



The UK builders merchandising division developed three greenfield branches during 2003 including this one at Crawley, Sussex.

Chairman's Statement

“The strategy of the Group, determined in the early 1990’s when profits were almost solely dependent on the Irish Merchandising market, has resulted in the creation of a business enjoying consistently strong profitable growth from an earnings base which is diversified both geographically and across the construction sector and related markets.”

Grafton Group plc is pleased to report that 2003 has been another year of excellent progress and that record sales, profits and earnings have been achieved.

- Sales were up 30 per cent to €1.5 billion (2002: €1.15 billion).
- Operating profit before goodwill increased by 33.6 per cent to €123.3 million (2002: €92.3 million).
- Profit before tax increased by 27 per cent to €102.0 million (2002: €80.2 million).
- Earnings per share before goodwill and property profit increased by 21.8 per cent to 45.07 cent (2002: 36.99 cent).

The Board has decided to redeem one redeemable share per Grafton Unit for a cash consideration of 6.0 cent payable on 19 March 2004, giving total redemption payments for the year 2003 of 10.5 cent. This represents an increase of 23.8 per cent on redemptions of 8.48 cent paid for 2002. The Board has also decided to redeem the remaining six redeemable shares per Grafton Unit for a total cash consideration of 5 cent payable on 19 March 2004. As a result of the final redemption of all remaining redeemable shares in issue, the Board does not expect that an interim dividend will be paid in 2004.

The weighted average number of shares in issue increased by 10.7 per cent to 206.66 million (2002: 186.72 million) following the one for five rights issue in March 2003. The comparative earnings and redemption per share amounts for 2002 have been adjusted for the bonus element of the rights issue.

The results for 2003 are based on a strong performance across the Group’s businesses and demonstrate the core strengths and quality of the Group’s brands in the UK and Ireland. During 2003 the Group comfortably undertook a range of acquisition and development initiatives intended to

Chairman's Statement continued

strengthen its market position and provide a stronger base for the future profitable growth of its market leading businesses.

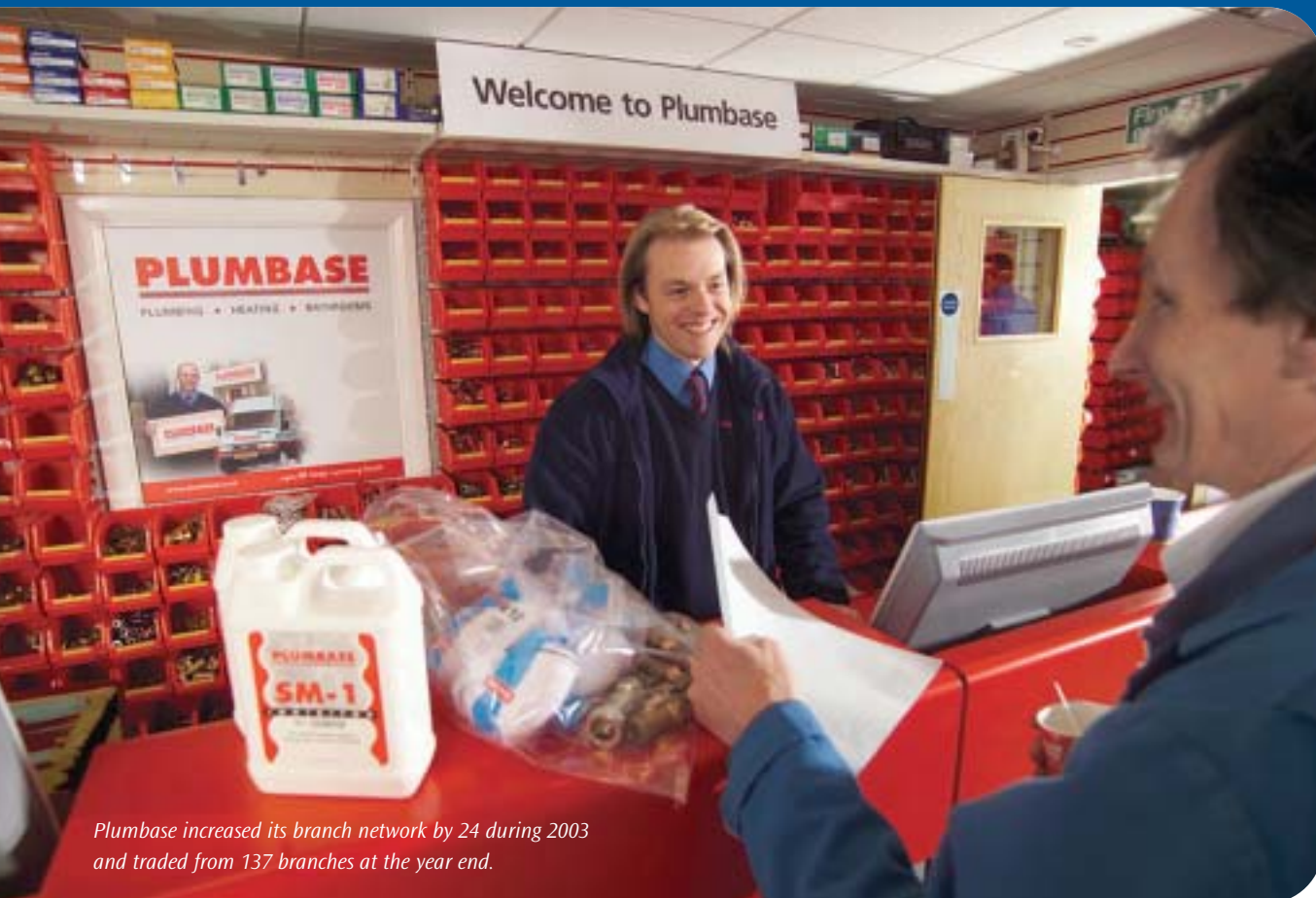
In 2003 the Group maintained the momentum of consistently strong profitable growth which has been a feature of its results since becoming an independent public Company in 1987. The results for 2003 also reflect the benefit of the Group's strategy of diversifying its earnings base both geographically and across the construction sector and related markets.

2003 was a year of substantial progress for the Group's UK businesses with turnover exceeding the equivalent of €1 billion for the first time. UK turnover grew by 37 per cent to €1.1 billion

(2002: €808.5 million) and represented 74 per cent of Group turnover. UK operating profit before goodwill amortisation increased by 46 per cent to €78.6 million (2002: €53.7 million) contributing 64 per cent of Group operating profit (2002: 58 per cent). The UK operating profit margin increased as anticipated to 7.1 per cent (2002: 6.6 per cent).

In line with the Group strategy of actively participating in the ongoing consolidation in the UK builders merchandising market, nine acquisitions were completed during 2003. The acquired businesses included Jackson Building Centres which was the largest ever acquisition undertaken by the Group and Plumblin, Scotland's largest independent plumbers merchandising chain trading from seventeen branches.





Plumbase increased its branch network by 24 during 2003 and traded from 137 branches at the year end.

Chairman's Statement continued

Seven bolt-on acquisitions trading from twelve branches were also completed. The nine acquisitions together with the greenfield development of ten branches added 57 trading locations to the Group's UK merchanting network.

EuroMix, the Group's UK dry mortar business continued to benefit from its brand and market leadership position showing excellent growth in turnover and profit. A sixth mortar plant at Harlow, Essex commenced trading in May and EuroMix's seventh dry mortar plant is now under construction in Southampton.

In the Republic of Ireland, the Group experienced strong turnover and profit growth on the back of a very buoyant market for both new residential building and repair, maintenance and improvement work. Turnover increased 11.8 per cent to €384.5 million (2002: €343.8 million) and operating profit was up 16.0 per cent to €44.8 million (2002: €38.6

million). The operating profit margin increased to 11.6 per cent (2002: 11.2 per cent).

Chadwicks Limited, the leading Irish merchanting Company, completed a significant Irish acquisition with the purchase in October 2003 of Telfords, a three branch builders merchant based in the Midlands. Further development of the Irish merchanting and DIY businesses continued with the opening of two Chadwicks Plumb Centres in Galway city and North Dublin and two Woodie's DIY stores were opened in Cavan and Carlow.

The Group's operations continue to be strongly cash generative. Cash flow generated internally amounted to €129.8 million for the year and these funds together with the €67.3 million proceeds of the Rights issue part funded an expansive investment programme which resulted in over €289.4 million being invested in acquisitions and capital

Chairman's Statement continued

programmes. Shareholders funds were €449.8 million at the year end and the net debt to equity ratio was 69% (2002: 75%).

Operations Review - United Kingdom

UK sales increased by 37 per cent to €1.1 billion (2002: €808.5 million) and operating profit increased by 46 per cent to €78.6 million (2002: €53.7 million). Consistent with margin improvements achieved in recent years, the UK operating profit margin increased to 7.1 per cent (2002: 6.6 per cent). The UK operating profit margin has over the past five years increased from 3.0 per cent in 1998 to 7.1 per cent in 2003 due to increased scale, buying benefits and operational efficiencies.

The results of the UK business benefited from a strong performance in like for like activities, incremental profit from an active acquisition programme completed in 2002 and a strong initial ten month contribution from the Jacksons acquisition. Like for like merchandising sales increased by 5.4 per cent.

The first phase of improved operational efficiency and purchasing benefits have been realised and are included in the results for the year and are reflected in the continuing increase in operating margin being achieved in the UK. Additional gains are anticipated during 2004.

Sterling was on average 9 per cent weaker during 2003 when compared to 2002 and accordingly the underlying increase in profit in the UK businesses was in fact higher in local currency terms.

The results for 2003 demonstrate the UK managements' success in taking advantage of opportunities presented in a consolidating market and improving profitability in the enlarged business.

UK Builders Merchandising

The UK builders merchandising business, trading principally under the Buildbase and Jackson brands, had a year of very strong growth in sales and operating profit.

Buildbase, now regarded as a leading player in the UK merchandising market with strong brand recognition and an integrated branch network, had another excellent year increasing sales and operating profit strongly. The improved performance resulted mainly from solid like for like sales growth and significant progress in integrating a number of small chain and single branch acquisitions completed during 2002.

The division benefited from good like for like sales growth in a positive RMI market and from very good progress on integration of the 31 builders merchandising branches acquired during 2002. The 18 branch Jackson acquisition added critical mass to the division and continues to perform ahead of expectations. A further seven UK builders merchandising businesses acquired in 2003 traded from 12 branches. In addition the division developed three greenfield branches.

The successful acquisition of Jacksons on 3 March 2003 was in line with the Group's strategy of expanding its presence in the UK Merchandising market and represented a unique opportunity for Grafton to expand its builders merchandising presence into the

Plumbase expanded into Scotland with the acquisition of Plumblin which trades from 17 branches.



The EuroMix brand continued to penetrate the UK Mortar market with the opening of its sixth plant at Harlow, Essex.



Chairman's Statement continued

East Midlands region by acquiring the leading player in that market and one of the UK's most respected merchanting businesses.

As previously announced, it is anticipated that the annual synergies and cost savings for the enlarged Group will be achieved ahead of the estimates and in advance of the time frame contained in the original acquisition announcement.

Jacksons improved profitability in 2003 and achieved good like for like sales growth, cost savings and improved purchasing benefits due to membership of the enlarged group. The planned further development of the Jacksons business includes the opening of a greenfield branch in Louth, and refurbishment of the Swinton, South Yorkshire branch with a new purpose built facility.

In Northern Ireland Macnaughton Blair, the leading Merchant in the region, traded from ten branches and had another excellent year increasing sales and operating profit in a competitive market. Good like for like sales growth, purchasing benefits and a full year contribution from the Peter Woods acquisition made at the end of 2002 all contributed strongly to the Company's improved performance.

UK Plumbers Merchanting

Plumbase the UK plumbers merchanting chain increased sales and profit. Good sales growth, a full year contribution from acquisitions made at the end of 2002 and a contribution in the last quarter from the Plumblin acquisition contributed to an improved level of profitability in Plumbase.

Plumbase, one of the UK's largest plumbers merchanting chains, increased its branch network by 24 in 2003 and traded from 137 branches at the year end. The Plumbase branch network, which was concentrated in the South East, Midlands, East Anglia, West Country and North West, expanded into Scotland with the acquisition of Plumblin, the leading independent plumbers merchant trading from 17 branches. The three month contribution from Plumblin was in line with expectations and this acquisition offers opportunity for further profit growth in 2004.

The nine branch JKS and BJ White acquisitions made at the end of 2002 were successfully integrated into the Plumbase network in 2003 and made a good contribution to profit.

Plumbase has successfully developed its branch network through a combination of acquisitions and greenfield development and this approach continued in 2003 with the opening of seven greenfield branches.

EuroMix supplies a range of mortars for use in block and brick laying.



The Group's Irish merchanting business was strengthened with the acquisition of Telfords which trades from three branches in the Midlands.



Chairman's Statement continued

UK Mortar

EuroMix, the leading producer of dry mortar in the UK market, continued to consolidate its brand leadership position in this important growth segment of the residential and non-residential building market. The business grew volumes strongly and reported excellent growth in sales and operating profit.

EuroMix supplies a range of dry mortars for use in block and brick laying from six plants in the London, Birmingham, Manchester and Glasgow areas. The sixth plant at Harlow, Essex commenced production in May 2003 and the plant at Glasgow increased its capacity following a major investment programme. The EuroMix business has developed a strong reputation for the quality and range of its value added mortar and render products and also for the service and technical support available to its national, regional and local contractor customer base. During the year construction of the seventh EuroMix dry mortar plant in Southampton commenced with production scheduled to start in Summer 2004.

Operations Review - Republic of Ireland

Irish turnover increased by 11.8 per cent to €384.5 million (2002: €343.8 million) and operating profit increased by 16.0 per cent to €44.8 million (2002: €38.6 million). The operating profit margin increased to 11.6 per cent (2002: 11.2 per cent).

The Irish economy proved remarkably resilient during 2003 despite a weak global economic environment. While overall construction output is estimated to have shown only modest growth, the residential sector had a very strong year with completions of 68,800 units compared to 57,700 units in 2002. Demand also continued to be strong in the repair, maintenance and improvement market.

Irish Merchanting

The Irish Merchanting division increased sales by 11.5 per cent to €239.8 million (2002: €215.0 million) including like for like growth of 8 per cent.

Chadwicks builders and plumbers merchanting business traded strongly, increasing sales and operating profit due to volume growth and tight operational management of the business. The

Chairman's Statement continued

resumption of growth in residential construction activity in the second half of 2002 continued strongly during 2003. Chadwicks national branch network was well positioned to benefit from record activity in new residential building and a buoyant RMI market where it has a significant presence.

Chadwicks continued its successful programme of branch relocations from provincial town centre premises to high profile purpose built out of town sites. The relocation of the Wexford branch at the end of 2003 follows the successful relocation of the Clonmel and Kilkenny branches during 2002. Each new site has increased capacity providing operational efficiency and improved customer service.

The acquisition, in October 2003 of Telfords, a long established three branch builders merchant based in Portlaoise, has significantly strengthened Chadwicks presence in the Midlands market. Telfords traded ahead of pre-acquisition expectations and made a positive contribution to profitability in its first three months with the Group.

Chadwicks also increased its branch network with the greenfield development of two Plumb Centre branches in Galway and North Dublin.

Irish Retailing

Woodie's had another excellent year with significant turnover and profit growth. Turnover increased by 12.4 per cent to €110.3 million (2002: €98.1 million). Woodie's like for like sales growth was 4 per cent despite a weak Irish retail environment. Like for like operating profit improved as a result of volume

growth, increased product margin due to sourcing benefits, a continuous focus on range improvement and control of store overheads.

New store openings in Cavan in August 2003 and Carlow in October 2003 increased Woodie's store network to 16. Both stores traded successfully. Woodie's results also benefited from a full year contribution from the Tralee and Newbridge stores which opened during 2002. Woodie's seventeenth store at Clonmel opened earlier this month. Woodie's have announced plans to open further stores at Naas Road, Dublin, Limerick, Kilkenny and Naas which will bring the network to 21 over the next two years.

Irish Manufacturing

Manufacturing turnover increased by 12.1 per cent to €34.4 million (2002: €30.7 million) due substantially to volume growth by CPI's EuroMix silo mortar business which supplies the Greater Dublin area.

Board

The Group announced in May 2003 that Norman Kilroy would be retiring as Managing Director in April 2004. Norman joined the Board as a Non-Executive Director in 1988 and was appointed Managing Director in 1990. In this role Norman has made an outstanding contribution to the success of the Group over the last 13 years. He will continue as a Non-Executive Director until later this year. The Nomination Committee of the Board has commenced a search for two additional Non-Executive Directors whose appointment will reflect the scale and geographical spread of the Group's interests.



Chadwicks relocated its Wexford branch to a purpose built out of town facility.



Chairman's Statement continued

Management and Staff

The record results achieved in 2003 were due in large measure to the skill, dedication and loyalty of the management and staff of the Group's businesses. The Board greatly appreciates the success which our management and staff bring to the Group and warmly welcome all of those who have joined the Group during 2003.

Strategy

The market leading Merchanting, DIY and Mortar businesses in the UK and Ireland demonstrate the core strengths and quality of the Group's brands. The strategy of the Group, determined in the early 1990's when profits were almost solely dependent on the Irish Merchanting market, has resulted in the creation of a business enjoying consistently strong profitable growth from an earnings base which is diversified both geographically and across the construction sector and related markets.

Group Outlook

The Group's strong cashflows, balance sheet and interest cover leave it ideally placed to grow its businesses organically and by acquisition.

Economic conditions in the UK are expected to continue to underpin demand in the repairs,

maintenance and improvement sector. The UK merchanting business will benefit from organic growth, ongoing integration and scale related purchasing benefits being realised through the significant increase in the Group's business. The EuroMix mortar business is expected to continue on a significant growth path with completion of the seventh plant in Southampton.

Although there has been a gradual improvement in the Irish economy in recent months and the economic outlook for 2004 is positive, we expect that a number of the factors which have influenced record levels of house completions in Ireland in recent years to moderate leading to a gradual slow down to long term sustainable levels of new house building. Improved consumer sentiment and higher real disposable incomes should provide a favourable environment for Chadwicks to grow its RMI business and for continued growth in the Woodie's DIY business. Woodie's will also benefit in 2004 from a full year's contribution from the two stores opened in the second half of 2003, the recent store opening in Clonmel and from further store openings planned.

Trading has started well in 2004 and the Group looks forward with confidence to another year of further progress and improved earnings.

On behalf of the Board

Michael Chadwick
Chairman

Woodie's store opening programme continued during 2003 with the addition of new stores in Cavan (left) and Carlow (right).

