

## Directors' Report on Remuneration

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

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

### Remuneration Policy

In making its recommendations the Remuneration Committee has given consideration to the provisions of the 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 ensure they are motivated to perform in the best interests of the shareholders. 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 Grafton Group Share Option Scheme and the Grafton Group Employee Share Participation Scheme.

### Service Contracts

No service contract exists for any Director.

### Basic Salary and Benefits

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

### Performance Related Bonus

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

### Pensions

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

### Share Option Scheme

It is the practice of the Group to grant share options periodically to key executives throughout 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 Option Scheme, two types of options are available subject to the conditions set out below:

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- (i) Basic options which cannot be exercised before the expiration of five years after the date upon which they were granted unless the Remuneration Committee agrees to a shorter period which shall not be less than three years and only then, if the Company's earnings per share has grown at not less than the rate of growth in the Consumer Price Index plus 5 per cent compounded during that period.
- (ii) Second tier options cannot be exercised before the expiration of five years after the date upon which they were granted. Second tier options are exercisable if over a period of at least five years subsequent to the granting of the options, the growth in the Group's earnings per share would place it in the top 25% of the companies listed on the Irish Stock Exchange Index over the same period; provided that second tier options shall in any case be exercisable if the Company's earnings per share growth over the relevant period is greater, by not less than 10% on an annualised basis, than the increase in the Consumer Price Index over that period.

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

	Basic salary 2002 €'000	Proposed Performance related bonus 2002 €'000	Other benefits 2002 €'000	Remuneration waived 2002 €'000	Total 2002 €'000	Total 2001 €'000
<b>Remuneration for 2002</b>						
<i>Executive Directors</i>						
M. Chadwick	350	137	27	(337)	177	45
N.D. Kilroy	278	104	24	-	406	377
C.Ó Nualláin	283	111	18	-	412	376
J.F. Malone	205	79	16	-	300	280
	<u>1,116</u>	<u>431</u>	<u>85</u>	<u>(337)</u>	<u>1,295</u>	<u>1,078</u>
				<b>Fees 2002 €'000</b>	<b>Total 2002 €'000</b>	<b>Total 2001 €'000</b>
<i>Non-Executive Directors</i>						
A.E. Collins				38	38	38
G. Bowler				32	32	32
R.W. Jewson				44	44	44
				<u>114</u>	<u>114</u>	<u>114</u>
<b>Sub-total</b>					<b>1,409</b>	<b>1,192</b>
Pension contribution on behalf of Executive Directors					<u>740</u>	<u>589</u>
<b>Total</b>					<b><u>2,149</u></b>	<b><u>1,781</u></b>

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### Directors' Pensions

The pension contribution shown on page 26 includes a contribution of €100,000 (2001: €92,000) to a defined contribution pension scheme on behalf of Mr. Norman Kilroy.

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

	Increase in accrued pension during the year	Accumulated total accrued pension at year end	Transfer value of the increase in accumulated accrued benefits at year end
	€'000	€'000	€'000
M. Chadwick	26	250	423
C. Ó Nualláin	18	132	159
J.F. Malone	13	177	214

### Directors' and Secretary's Interests

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

Director	31 December 2002 Grafton Units*	31 December 2001 Grafton Units
M. Chadwick	17,902,010	17,899,090
A.E. Collins	360,000	360,000
N.D. Kilroy	51,610	48,690
J.F. Malone	429,830	426,910
C. Ó Nualláin	640,000	428,350
G. Bowler	110,000	100,000
R.W. Jewson	35,170	35,170

Mr. M. Chadwick also holds a non-beneficial interest in 2,806,560 (2001: 2,806,560) Grafton Units in his capacity as a Trustee of a family trust. Mr. M. Chadwick and Mr. C. Ó Nualláin have a non-beneficial interest in 1,489,050 (2001: 1,168,110) Grafton Units in their capacities as Trustees of the Grafton Group plc Share Participation Scheme.

There have been no changes in the interests of the Directors between 31 December 2002 and the date of this report.

Mr. C. Rinn, Secretary, had an interest in 18,820 Grafton Units at 31 December 2002 (2001: 15,900).

The shareholdings noted above are before the Rights Issue, details of which are set out in note 38.

\*At 31 December 2002 a Grafton Unit comprised of one ordinary share of 5 cent each, nine redeemable shares of 0.01 cent each in Grafton Group plc and one C ordinary share of Stg0.0001p in Grafton Group (UK) plc. Following the redemption of one redeemable share per Grafton Unit on 14 February 2003, the number of redeemable shares per Grafton Unit reduced to eight.

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### Directors' and Secretary's Share Options

The interests of the Directors in options, granted in accordance with the Company's share option scheme, to subscribe for Grafton Units in the Company are given below:

	Number of Options					Exercise Price	Date from which exercisable	Dates on which options expire	Market price on date of exercise
	1 January 2002	Exercised	31 December 2002	Basic	Second Tier				
						€			€
N.D. Kilroy	68,200	-	68,200	68,200	-	0.69	April 2000	April 2006	
C. Ó Nualláin	150,000	150,000	-	-	-	1.14	April 2002	April 2007	3.98*
	150,000	-	150,000	150,000	-	2.35	June 2003	June 2008	
	150,000	-	150,000	85,000	65,000	1.93	June 2004	June 2009	
	150,000	-	150,000	80,000	70,000	2.20	April 2005	April 2010	
	150,000	-	150,000	5,000	145,000	3.00	April 2006	April 2011	
	-	-	120,000 <sup>#</sup>	30,000	90,000	4.25	April 2007	April 2012	
	<u>750,000</u>	<u>150,000</u>	<u>720,000</u>	<u>350,000</u>	<u>370,000</u>				
J.F. Malone	65,000	65,000	-	-	-	0.56	Oct 2000	Oct 2005	3.60
	80,000	-	80,000	80,000	-	0.69	April 2001	April 2006	
	150,000	-	150,000	-	150,000	1.14	April 2002	April 2007	
	150,000	-	150,000	150,000	-	2.35	June 2003	June 2008	
	150,000	-	150,000	85,000	65,000	1.93	June 2004	June 2009	
	150,000	-	150,000	80,000	70,000	2.20	April 2005	April 2010	
	<u>745,000</u>	<u>65,000</u>	<u>680,000</u>	<u>395,000</u>	<u>285,000</u>				

\* This represents the weighted average market price at the dates of exercise.

<sup>#</sup> These options were granted in April 2002.

The mid-market price of a Grafton Unit at 31 December 2002 was €3.60 and the price range during the year was between €3.25 and €5.00.

Mr. C. Rinn, Secretary, had options to subscribe for 275,000 Grafton Units in the company at 31 December 2002 (31 December 2001: 215,000).

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.

The options referred to above are before adjustment arising from the Rights Issue as set out in note 38.