

Report of the Directors

The Directors present their report to the shareholders, together with the audited financial statements for the year ended 31 December 2002.

Group Results

Group turnover of €1,152.4 million was 17% higher than Group turnover of €988.8 million in 2001. Group profit before taxation amounted to €80.2 million compared with €67.2 million in the previous year, an increase of 19%. Earnings per share amounted to 38.75c compared with 33.61c in the previous year, an increase of 15%. Adjusted earnings per share (before goodwill amortisation and property profit) increased by 15% to 39.26c compared to 34.09c in 2001. After deducting taxation of €12.0 million, retained profit of €68.2 million has been transferred to reserves. The cost of redeeming shares on the 20 September 2002 in the amount of €6.6 million has been charged to the profit and loss reserve. The financial statements for the year ended 31 December 2002 are set out in detail on pages 32 to 62.

Share Redemption/Dividends

The Group announced on 4 February 2003 the decision to redeem one redeemable share per Grafton Unit on 14 February 2003 for a cash consideration of 5.25 cent per share which was paid on 6 March 2003. Accordingly, no final dividend will be declared in respect of the year ended 31 December 2002. This follows the redemption of one redeemable share per Grafton Unit for a cash consideration of 3.75 cent per share on 20 September 2002. This together with the redemption made on 14 February 2003 gives total redemption proceeds of 9 cent per Grafton Unit, which is equivalent to an increase of 12.5 per cent on the total dividend of 8 cent per Grafton Unit paid for the year ended 31 December 2001.

Review of the Business

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

Board of Directors

Mr. M. Chadwick, Mr. N.D. Kilroy and Mr. C. Ó Nualláin retire from the board by rotation and, being eligible, offer themselves for re-election. The Directors seeking re-election do not have service contracts with the Company.

Share Capital – New Redeemable Shares

The issue of ten new redeemable shares per Grafton Unit approved by shareholders at the AGM on 1 May 2002 took effect from 26 July 2002. As noted above, on 20 September 2002 one redeemable share per Grafton Unit was redeemed for a cash consideration of 3.75 cent per share leaving nine redeemable shares per Grafton Unit at 31 December 2002. Following the redemption of one redeemable share per Grafton Unit on 14 February 2003 for 5.25 cent per share, the number of redeemable shares per Grafton Unit reduced to eight.

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Substantial Holdings

So far as the Company is aware, in addition to the Chairman, Mr. Michael Chadwick, whose holding of 17,902,010 ordinary shares represents 10.10% of the shares in issue, the following held shares representing three per cent or more of its ordinary share capital at 7 March 2003.

| Name | Holding | % |
|--|------------|-------|
| Bank of Ireland Nominees Ltd NRI Account * | 28,209,687 | 15.91 |
| Bank of Ireland Asset Management Limited# | 21,355,175 | 12.04 |
| Bank of Ireland Nominees Ltd NRS Account | 13,596,171 | 7.67 |
| Nortrust Nominees Limited Exempt Account | 10,578,122 | 5.97 |
| Citibank Nominees (Ireland) Ltd Exempt Account | 10,046,332 | 5.67 |

*This nominee shareholder has informed the company that this shareholding relates to 65 different holdings.

#This nominee shareholder has informed the company that this shareholding relates to 146 different holdings.

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

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 experience and expertise. The books of account of the Company are maintained at Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18.

Health and Safety

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

Subsidiaries

The Company's principal operating subsidiary undertakings are set out on page 63.

Auditors

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

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Annual General Meeting

The Annual General Meeting of the Company will be held at the Radisson SAS, St. Helen's Hotel, Stillorgan Road, Co. Dublin on 9 May 2003 at 12.30pm.

The following items are contained in the Notice of the Annual General Meeting.

Authority to Purchase the Company's Own Shares

Shareholders are being asked to renew the authority to purchase up to 10% of the Company's own shares.

Authority to Re-issue Treasury Shares

Shareholders are being asked to sanction the price at which any treasury shares may be re-issued, other than on the Stock Exchange.

Post Balance Sheet Events

On 4 February 2003, the Group announced that it was raising approximately €67.7 million, net of expenses, by the issue of up to 35,276,228 New Grafton Units at a price of €2.00 per New Grafton Unit which represents a 37.5 per cent discount to the closing price of €3.20 per Grafton Unit on 3 February 2003, the day before the announcement. The issue is being made by way of a rights issue on the basis of one New Grafton Unit for every five Grafton Units held on the record date.

On 3 March 2003, the Group acquired the entire share capital of Jackson Building Centres Limited, a regional builders merchanting chain based in the East Midlands, for a cash consideration of €129.5 million (STG£88.75 million).

On behalf of the Board

M. Chadwick

C. Ó Nualláin

Directors

7 March 2003