



“The Group’s consistent strategy of broadening its earnings base and creating strong market positions and brands, while growing its earnings per share, has continued in 2002. In the five year period from 1997, the Group made 52 acquisitions, increasing its UK merchanting network from 38 outlets to 227, increasing its UK turnover six-fold and its UK profits ten-fold”.

Chairman’s Statement

I am pleased to report that 2002 has been yet again another year of strong operational performance and record financial results for the Group. Pre-tax profits increased by 19 per cent to €80.2 million (2001: €67.2 million). Earnings per share, before goodwill and property profit grew by 15 per cent to 39.26 cent (2001: 34.09 cent).

The Group has already announced the Board’s decision to redeem one redeemable share per Grafton Unit on 14 February 2003 for a cash consideration of 5.25 cent per share. Accordingly, no final dividend will be declared. Total redemption proceeds amount to 9 cent per Grafton Unit, which is equivalent to an increase of 12.5 per cent on the total dividend of 8 cent paid for the previous year.

The Group’s consistent focus has created a balanced diversified earnings base, and strong brands and market positions in the UK and Ireland. This is reflected in substantial growth in profit before tax and earnings per share, and an increase in Group turnover of 16.5 per cent to €1,152.4 million, the first time the Group’s annual turnover has exceeded

one billion euro (2001: €988.8 million). Group operating profit before goodwill grew by 16.6 per cent to €92.3 million (2001: €79.1 million).

In the UK market, accounting for 70 per cent of the Group’s operations, strong profitable growth continued. UK turnover increased by 23 per cent to €808.5 million (2001: €657.2 million), while operating profit before goodwill amortisation and property profit increased by 34.4 per cent to €53.7 million (2001: €40.0 million). Operating margins improved for the fourth consecutive year to 6.6 per cent (2001: 6.1 per cent).

The Group’s UK merchanting business performed well in a consolidating market, accelerating its expansion programme in the second half. Fifteen acquisitions in 2002, together with greenfield start-ups added 51 trading locations, and increased the Group’s UK merchanting network at the end of 2002 to 227. EuroMix, the Group’s dry mortar business, continued to penetrate the UK market with strong growth in turnover and profits.



The fifteen businesses acquired in 2002 traded from 41 branches including Lakes, Derby (above).

In Ireland, against the background of a slowdown in the economy and the construction sector, turnover in the Group's merchanting and manufacturing businesses improved in the second half, enabling the Group's Irish turnover to exceed 2001 levels for the full year. Woodie's DIY turnover grew as a result of the opening of two new stores, and strong like-for-like growth from existing stores. All the Irish divisions generated strong cash flows, high margins, and good returns on capital employed. Irish turnover increased by 3.7 per cent to €343.8 million (2001: €331.6 million). Operating profit declined by 1.5 per cent to €38.6 million (2001: €39.2 million) at an operating margin of 11.2 per cent (2001: 11.8 per cent).

The Group's strong balance sheet and cash flows from its operations funded expenditure of €88.8 million on acquisitions, and a further €68.0 million on capital projects.

Year end shareholders' funds were €322.0 million (2001: €264.5 million) and net debt amounted to €240.6 million (2001: €194.9 million), giving a debt to equity ratio of 75 per cent (2001: 74 per cent).

EBITDA for 2002 amounted to €120.1 million (2001: €101.5 million), an increase of 18.3 per cent.

Operations Review – United Kingdom

This is now the Group's most important market. During 2002 the Group strengthened its UK position and market presence with 15 acquisitions, making 37 acquisitions in all over the last three years. These, together with strong like-for-like sales growth of 5.6% resulted in UK turnover growing by 23.0 per cent to €808.5 million. Scale benefits and strong management resulted in operating margins improving to 6.6 per cent from 6.1 per cent in 2001 for the fourth consecutive year. Strong turnover and margin management resulted in UK operating profit growing significantly by 34.4 per cent to €53.7 million.

All UK divisions reported a strong improvement in sales and operating profit. The Group's strategic diversification has created a UK business platform



Plumbase traded from 113 branches at the end of 2002 including Eastbourne (left), Hove (middle) and Kent (right).

Chairman's Statement *continued*

accounting for 70 per cent of Group sales (2001: 66 per cent) and 58 per cent of Group operating profit (2001: 50 per cent). These strong results confirm UK managements' ability to successfully complete and integrate acquisitions in a consolidating market and to generate synergies from its expanding business base.

UK Builders Merchenting

The UK Builders merchenting division, which trades mainly under the Buildbase brand, continued its rapid growth in 2002 with record results and significant development activity. The division had an excellent year increasing sales and operating profit due to like-for-like growth, integration benefits from prior year acquisitions, the incremental effect of acquisitions made during 2001 and acquisitions completed during 2002. Integration benefits were reflected principally in improved buying terms, and operational efficiencies.

The UK builders merchenting division increased its branch network by 31 during 2002 and traded from 114 locations at the year end. The division completed 13 acquisitions during 2002. These deals underpinned

the divisions' development strategy and demonstrate the Group's success in securing bolt-on acquisitions which complement the existing network through wider market coverage. The businesses acquired were long established builders merchants, trading from well located branches with strong positions in their local market place. Four builders merchenting chains acquired were BMB, a Barnsley based merchant trading from four builders merchenting branches principally in Yorkshire; Lakes, which trades from seven branches mainly in Derbyshire; PDM, a Scottish heavyside merchant trading from seven branches and Aizlewoods which is based in Rotherham and trades from three builders merchenting branches. Nine mainly infill single branch acquisitions strengthened the divisions' regional coverage.

Buildbase, now firmly established as a key player in the UK merchenting industry, extended its regional market presence beyond the South and Midlands during 2002 with acquisitions in the North of England which provide scope for adding value through cost benefits and offers the potential for future bolt-on development activity. Integration of prior year acquisitions into the Buildbase network continued during 2002 yielding significant purchasing and cost saving benefits.



In Northern Ireland, Macnaughton Blair increased sales and operating profit in a competitive market. The acquisition in October 2002 of Peter Woods, a single branch builders merchant, strengthens the Group's presence in the Belfast area and takes the number of branches in the province to ten. The branches at Antrim and Duncrue, Belfast, were redeveloped during 2002.

UK Plumbers Merchenting

Plumbase, one of the UK's largest Plumbers Merchenting chains, increased its branch network by 20 during 2002 and traded from 113 branches at the year-end. The business consolidated its strong market positions in the South East, Midlands, East Anglia and West Country with the opening of nine new branches and the acquisition of B J White, which trades from branches in Yeovil and Bridport. Plumbase gained an initial but significant presence in the North West as a result of the acquisition in late November 2002 of JKS, a seven branch plumbers merchant trading in the Greater Manchester area. Plumbase is now well placed to take advantage of other acquisition opportunities which may arise in this region. Plumbase also gained a further two branches as a result of the BMB and Aizlewoods acquisitions.

This was another year of strong growth in sales and operating profit due primarily to like-for-like sales growth, margin improvement and the profitable development of prior year branch openings.

UK Mortar

EuroMix, a range of mortars produced using the latest factory and onsite technology trades from five plants in the London, Birmingham, Manchester and Glasgow areas. EuroMix, the market leader in the supply of silo based mortars, had an outstanding year growing sales and operating profit strongly. The five mortar plants increased volumes and traded ahead of expectations. EuroMix has been strongly endorsed in its marketplace as a value-added product and is now used by UK national and regional contractors on a broad range of construction projects.

Operations Review – Republic of Ireland

In Ireland, the construction sector, which had seen eight years of continuous growth from 1994 to 2001, showed an overall decline of 2 per cent in 2002. The housing sector continued to grow following the restoration of mortgage interest deductibility for rental purposes and changes to stamp duty in Budget 2002. Growth in the DIY and RMI market



EuroMix mortar was used on several prestigious projects during 2002 including the new Harvey Nicholls store in Edinburgh.

Chairman's Statement continued

(Repair Maintenance and Improvements) was positive. A strong second half performance by the Group's Irish operations resulted in turnover growth of 8.8 per cent and operating profit increasing by 7.7 per cent in the final six months of the year. Turnover for the full year was €343.8 million, an increase of 3.7 per cent and operating profit for the year was €38.6 million, down just 1.5 per cent on 2001.

Irish Merchanding

Led by Chadwicks, Irish merchanding operations traded very successfully in the second half, growing turnover by 4.4 per cent following a first half decline of 5.6 per cent. Margins also improved considerably on the first half, as management focused on cost control and profitable trading. Turnover for the year was €215.0 million, down just 0.7 per cent on 2001. Chadwicks' Clonmel and Kilkenny branches were relocated to custom built high profile premises during the year and are trading successfully. The sale of Chadwicks Wexford, prior to its planned relocation in 2004, together with the disposal of an unused property in Clonmel, has resulted in property profits of €3.7 million.

Irish Retailing

Woodie's market leadership was strengthened with the opening of two new stores in Tralee and Newbridge during the year. Both are trading successfully. Turnover grew by 15.2 per cent to €98.1 million, compared to €85.2 million in 2001, with strong like-for-like growth of 6.0 per cent. Woodie's has also acquired a high profile prime location on the Naas Road, Dublin, as part of its expansion plans, and continued its programme of store development.

Irish Manufacturing

Manufacturing turnover, which had declined by 1.8 per cent in the first half, recovered strongly in the second half with growth of 7.3 per cent. Turnover for the year was €30.7 million, 2.7 per cent ahead of 2001. CPI's EuroMix business strengthened its position in the dry mortar market.

Management and Staff

The Group's unique decentralised culture encourages staff and local management to use their talents and autonomy for their own development and the success of the Group. On behalf of the Board and our shareholders, I thank them for their commitment and support in achieving yet again another record year for the Group.



EuroMix strengthened its position in the Irish mortar market.

Strategy

The Group's consistent strategy of broadening its earnings base and creating strong market positions and brands, while growing its earnings per share, has continued in 2002. In the five year period from 1997, the Group made 52 acquisitions, increasing its UK merchandising network from 38 outlets to 227, increasing its UK turnover six-fold and its UK profits ten-fold. UK margins have also increased over that period from 4.2 per cent to 6.6 per cent.

Group Outlook

Global economic uncertainties remain, but the underlying growth potential for the Group across its diversified earnings base is positive. In Ireland the construction sector is unlikely to return to growth overall, but the Group will benefit from its exposure to the RMI and DIY markets, and the full year turnover from its two new Woodie's DIY stores opened in mid 2002. Further Woodie's store openings are planned. Strong trading in Ireland in January and February has resulted in increased operating profit in all divisions.

The Group's UK merchandising operations in a large and consolidating market should experience further acquisition opportunities and growth in 2003. Buildbase and Plumbase merchandising operations will benefit from the 51 new trading locations acquired or opened in 2002, which will contribute

to profitability. EuroMix dry mortar is expected to continue to penetrate the market and experience growth and will shortly open its sixth manufacturing plant. UK operating profits have continued to grow in the first two months of this year.

Since year end, Grafton has acquired Jackson Building Centres Limited, the largest regional builders merchant in the UK, adding a further 18 branches and increasing its overall merchandising network to 245 trading locations. The acquisition of Jacksons increases the Group's market share of the UK merchandising market to 8 per cent. This profitable and well managed business in the East Midlands, with a turnover of circa €207 million and profits of circa €10 million in 2002, is an excellent strategic and geographic fit for Grafton's UK operations.

The recent Rights Issue provides Grafton with the balance sheet strength to continue to make bolt-on acquisitions in a consolidating UK merchandising market.

Group results to date this year have been good and the Board looks forward to a year of further development and growth in earnings per share for the enlarged Group.

On behalf of the Board.

Michael Chadwick
Chairman