internal audit reports and three times a year meets with the Group Internal Audit Manager and the KPMG Audit Partner 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 all significant matters considered by the Committee.

In the Board's view, the ongoing information it received was sufficient to enable it to review the effectiveness of the Company's system of internal control.

The Directors confirm that they have reviewed the effectiveness of internal control. In particular, they have during the year 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 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 2006 FRC Combined Code to the extent applicable for the year under review and has complied with the provisions of the 2006 FRC Combined Code except that the roles of Chairman and Chief Executive are held by the same individual. More than half the Board comprises non-executive Directors, all of whom are determined by the Board to be independent.

Report on Directors' Remuneration

The Remuneration Committee comprises Ms. Gillian Bowler, who chairs the Committee, Mr. Anthony E. Collins and Mr. 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 fee payable to non-executive Directors is determined by the Board within the provisions and 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 2006 FRC 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

One executive director has a service contract with a period of notice of twelve months.

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 Committee's assessment of each individual's performance for that year and also on an assessment of the overall performance of the Group.

Pensions

Three executive Directors participated in a Group defined benefit scheme. Pensions are calculated on basic salary and bonus which is limited to a pre-determined maximum percentage of basic salary or maximum percentage of bonus. The calculation of pensions under the defined benefit scheme was consistent with the principles adopted in the calculation of pension benefits for a number of senior executives in the Group.

Share Schemes

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

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

Report on Directors' Remuneration

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

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

Share 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 presents the remuneration of the Directors in accordance with the Irish Stock Exchange Listing Rules.

	Basic Salary 2007 €'000	Performance related bonus 2007 €'000	Other benefits 2007 €'000	Total 2007 €'000	Total 2006 €'000
Remuneration for 2007					
Executive Directors					
M. Chadwick	608	317	39	964	965
C. Ó Nualláin	480	250	34	764	769
L. J. Martin	470	245	35	750	730
J.F. Malone	250	125	29	404	404
	1,808	937	137	2,882	2,868
			Fees 2007 €'000	Total 2007 €'000	Total 2006 €'000
Non-executive Directors					
A.E. Collins			70	70	70
G. Bowler			70	70	70
R.W. Jewson			70	70	70
R. Ryan			70	70	55
P. S. Wood			70	70	35
			350	350	300
Sub-total				3,232	3,168
Share based payments charge				429	253
Pension charge to Income Statement under IAS 19 for Executive Directors				398	467
Total Directors' Remuneration charged to Income Statement				4,059	3,888

Report on Directors' Remuneration

Directors' Pensions

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 the year end		Transfer value of the increase in accumulated accrued benefits at the year end	
	2007	2006	2007	2006	2007	2006
	€'000	€'000	€'000	€'000	€'000	€'000
M. Chadwick	42	41	523	462	785	792
C. Ó Nualláin	30	33	311	271	446	459
L. J. Martin	28	43	325	288	436	702

Directors' and Secretary's Interests

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

Director	31 December 2007 Grafton Units *	31 December 2006 Grafton Units
M. Chadwick	18,840,230	18,839,100
A.E. Collins	450,000	420,000
C. Ó Nualláin	1,138,068	1,001,584
L.J. Martin	184,605	184,359
J.F. Malone	531,080	529,950
G. Bowler	132,000	132,000
R.W. Jewson	42,204	42,204
R. Ryan	25,000	25,000
P. S. Wood	5,000	-

Mr M. Chadwick purchased 813,000 Grafton Units in the market on 7 January 2008 increasing his holding to 19,653,230 Grafton Units representing 8.6 per cent of the units in issue. Mr. Chadwick was appropriated 1,130 Grafton Units under the Grafton Group Share Participation Scheme on 11 July 2007.

Mr. M. Chadwick also holds a non-beneficial interest in 2,986,560 (2006: 2,986,560) Grafton Units in his capacity as a Trustee of a family trust. He also holds a non-beneficial interest as nominee in 178,640 Grafton Units. Mr. M. Chadwick and Mr. C. Ó Nualláin have a non-beneficial interest in 647,735 (2006: 704,625) Grafton Units as Trustees of the Grafton Group plc Employee Share Participation Scheme.

Mr. A. E. Collins purchased 30,000 Grafton Units on 20 November 2007 at the market price of €6.20 per Grafton Unit. On 11 July 2007, Mr. C. Ó Nualláin was appropriated 1,130 Grafton Units under the Grafton Group Share Participation Scheme. On 15 October 2007, Mr. Ó Nualláin acquired 127,354 Grafton Units at €4.00 per Unit in accordance with the rules of the 1999 Grafton Group Share Scheme. The market value of a Grafton Unit on 15 October 2007 was €8.44. Mr. Ó Nualláin acquired a further 8,000 Grafton Units on 14 December 2007 at a market price of €5.60 per Grafton Unit. Mr L.J. Martin was appropriated 246 Grafton Units on 19 September 2007 under the Heiton Group Employee Profit Sharing Scheme. On 11 July 2007, Mr. J. F. Malone was appropriated 1,130 Grafton Units under the Grafton Group Share Participation Scheme. Mr. P.S. Wood acquired 5,000 Grafton Units on 2 October 2007 at a market price of Stg£5.90 per Grafton Unit.

Except as noted above there have been no changes in the interests of the Directors between 31 December 2007 and the date of this report.

Report on Directors' Remuneration

Mr. C. Rinn, Secretary, had a beneficial interest in 259,705 Grafton Units at 31 December 2007 (2006: 258,575). Mr. Rinn was appropriated 1,130 Grafton Units on 11 July 2007 under the Grafton Group Share Participation Scheme.

Mr. J.F. Malone had a beneficial interest in 80 ordinary shares in Tribiani Limited, a subsidiary undertaking at 31 December 2007 (31 December 2006: 80). This represented 5 per cent of the issued ordinary shares of the company. Mr. Malone had an entitlement to have the option to invest in an Approved Retirement Fund (ARF). The registered number of the company is 316401.

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

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

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

	Number of Units				Price €	Period over which Grafton Units may be acquired	
	1 January 2007	31 December 2007	Basic	Second Tier			
L. J. Martin	120,000	120,000	60,000	60,000	8.11	Oct 2010	Oct 2015
	120,000	120,000	60,000	60,000	11.50	Oct 2011	Oct 2016
	-	120,000#	60,000	60,000	8.48	Sept 2012	Sept 2017
	<u>240,000</u>	<u>360,000</u>	<u>180,000</u>	<u>180,000</u>			
C. Ó Nualláin	127,354	-	-	-	4.00	April 2007	March 2012
	160,000	160,000	80,000	80,000	5.45	Nov 2008	Oct 2013
	160,000	160,000	87,500	72,500	6.20	May 2009	April 2014
	120,000	120,000	60,000	60,000	8.11	Oct 2010	Oct 2015
	120,000	120,000	60,000	60,000	11.50	Oct 2011	Oct 2016
	-	120,000#	60,000	60,000	8.48	Sept 2012	Sept 2017
	<u>687,354</u>	<u>680,000</u>	<u>347,500</u>	<u>332,500</u>			
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
	<u>477,576</u>	<u>477,576</u>	<u>334,303</u>	<u>143,273</u>			

Mr. C. Ó Nualláin acquired 127,354 Grafton Units at €4.00 per Unit on 15 October 2007 in accordance with the rules of the 1999 Grafton Group Share Scheme. The market value of a Grafton Unit on 15 October 2007 was €8.44.

Mr. C. Rinn had an interest to acquire 440,177 Grafton Units at 31 December 2007 at prices ranging between €4.00 and €11.50 (31 December 2006: 340,177) in accordance with the 1999 Grafton Group Share Scheme including an interest to acquire 100,000 Grafton Units granted on 24 September 2007 at €8.48 per unit.

The closing price of a Grafton Unit on 31 December 2007 was €5.40 (31 December 2006: €12.66) and the price range during the year was between €5.20 and €12.88 (2006: €9.03 and €12.75).

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.

Entitlements to convert to Grafton units issued on 24 September 2007 subject to the rules of the 1999 Grafton Group Share Scheme.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the Group and Company financial statements, in accordance with applicable law and regulations.

Irish company law requires the Directors to prepare Group and Company financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and have elected to prepare the Company financial statements in accordance with IFRSs as adopted by the EU and as applied in accordance with the Companies Acts 1963 to 2006.

The Group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and performance of the Group and Company; the Companies Acts 1963 to 2006 provide in relation to such financial statements that references in the relevant part of those Acts to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the Group and Company 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Acts 1963 to 2006. They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and the requirements of the Listing Rules issued by the Irish Stock Exchange, the Directors are also responsible for preparing a Directors' Report and reports on Directors' Remuneration and Corporate Governance that comply with that law and those Rules.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the Republic of Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board

M. Chadwick
C. Ó Nualláin

Independent Auditor's Report

To the Members of Grafton Group plc

We have audited the Group and Company financial statements (the "financial statements") of Grafton Group plc for the year ended 31 December 2007 which comprise the Group Income Statement, the Group and Company Statement of Recognised Income and Expense, the Group and Company Balance Sheets, the Group and Company Cash Flow Statements and the related notes on pages 38 to 96. These financial statements have been prepared under the accounting policies set out therein.

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 auditor's 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 Auditor

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 35.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with IFRSs as adopted by the EU and, in the case of the Company as applied in accordance with the provisions of the Companies Acts 1963 to 2006, and have been properly prepared in accordance with the Companies Acts 1963 to 2006 and Article 4 of the IAS Regulation. We also report to you our opinion as to whether proper books of account have been kept by the Company; whether at the balance sheet date, there exists a financial situation requiring the convening of an extraordinary general meeting of the Company; and whether the information given in the Directors' Report is consistent with the financial statements. In addition, we state whether we have obtained all the information and explanations necessary for the purposes of our audit, and whether the Company balance sheet is in agreement with the books of account.

We also report to you if, in our opinion, any information specified by law or the Listing Rules of the Irish Stock Exchange regarding Directors' remuneration and Directors' transactions is not disclosed and, where practicable, include such information in our report.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 FRC Combined Code specified for our review by the Listing Rules of the Irish Stock Exchange, 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 Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the Chairman's Statement and the Group Finance Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 and Company's circumstances, consistently applied and adequately disclosed.

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.

Independent Auditor's Report

To the Members of Grafton Group plc

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2007 and of its profit for the year then ended;
- the Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Acts 1963 to 2006, of the state of the company's affairs as at 31 December 2007; and
- the financial statements have been properly prepared in accordance with the Companies Acts 1963 to 2006 and Article 4 of the IAS Regulation.

We have obtained all the information and explanations which we consider necessary for the purposes of our audit. In our opinion proper books of account have been kept by the Company. The Company balance sheet is in agreement with the books of account.

In our opinion the information given in the Directors' Report is consistent with the financial statements.

The net assets of the Company, as stated in the Company balance sheet 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 2007 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 Auditor
Dublin

7 March 2008

Group Income Statement

For the year ended 31 December 2007

	Notes	2007 €'000	2006 €'000
Revenue	1	3,205,026	2,933,937
Other income (property profit)	2	7,254	37,989
Operating costs	3	(2,941,481)	(2,691,206)
Operating profit		270,799	280,720
Finance expense	6	(61,569)	(52,886)
Finance income	6	26,603	21,522
Profit before tax		235,833	249,356
Income tax expense	8	(30,658)	(32,418)
Profit after tax for the financial year		205,175	216,938
Profit attributable to equity holders of the company		205,175	216,938
Earnings per ordinary share – basic	10	86.16c	91.03c
Diluted earnings per share	10	84.78c	89.34c

On behalf of the Board

M Chadwick
C Ó Nualláin
Directors

7 March 2008

Group Statement of Recognised Income and Expense

For the year ended 31 December 2007

	Notes	2007 €'000	2006 €'000
Items of income and expense recognised directly within equity:			
Currency translation effects			
– on foreign currency net investments	22	(44,583)	8,584
– on foreign currency borrowings	22	829	(396)
Actuarial gain on Group defined benefit pension schemes	36	12,573	4,939
Deferred tax liability on Group defined benefit pension schemes	29	(2,599)	(44)
Fair value movement on cash flow hedges:			
– Fair value gains	23	521	1,875
– Included in finance costs	23	(1,784)	(353)
Deferred tax on cash flow hedge	23	158	(191)
Net income/(expense) recognised directly in equity		(34,885)	14,414
Profit after tax for the financial year		205,175	216,938
Total recognised income and expense for the financial year		170,290	231,352
Attributable to:			
Equity holders of the company		170,290	231,352

	Notes	2007 €'000	2006 €'000
Movement on Group Retained Earnings			
At 1 January		662,726	475,380
Profit after tax for the financial year		205,175	216,938
Purchase of 'A' ordinary shares	9	(49,048)	(39,920)
Actuarial gain on pensions (net of tax)		9,974	4,895
Deferred tax on share based payments	29	(2,078)	1,832
Shares bought back and cancelled		(67,090)	-
Transfer from revaluation reserve	20	205	3,601
At 31 December		759,864	662,726

The retained earnings is analysed as follows:

Parent company	333,930	343,992
Subsidiary undertakings	425,934	318,734
	759,864	662,726

Group Balance Sheet

As at 31 December 2007

	Notes	2007 €'000	2006 €'000
ASSETS			
Non-current assets			
Goodwill	11	600,793	582,861
Intangible assets	11	11,095	13,307
Property, plant and equipment	12	703,737	686,165
Deferred tax assets	29	27,309	34,865
Financial assets	13	850	414
Total non-current assets		1,343,784	1,317,612
Current assets			
Inventories	14	386,179	390,400
Trade and other receivables	15	535,695	542,110
Derivative and other financial instruments	25	584	1,847
Cash and cash equivalents		204,489	231,519
Total current assets		1,126,947	1,165,876
Total assets		2,470,731	2,483,488
EQUITY			
Capital and reserves attributable to the equity holders			
Equity share capital	17	11,569	12,082
Share premium account	18	287,458	284,945
Capital redemption reserve	19	875	322
Revaluation reserve	20	32,768	32,973
Other reserves	21	10,920	6,455
Cash flow hedge reserve	23	511	1,616
Foreign currency translation reserve	22	(30,534)	13,220
Retained earnings		759,864	662,726
Treasury shares held	17	(5,746)	-
Total equity		1,067,685	1,014,339
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	24	523,311	671,617
Provisions	26	10,228	4,468
Retirement benefit obligations	36	15,323	34,163
Derivative financial instruments	25	14,967	22,126
Deferred tax liabilities	29	50,439	49,408
Total non-current liabilities		614,268	781,782
Current liabilities			
Interest-bearing loans and borrowings	24	213,624	88,585
Trade and other payables	27	504,203	521,265
Current income tax liabilities		55,427	52,393
Derivative financial instruments	25	3,560	1,898
Provisions	26	11,964	23,226
Total current liabilities		788,778	687,367
Total liabilities		1,403,046	1,469,149
Total equity and liabilities		2,470,731	2,483,488

On behalf of the Board

M Chadwick
C Ó Nualláin
Directors

7 March 2008

Group Cash Flow Statement

For the year ended 31 December 2007

	Notes	2007 €'000	2006 €'000
Profit before taxation		235,833	249,356
Finance income		(26,603)	(21,522)
Finance expense		61,569	52,886
Operating profit		270,799	280,720
Depreciation		56,792	53,163
Intangible amortisation		2,212	2,212
Goodwill write-off on termination		88	243
Share based payments charge		4,465	3,264
Other income – property profit		(7,254)	(37,989)
Profit on sale of plant and equipment		(3,226)	(3,401)
Contributions to pension schemes in excess of IAS 19 charge		(5,639)	(20,249)
Increase in working capital	31	(14,417)	(26,111)
Cash generated from operations		303,820	251,852
Interest paid		(50,445)	(43,224)
Income taxes paid		(10,564)	(14,594)
Cash flows from operating activities		242,811	194,034
Investing activities			
<i>Inflows</i>			
Proceeds from sale of property, plant and equipment		22,128	77,664
Interest received		14,416	12,216
		36,544	89,880
<i>Outflows</i>			
Acquisition of subsidiary undertakings and businesses	32	(84,350)	(70,621)
Net cash acquired with subsidiary undertakings	32	7,689	777
Deferred acquisition consideration		(9,461)	(11,958)
Purchase of property, plant and equipment		(104,650)	(124,401)
Purchase of financial assets		(452)	(90)
		(191,224)	(206,293)
Cash flows from investing activities		(154,680)	(116,413)
Financing activities			
<i>Inflows</i>			
Proceeds from the issue of share capital		2,553	4,000
Proceeds from long-term borrowings		66,742	-
		69,295	4,000
<i>Outflows</i>			
Repayments of long-term borrowings		-	(117,170)
Shares bought back and treasury shares acquired		(72,836)	-
Purchase of 'A' ordinary shares	9	(49,048)	(39,920)
Payment of finance lease liabilities		(1,883)	(1,850)
Redemption of loan notes payable net of derivatives		(19,216)	(18,087)
		(142,983)	(177,027)
Cash flows from financing activities		(73,688)	(173,027)
Net increase/(decrease) in cash and cash equivalents		14,443	(95,406)
Cash and cash equivalents at 1 January		201,764	291,844
Effect of exchange rate fluctuations on cash held		(12,718)	5,326
Cash and cash equivalents at 31 December		203,489	201,764
Cash and cash equivalents are broken down as follows:			
Cash at bank and short-term deposits		204,489	231,519
Overdrafts		(1,000)	(29,755)
		203,489	201,764

Company Balance Sheet

as at 31 December 2007

	Notes	2007 €'000	2006 €'000
ASSETS			
Non-current assets			
Property, plant and equipment	12	252	353
Deferred tax asset	29	234	193
Investments in subsidiary undertakings	13	360,174	349,705
Financial assets	13	13	13
Total non-current assets		360,673	350,264
Current assets			
Receivables from Group companies	15	670,515	668,056
Other receivables	15	8,821	7,665
Cash and cash equivalents		23,536	13,616
Corporation Tax		-	277
Total current assets		702,872	689,614
Total assets		1,063,545	1,039,878
EQUITY			
Capital and reserves attributable to the equity holders			
Equity share capital	17	11,569	12,082
Share premium account	18	287,458	284,945
Capital redemption reserve	19	875	322
Other reserve	21	10,920	6,455
Retained earnings		333,930	343,992
Treasury shares held	17	(5,746)	-
Total equity		639,006	647,796
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	24	-	8,413
Deferred tax liabilities	29	-	13
Retirement benefit obligations	36	1,856	1,540
Derivative financial instruments	25	-	1,416
Total non-current liabilities		1,856	11,382
Current liabilities			
Interest-bearing loans and borrowings	24	7,758	8,806
Payables to Group companies	27	386,743	357,108
Other payables	27	26,654	13,369
Current income tax liabilities		10	-
Derivative financial instruments	25	1,518	1,417
Total current liabilities		422,683	380,700
Total liabilities		424,539	392,082
Total equity and liabilities		1,063,545	1,039,878

On behalf of the Board

M. Chadwick
C Ó Nualláin
Directors

7 March 2008

Company Cash Flow Statement

For the year ended 31 December 2007

	2007	2006
Notes	€'000	€'000
Profit before tax	106,545	299,754
Finance income	(1,622)	(1,546)
Finance expense	2,247	2,049
Dividends received	(110,450)	(293,922)
Operating (loss)/profit	(3,280)	6,335
Depreciation	122	172
Share based payments charge	766	396
Contributions to pension schemes in excess of IAS 19 charge	(197)	(1,043)
Decrease in working capital and financing	12,160	480
Cash generated from operations	9,571	6,340
Interest paid	(656)	(581)
Income taxes paid	277	(306)
Cash flows from operating activities	9,192	5,453
Investing activities		
<i>Inflows</i>		
Dividends received	110,450	293,922
<i>Outflows</i>		
Additional investment in subsidiary undertakings	(6,770)	(3,131)
Purchase of property, plant and equipment	(21)	(175)
	(6,791)	(3,306)
Cash flows from investing activities	103,659	290,616
Financing activities		
<i>Inflows</i>		
Proceeds from the issue of share capital	2,553	4,000
Movement on Group receivables	(2,459)	(165,637)
	94	(161,637)
<i>Outflows</i>		
Shares bought back and treasury shares acquired	(72,836)	-
Purchase of 'A' ordinary shares	(49,048)	(39,920)
Redemption of loan notes payable	(9,086)	(9,829)
Movement on Group payables	29,635	(76,362)
	(101,335)	(126,111)
Cash flows from financing activities	(101,241)	(287,748)
Net increase in cash and cash equivalents	11,610	8,321
Cash and cash equivalents at 1 January	13,612	4,690
Effect of exchange rate fluctuations on cash held	(1,690)	601
Cash and cash equivalents at 31 December	23,532	13,612
Cash and cash equivalents are broken down as follows:		
Cash at bank and short-term deposits	23,536	13,616
Overdrafts	(4)	(4)
	23,532	13,612

Company Statement of Recognised Income and Expense

For the year ended 31 December 2007

	Notes	2007 €'000	2006 €'000
Items of income and expense recognised directly within equity:			
Actuarial loss on Company defined benefit pension schemes	36	(514)	(611)
Deferred tax asset on Company defined benefit pension schemes	29	64	76
Net expense recognised directly in equity		(450)	(535)
Profit after tax for the financial year		106,526	299,631
Total recognised income and expense for the financial year		106,076	299,096
Attributable to:			
Equity holders of the Company		106,076	299,096

Accounting Policies

Statement of Compliance

The consolidated and Company financial statements of Grafton Group plc have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), which comprise standards and interpretations approved by the International Accounting Standards Board (IASB) and International Accounting Standards and Standing Interpretations Committee and subsequently adopted by the EU.

The Company financial statements have been prepared in accordance with IFRSs as adopted by the European Union (EU) and as applied in accordance with the Companies Acts, 1963 to 2006. The Company has taken advantage of the exemption in Section 148(8) of the Companies Act 1963 from presenting to its members the Company Income Statement and related notes which forms part of the approved financial statements of the Company as the Company publishes Company and Group financial statements together.

The standards and interpretations applied in these financial statements were those effective for accounting periods beginning on or after 1 January 2007.

The Group has not applied the following standard and interpretation that have been issued by the IASB and adopted by the EU but are not yet effective:

- IFRS 8 *Operating Segments*; and
- IFRIC 11 *IFRS 2: Group and Treasury Share Transactions*.

The Group is still in the process of considering the impact of IFRS 8 on its segmental information. The adoption of IFRIC 11 will not have any impact on the Group financial statements and is not expected to have a material impact on the Company financial statements as the accounting policy currently applied is consistent with the requirements of the interpretation.

Basis of Preparation

The consolidated and Company financial statements, which are presented in euro rounded to the nearest thousand, have been prepared under the historical cost convention, as modified by the previous revaluation of land and buildings and the measurement at fair value of share based payments at initial date of award and derivative financial instruments. The carrying values of recognised assets and liabilities that are hedged are adjusted to record changes in the fair values attributable to the risks that are being hedged.

The accounting policies set out below have been applied consistently by all the Group's companies in all periods presented in these consolidated financial statements.

The preparation of financial statements in conformity with IFRS as adopted by the EU requires management to exercise judgement in the process of applying the Company's accounting policies. The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant in relation to the consolidated financial statements, relate primarily to accounting for defined benefit pension schemes, financial instruments, share based payments, impairment provisions, leases, intangible assets, goodwill impairment and taxation.

The financial year-ends of the Group's subsidiaries are coterminous.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company, all subsidiaries and the proportionally consolidated joint venture drawn up to 31 December each year.

Subsidiaries

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control over the operating and financial decisions is obtained and cease to be consolidated from the date on which control is transferred out of the Group. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain economic benefits from its activities.

Accounting Policies

Joint ventures

In line with the benchmark accounting methodology in IAS 31 Interests in Joint Ventures, the Group's share of results and net assets of joint ventures, which are entities in which the Group holds an interest on a long-term basis and which are jointly controlled by the Group and one or more other venturers, are accounted for on the basis of proportionate consolidation from the date on which joint control is finalised and are derecognised when joint control ceases. The Group combines its share of the joint ventures individual income and expenses, assets and liabilities and cash flows on a line by line basis with similar items in the Group's financial statements.

Loans to joint ventures are classified as loans and receivables within financial assets.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains and losses arising from such transactions, are eliminated in preparing the consolidated financial statements. Transactions with joint ventures are similarly eliminated to the extent of the Group's proportionate share of the joint venture.

Revenue Recognition

Revenue is the value of goods and services supplied to external customers and excludes inter-company sales and value added tax.

In general, revenue is recognised to the extent that it is subject to reliable measurement, that it is probable that economic benefits will flow to the Group and that the significant risks and rewards of ownership have passed to the buyer. Revenue on long-term contracts is recognised in accordance with the percentage-of-completion method with the completion percentage being computed on an input cost basis.

Segment Reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns different to those of other segments. Geographical segmentation is the Group's primary reporting segment.

Foreign Currency Translation

Functional and presentation currency

The consolidated financial statements are presented in euro which is the Company's functional currency. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates which is primarily euro and sterling.

Transactions and balances

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated to the relevant functional currency at the rate of exchange ruling at the balance sheet date. All currency translation differences on monetary assets and liabilities are taken to the income statement except for differences on foreign currency borrowings designated as a hedge of a net investment which are taken directly to equity together with the exchange difference on the carrying amount of the related investment.

Group companies

Results and cash flows of subsidiaries which do not have the euro as their functional currency are translated into euro at average exchange rates for the year and the related balance sheets are translated at the rates of exchange ruling at the balance sheet date. Adjustments arising on translation of the results of such subsidiaries at average rates and on the restatement of the opening net assets at closing rates are dealt with in a separate translation reserve within equity, net of differences on related currency borrowings designated as a hedge of the net investment.

Accounting Policies

Goodwill and fair value adjustments arising on acquisition of operations trading in currencies other than the euro are regarded as assets and liabilities of the foreign currency denominated operation, are expressed in its functional currency and are recorded at the exchange rate at the date of the transaction and subsequently retranslated at the applicable closing rates.

Exceptional Items

The Group has adopted a policy in relation to its income statement which seeks to highlight any significant items within the Group results. Such items may include significant restructuring, profit and loss on disposal or termination of operations, litigation costs and settlements, profit or loss on disposal of property and impairment of assets. Judgement is used by the Group in assessing the particular items, which by virtue of their scale and nature, should be disclosed in the income statement or related notes.

Finance Expense

Finance expense comprises interest payable on borrowings calculated using the effective interest rate method, foreign exchange gains and losses on borrowings and gains and losses on hedging instruments that are recognised in the income statement. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method. Where appropriate the fair value adjustment to hedged items that are the subject of a fair value hedge is also included as finance expense or finance income.

The finance cost on pension scheme liabilities is recognised as finance expense in the income statement as permitted by IAS 19.

Finance Income

Interest income is recognised in the income statement as it accrues using the effective interest method.

The expected return on plan assets is recognised as finance income in the income statement as permitted by IAS 19.

Business Combinations

The purchase method of accounting is employed in accounting for the acquisition of subsidiaries by the Group. The Group availed of the exemption under IFRS 1, "First-time Adoption of International Financial Reporting Standards", whereby business combinations prior to the transition date of 1 January 2004 are not restated. IFRS 3, "Business Combinations", has been applied with effect from the transition date of 1 January 2004 and goodwill amortisation ceased from that date.

The cost of a business combination is measured as the aggregate of the fair value at the date of exchange of assets given, liabilities incurred or assumed and equity instruments issued in exchange for control together with any directly attributable expenses. Deferred expenditure arising on business combinations is determined through discounting the amounts payable to their present value at the date of exchange. The discount element is reflected as an interest charge in the income statement over the life of the deferred payment. In the case of a business combination the identifiable assets and liabilities acquired are measured at their provisional fair values at the date of acquisition. Adjustments to provisional values allocated to assets and liabilities are made within twelve months of the acquisition date and reflected as a restatement of the acquisition balance sheet.

Goodwill

Goodwill is the excess of the consideration paid over the fair value of the identifiable assets, liabilities and contingent liabilities in a business combination and relates to assets which are not capable of being individually identified and separately recognised.

Goodwill is subject to impairment testing on an annual basis and throughout the year if an indicator of impairment exists.

Accounting Policies

Goodwill arising on acquisitions between 1 January 1998 and 1 January 2004 was capitalised and the related amortisation, which was based on a presumed maximum useful life of 20 years, was charged against operating income in the income statement on a straight-line basis from the date of initial recognition. Goodwill was stated at cost less accumulated amortisation and any impairment in value. Goodwill arising on acquisitions made prior to 1 January 1998 was written-off immediately against reserves and was not reinstated on implementation of IFRS as adopted by the EU. In accordance with IFRS 1, this goodwill was not recognised as goodwill in the IFRS transition Balance Sheet and remains eliminated against reserves.

Goodwill arising in respect of acquisitions completed prior to 1 January 2004 (being the transition date to IFRS as adopted by the EU) is included at its net book value recorded under previous GAAP. In line with IFRS 3, goodwill amortisation ceased with effect from the transition date being 1 January 2004.

Where a subsidiary is sold, any goodwill arising on acquisition, net of any impairments, which has not been amortised through the income statement is included in determining the profit or loss arising on disposal.

Intangible Assets (Other than Goodwill)

An intangible asset, which is a non-monetary asset without a physical substance, is recognised to the extent that it is probable that the expected future economic benefits attributable to the asset will flow to the Group and that its fair value can be measured. The asset is deemed to be identifiable when it is separable (i.e. capable of being divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability) or when it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the Group or from other rights and obligations.

Intangible assets acquired as part of a business combination are capitalised separately from goodwill if the intangible asset meets the definition of an asset and the fair value can be reliably measured on initial recognition.

Intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The carrying values of intangible assets are reviewed for indicators of impairment at each reporting date and are subject to impairment testing when events or changes in circumstances indicate that the carrying values may not be recoverable.

The amortisation of intangible assets is calculated to write-off the book value of intangible assets over their useful lives which is currently eight years on a straight-line basis on the assumption of zero residual value.

Property, Plant and Equipment

Property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses. The Group's Irish properties were revalued to fair value in 1998 and are measured on the basis of deemed cost being the revalued amount at the date of that revaluation less accumulated depreciation.

Property, plant and equipment are depreciated over their useful economic life on a straight line basis at the following rates:

Freehold buildings	50-100 years
Freehold land	Not depreciated
Leasehold buildings	Lease term or up to 100 years
Plant and machinery	5-20 years
Motor vehicles	5 years
Plant hire equipment	4-8 years

The residual value and useful lives of property, plant and equipment are reviewed and adjusted if appropriate at each balance sheet date.

On disposal of property, plant and equipment the cost and related accumulated depreciation and impairments are removed from the balance sheet and the net amount, less any proceeds, is taken to the income statement.

Accounting Policies

The carrying amounts of the Group's property, plant and equipment are reviewed at each balance sheet date to determine whether there is any indication of impairment. An impairment loss is recognised whenever the carrying amount of an asset or its cash generation unit exceeds its recoverable amount. Impairment losses are recognised in the income statement unless the asset is recorded at a revalued amount in which case it is firstly dealt with through the revaluation reserve relating to that asset with any residual amount being transferred to the income statement.

Subsequent costs are included in an asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the replaced item can be measured reliably. All other repair and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Investments

All investments are initially recognised at the fair value of the consideration paid including any related acquisition charges.

Where investments are actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date. Where it is impracticable to determine fair value in accordance with IAS 39, unquoted equity investments are recorded at historical cost and are included within financial assets on this basis in the Group Balance Sheet. They are assessed for impairment annually.

Leases

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have transferred to the Group and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives with any impairment being recognised in accumulated depreciation. The asset is recorded at an amount equal to the lower of its fair value and the present value of the minimum lease payments at the inception of the finance lease. The capital elements of future obligations under leases and hire purchase contracts are included in liabilities in the balance sheet and analysed between current and non-current amounts. The interest elements of the rental obligations are charged to the income statement over the periods of the leases and hire purchase contracts so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Operating lease rentals are charged to the income statement on a straight-line basis over the lease term. Lease incentives are recognised over the lease term on a straight line basis.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the first-in, first-out principle and includes all expenditure incurred in acquiring the inventories and bringing them to their present location and condition. Raw materials are valued on the basis of purchase cost on a first-in, first-out basis. In the case of finished goods and work-in-progress, cost includes direct materials, direct labour and attributable overheads based on normal operating capacity and excludes borrowing costs. Net realisable value is the estimated proceeds of sale less all further costs to completion and less all costs to be incurred in marketing, selling and distribution.

Trade and Other Receivables and Payables

Trade and other receivables and payables are stated at cost, which approximates to fair value given the short-term nature of these assets and liabilities.

Trade receivables are carried at original invoice amount less an allowance for potentially uncollectable debts. Provision is made when there is objective evidence that the Group will not be in a position to collect all of its receivables when they fall due. Bad debts are written-off against the provision or in the income statement.

Accounting Policies

Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances held for the purposes of meeting short-term cash commitments and money market instruments which are readily convertible to a known amount of cash. Where money market instruments are categorised as cash equivalents, the related balances have a maturity of three months or less. In addition, for the purposes of the Group Cash Flow Statement, bank overdrafts are netted against cash and cash equivalents where the overdrafts are repayable on demand and form an integral part of cash management. Overdrafts are included within current interest-bearing loans and borrowings in the Group Balance Sheet.

Derivative Financial Instruments

The Group uses derivative financial instruments (principally interest rate and currency swaps) to hedge its exposure to foreign exchange and interest rate risks arising from its financing activities.

Derivative financial instruments are recognised initially at cost and thereafter are stated at fair value. Fair value is the amount which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arms length transaction. Where derivatives do not fulfil the criteria for hedge accounting, changes in fair values are reported in the income statement. Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged as outlined in the accounting policy below on hedging.

The fair value of interest rate and currency swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest and currency exchange rates and the current creditworthiness of the swap counterparties.

Hedging

For the purposes of hedge accounting, hedges are classified either as fair value hedges (which entail hedging the exposure to movements in the fair value of a recognised asset or liability) or cash flow hedges (which hedge exposure to fluctuations in future cash flows derived from a particular risk associated with a recognised asset or liability, a firm commitment or a highly probable forecast transaction) or hedges of net investment.

(i) Fair Value Hedge

In the case of fair value hedges which satisfy the conditions for special hedge accounting, any gain or loss stemming from the re-measurement of the hedging instrument to fair value is reported in the income statement. In addition, any gain or loss on the hedged item which is attributable to the fair value movement in the hedged risk is adjusted against the carrying amount of the hedged item and reflected in the income statement.

Where a derivative financial instrument is used to economically hedge the foreign exchange exposure of a recognised monetary asset or liability, hedge accounting is not applied and any gain or loss accruing on the hedging instrument is recognised as finance income or expense in the income statement.

(ii) Cash Flow Hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, a firm commitment or a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised as a separate component of equity with the ineffective portion being reported as finance expense or income in the income statement. If a hedge of a forecasted transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised directly in equity are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss. For cash flow hedges, other than those covered by the preceding statements, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss. The ineffective part of any gain or loss is recognised immediately in the income statement.

Accounting Policies

Hedge accounting is discontinued when a hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. The cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement in the period.

(iii) Hedge of Net Investment in Foreign Operation

Where foreign currency borrowings provide a hedge against a net investment in a foreign operation, foreign exchange differences are taken directly to a foreign currency translation reserve (being a separate component of equity). Cumulative gains and losses remain in equity until disposal of the net investment in the foreign operation or repayment of the borrowing at which point the related differences are transferred to the income statement as part of the overall gain or loss on sale or repayment.

Interest Bearing Loans and Borrowings

All loans and borrowings are initially recorded at cost being the fair value of the consideration received net of related transaction costs. After initial recognition, current and non-current interest-bearing loans and borrowings are measured at amortised cost using the effective interest rate method. Amortised cost includes any issue costs and any discount or premium on settlement. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

Provisions

A provision is recognised on a discounted basis when the Group has a present (either legal or constructive) obligation as a result of a past event; it is probable that a transfer of economic benefits will be required to settle the obligations and a reliable estimate can be made of the amount required to settle the obligation. Provisions are not recognised in respect of future operating losses.

Retirement Benefit Obligations

Obligations to the defined contribution pension plans are recognised as an expense in the income statement as service is received from the relevant employees. The Group has no obligations to make further contributions to these schemes.

The Group operates a number of defined benefit pension schemes which require contributions to be made to separately administered funds. The Group's net obligation in respect of defined benefit pension schemes is calculated separately for each plan by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan asset is deducted. The discount rate employed in determining the present value of the schemes' liabilities is determined by reference to market yields at the balance sheet date on high quality corporate bonds for a term consistent with the currency and term of the associated post-employment benefit obligations.

The net surplus or deficit arising in the Group's defined benefit pension schemes are shown within either non-current assets or liabilities on the face of the Group Balance Sheet. The deferred tax impact of pension scheme surpluses and deficits is disclosed separately within deferred tax assets or liabilities as appropriate. The Group recognises post transition date actuarial gains and losses immediately in the statement of recognised income and expense.

Any increase in the present value of plans' liabilities expected to arise from employee service during the period is charged to operating profit. The expected return on the plans' assets and the expected increase during the period in the present value of the plans' liabilities arising are included in finance income and expense respectively.

When the benefits of a defined benefit plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement over the remaining average period until the benefits vest. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

Accounting Policies

Share Based Payment Transactions

Group share schemes allow employees to acquire shares in the Company. They are all equity settled. The fair value of share entitlements granted is recognised as an employee expense in the income statement with a corresponding increase in equity. The fair value is determined by an external valuer using a binomial model. Share entitlements granted by the Company are subject to certain non-market based vesting conditions. Non-market vesting conditions are not taken into account when estimating the fair value of entitlements as at the grant date. The expense for share entitlements shown in the income statement is based on the fair value of the total number of entitlements expected to vest and is allocated to accounting periods on a straight line basis over the vesting period. The cumulative charge to the income statement is reversed where entitlements do not vest because all non-market performance conditions have not been met or where an employee in receipt of share entitlements leaves the Group before the end of the vesting period.

The proceeds received by the Company on the vesting of share entitlements are credited to share capital and share premium when the share entitlements are converted. In line with the transitional arrangements set out in IFRS 2, "Share Based Payment", the recognition and measurement principles of this standard have been applied in respect of share entitlements granted after 7 November 2002.

Income Tax

The income tax expense in the income statement represents the sum of current tax and deferred tax.

Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity or items for which there is no corresponding income statement charge, in which case it is recognised in equity.

Current tax is based on taxable profit. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or deductible. The Group's liability for current tax is calculated using rates that have been enacted or substantially enacted at the balance sheet date.

Deferred tax is provided, using the liability method, on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled based on rates that have been enacted or substantially enacted at the balance sheet date.

Deferred tax assets and liabilities are not recognised for the following temporary differences;

- Goodwill not deductible for tax purposes
- Temporary difference arising from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or taxable profit or loss; and
- Temporary differences associated with investments in subsidiaries in which case deferred tax is only recognised to the extent that it is probable the temporary differences will reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit would be available to allow all or part of the deferred tax asset to be utilised.

Share Capital

Repurchase of share capital

When share capital recognised as equity is purchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity.

Dividends

Dividends on ordinary shares are recognised as a liability in the Group's financial statements in the period in which they are declared by the Company. In the case of interim dividends, these are considered to be declared when they are paid and in the case of final dividends these are declared when authorised by the shareholders in General Meeting.

Notes to the Financial Statements

1. Segmental Analysis

The Group's primary reporting format is geographic segments being Ireland and the UK with its secondary reporting format by business segment being merchanting, DIY and manufacturing.

Inter-segment revenue is not material and thus not subject to separate disclosure below.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total amount incurred during the period to acquire segment assets that are expected to be used for more than one accounting period.

The analysis between geographical segments below is the same whether it is based on location of assets or customers.

Geographic Segment

	Ireland		UK		Group	
	2007 €'000	2006 €'000	2007 €'000	2006 €'000	2007 €'000	2006 €'000
Segment Revenue						
Sales to external customers	1,227,375	1,200,639	1,977,651	1,733,298	3,205,026	2,933,937
Operating profit before other income and intangible amortisation	123,651	130,371	142,106	114,572	265,757	244,943
Intangible amortisation	(2,212)	(2,212)	-	-	(2,212)	(2,212)
Operating profit before other income	121,439	128,159	142,106	114,572	263,545	242,731
Other income (property profit)	1,050	30,056	6,204	7,933	7,254	37,989
Operating profit	122,489	158,215	148,310	122,505	270,799	280,720
Finance expense					(61,569)	(52,886)
Finance income					26,603	21,522
Profit before tax					235,833	249,356
Income tax expense					(30,658)	(32,418)
Profit for the financial year					205,175	216,938

	Ireland		UK		Group	
	2007 €'000	2006 €'000	2007 €'000	2006 €'000	2007 €'000	2006 €'000
Segment assets	942,212	944,758	1,295,287	1,270,085	2,237,499	2,214,843
Unallocated assets	-	-	-	-	233,232	268,645
Total assets					2,470,731	2,483,488

Notes to the Financial Statements

1. Segmental Analysis (continued)

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

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

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

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

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

Business Segment

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

Notes to the Financial Statements

2. Other Income

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

3. Operating Costs

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

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

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

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

4. Directors' Remuneration, Pension Entitlements and Interests

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

Notes to the Financial Statements

5. Employment

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

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

The aggregate remuneration costs of employees were:

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

Key Management

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

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

Notes to the Financial Statements

6. Finance Expense and Finance Income

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

7. Foreign Currencies

The results and cash flows of the Group's United Kingdom subsidiaries have been translated into euro using the average exchange rate for the year. The related balance sheets of the Group's United Kingdom subsidiaries at 31 December 2007 and 31 December 2006 have been translated at the rate of exchange ruling at the balance sheet date.

The average euro/sterling rate of exchange for the year ended 31 December 2007 was Stg68.43p (2006: Stg68.17p). The euro/sterling exchange rate at 31 December 2007 was Stg73.34p (2006: Stg67.15p).

Notes to the Financial Statements

8. Income Tax Expense

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

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

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

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

(d) Factors that may affect future tax rates

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

Notes to the Financial Statements

9. Purchase of 'A' ordinary shares

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

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

10. Earnings per Share – Group

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

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

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

Notes to the Financial Statements

11. Goodwill – Group

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

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

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

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

The key assumptions used to assess impairment were as follows:

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

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

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

Notes to the Financial Statements

11. (a) Intangible Assets – Group

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

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

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

Notes to the Financial Statements

12. Property, Plant and Equipment

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

Notes to the Financial Statements

12. Property, Plant and Equipment (continued)

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

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

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

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

Plant and equipment in the Company is stated as follows:

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

Notes to the Financial Statements

13. Financial Assets

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

Other investments represent sundry equity investments at cost.

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

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

14. Inventories

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

Notes to the Financial Statements

15. Trade and Other Receivables

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

16. Reconciliation of Total Equity

Group	Notes	2007 €'000	2006 €'000
At beginning of period		1,014,339	813,811
Shares bought back and cancelled		(67,090)	-
Treasury shares acquired		(5,746)	-
Issue of ordinary and 'A' ordinary share capital		2,553	4,000
Adjustment for share based payments expense		4,465	3,264
Deferred tax on share based payments expense		(2,078)	1,832
Purchase of 'A' ordinary shares	9	(49,048)	(39,920)
Total recognised income and expense for the year		170,290	231,352
Closing shareholders' funds – equity		1,067,685	1,014,339
Company	Notes	2007 €'000	2006 €'000
At beginning of period		647,796	381,356
Shares bought back and cancelled		(67,090)	-
Treasury shares acquired		(5,746)	-
Issue of ordinary and 'A' ordinary share capital		2,553	4,000
Adjustment for share based payments expense		4,465	3,264
Purchase of 'A' ordinary shares	9	(49,048)	(39,920)
Total recognised income and expense for the year		106,076	299,096
At end of period		639,006	647,796

Notes to the Financial Statements

17. Share Capital

		2007	2006
		€'000	€'000
Group and Company			
Authorised:			
Equity shares			
300 million ordinary shares of 5c each		15,000	15,000
3 billion 'A' ordinary shares of 0.01c each		300	300
		15,300	15,300
	Issue Price	2007 Nominal Value	2006 Nominal Value
	€	€'000	€'000
Issued and fully paid:			
Ordinary shares			
At 1 January		239,245,554	11,871
Shares bought back and cancelled		(10,031,000)	-
Issued under UK SAYE scheme		9,446	-
Grafton Group Share Schemes			
Date options and entitlements to acquire shares granted			
April 1996	0.65	-	2
April 1997	1.07	39,798	9
June 1998	2.21	47,758	16
Sept 1998	1.65	-	2
July 1999	1.81	31,838	10
May 2000	2.07	87,556	13
May 2001	2.83	129,084	39
April 2002	4.00	387,047	-
June 2002	4.08	59,436	-
		782,517	91
At 31 December		230,006,517	11,962
'A' ordinary shares			
At 1 January		1,196,227,770	166
'A' ordinary shares issued in year		2,900,180	2
Shares bought back and cancelled		(30,093,000)	-
Purchase of 1 'A' ordinary share per Grafton Unit		(239,326,989)	(24)
Purchase of 1 'A' ordinary share per Grafton Unit		(239,688,410)	(24)
At 31 December		690,019,551	120
Total nominal share capital issued		11,569	12,082

Notes to the Financial Statements

17. Share Capital (continued)

Grafton Units Issued During 2007

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

Grafton Units

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

Ordinary shares

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

'A' ordinary shares

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

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

'C' ordinary shares

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

Share Buybacks and Treasury Shares

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

Notes to the Financial Statements

18. Share Premium Account

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

19. Capital Redemption Reserve

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

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

20. Revaluation Reserve

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

21. Other Reserves

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

Notes to the Financial Statements

22. Foreign Currency Translation Reserve

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

23. Cash Flow Hedge Reserve

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

24. Interest Bearing Loans and Borrowings

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

Notes to the Financial Statements

24. Interest Bearing Loans and Borrowings (continued)

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

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

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

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

Maturity of Financial Liabilities

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

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

Notes to the Financial Statements

24. Interest Bearing Loans and Borrowings (continued)

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

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

*Relates to Company only.

Notes to the Financial Statements

24. Interest Bearing Loans and Borrowings (continued)

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

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

*Relates to Company only.

Borrowing Facilities

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

Fair Value

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

Notes to the Financial Statements

24. Interest Bearing Loans and Borrowings (continued)

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

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

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

Treasury Policy

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

Credit Risk

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

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

Notes to the Financial Statements

24. Interest Bearing Loans and Borrowings (continued)

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

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

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

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

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

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

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

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

Notes to the Financial Statements

24. Interest Bearing Loans and Borrowings (continued)

Group

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

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

Movement in Impairment Provision

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

Company

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

Foreign Currency Risk Management

The majority of trade conducted by the Group's Irish businesses is in euro. Sterling is the principal currency for the Group's UK businesses. Therefore the level of transactional foreign exchange exposure is not significant. As part of the Group's net worth is denominated in sterling reflecting ongoing profit after tax reserves retained in sterling in the UK business, the Group is subject to a structural foreign exchange exposure. This is addressed in the sensitivity analysis below.

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

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

Sensitivity Analysis

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

Notes to the Financial Statements

24. Interest Bearing Loans and Borrowings (continued)

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

Hedging

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

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

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

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

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

Interest Rate Risk

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

Cash Flow Sensitivity Analysis for Variable Rate Instruments

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

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

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

Notes to the Financial Statements

24. Interest Bearing Loans and Borrowings (continued)

Capital Management

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

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

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

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

Funding and Liquidity

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

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

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

Notes to the Financial Statements

24. Interest Bearing Loans and Borrowings (continued)

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

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

Notes to the Financial Statements

24. Interest Bearing Loans and Borrowings (continued)

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

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

Notes to the Financial Statements

24. Interest Bearing Loans and Borrowings (continued)

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

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

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

25. Derivatives

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

Notes to the Financial Statements

25. Derivatives (continued)

Nature of Derivative Instruments as at 31 December 2007

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

Nature of Derivative Instruments as at 31 December 2006

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

*Relates to Company only.

26. Provisions

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

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

Notes to the Financial Statements

27. Trade and Other Payables

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

28. Obligations under Finance Leases

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

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

Notes to the Financial Statements

29. Deferred Taxation

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

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

Analysis of net deferred tax (asset)/liability

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

Notes to the Financial Statements

29. Deferred Taxation (continued)

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

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

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

30. Income Statement

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

Notes to the Financial Statements

31. Movement in Working Capital

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

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

32. Acquisition of Subsidiary Undertakings and Businesses

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

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

Notes to the Financial Statements

32. Acquisition of Subsidiary Undertakings and Businesses (continued)

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

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

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

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

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

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

Notes to the Financial Statements

32. Acquisition of Subsidiary Undertakings and Businesses (continued)

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

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

The fair values were calculated as follows:

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

The fair value adjustments noted above have arisen as follows:

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

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

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

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

Notes to the Financial Statements

33. Reconciliation of Net Cash Flow Movement in Net Debt

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

34. Capital Expenditure Commitments

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

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

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

Notes to the Financial Statements

35. Operating Leases

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

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

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

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

36. Pension Commitments

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

The actuarial reports are not available for public inspection.

IAS 19 – Employee Benefits

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

Financial Assumptions

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

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

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

Notes to the Financial Statements

36. Pension Commitments (continued)

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

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

Scheme Assets

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

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

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

Historical information

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

Notes to the Financial Statements

36. Pension Commitments (continued)

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

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

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

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

Notes to the Financial Statements

36. Pension Commitments (continued)

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

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

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

Movement in deficit during the year

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

37. Share Based Payments

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

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

Notes to the Financial Statements

37. Share Based Payments (continued)

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

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

Share Schemes

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

UK SAYE Scheme

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

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

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

Notes to the Financial Statements

37. Share Based Payments (continued)

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

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

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

38. Accounting Estimates and Judgements

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

Goodwill

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

Post-retirement benefits

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

Notes to the Financial Statements

39. Related Party Transactions

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

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

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

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

Provision of finance for certain subsidiaries.

40. Guarantees and Principal Operating Subsidiaries

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

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

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

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

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

Notes to the Financial Statements

40. Guarantees and Principal Operating Subsidiaries (continued)

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

The principal operating subsidiaries operating in the United Kingdom are:

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

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

41. Approval of Financial Statements

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

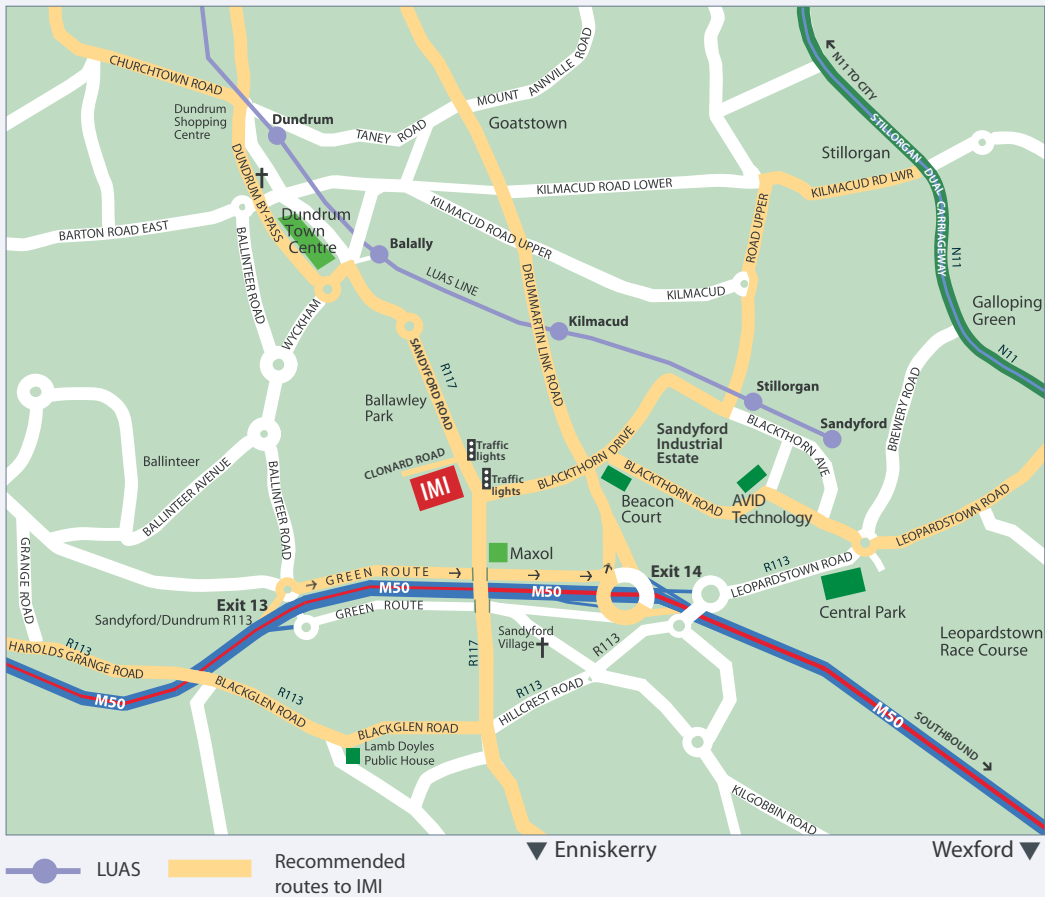
Corporate Information

Auditor	KPMG, Dublin
Bankers	Bank of Ireland Ulster Bank Markets Lloyds TSB Bank IIB Bank AIB Bank Barclays Bank Société Generale
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 Fax: 00-353-1-295 4470 Email: email@graftonplc.com
Registrars	Capita Corporate Registrars plc Unit 5, Manor Street Business Park, Manor Street, Dublin 7. Phone: 00-353-1-8102400 Email: enquiries@capitacorporateregistrars.ie www.capitacorporateregistrars.ie

Financial Calendar

Results	
Interim results	14 August 2007
Full year results	10 March 2008
Annual General Meeting	8 May 2008
Purchase of 'A' ordinary share	
First	24 August 2007
Second	25 March 2008

IMI Conference Centre, Sandyford Road, Dublin 16. Tel: (01) 207 8400



BY CAR

From the North, West and South

Using the M50 going south, take Exit 13 (Sandyford/Dundrum/R113), then take the Green Route to Sandyford Industrial Estate. Turn left onto Blackthorn Drive at Beacon Court. At the next T-junction, turn right onto Sandyford Road. IMI is the next turn left, 100 yards away.

From the East and South East

Travelling north on the N11, take the M50 at Loughlinstown. Take Exit 13 to Sandyford Industrial Estate. Turn left onto Blackthorn Drive at Beacon Court. At the next T-junction, turn right onto Sandyford Road. IMI is the next turn left, 100 yards away.

BY LUAS

For shareholders' convenience, courtesy buses will depart from the Sandyford LUAS plaza (last stop) at 9.50am, 10.00am and 10.10am. Buses will return to the Sandyford LUAS plaza following the meeting.

Should you have any queries, please contact Susan Carroll at Grafton Group plc on 087 971 0851.



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