

Directors' Report on Remuneration

The Remuneration Committee, which comprises Gillian Bowler (Committee Chairman), Anthony E. Collins 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 the Committee, had 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 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 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 certain 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 2003 €'000	Performance related bonus 2003 €'000	Other benefits 2003 €'000	Total 2003 €'000	Total 2002 €'000
Remuneration for 2003					
Executive Directors					
M. Chadwick	398	273	41	712	177
N.D. Kilroy	221	94	37	352	406
C. Ó Nualláin	318	218	31	567	412
J.F. Malone	221	150	28	399	300
	<u>1,158</u>	<u>735</u>	<u>137</u>	<u>2,030</u>	<u>1,295</u>
			Fees	Total	Total
			2003	2003	2002
			€'000	€'000	€'000
Non-executive Directors					
A.E. Collins			47	47	38
G. Bowler			38	38	32
R.W. Jewson			49	49	44
			<u>134</u>	<u>134</u>	<u>114</u>
Sub-total				2,164	1,409
Pension contribution on behalf of Executive Directors				806	740
Total				<u>2,970</u>	<u>2,149</u>

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Directors' Pensions

The pension contribution shown on page 28 includes a contribution of €105,000 (2002: €100,000) 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	44	302	545
C. Ó Nualláin	25	162	233
J.F. Malone	3	186	30

Directors' and Secretary's Interests

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

Director	31 December 2003 Grafton Units*	31 December 2002 Grafton Units
M. Chadwick	19,097,022	17,902,010
A.E. Collins	390,000	360,000
N.D. Kilroy	65,230	51,610
J.F. Malone	519,014	429,830
C. Ó Nualláin	656,298	640,000
G. Bowler	132,000	110,000
R.W. Jewson	42,204	35,170

Mr. M. Chadwick also holds a non-beneficial interest in 2,986,560 (2002: 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 1,323,521 (2002: 1,489,050) 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 2003 and the date of this report.

Mr. C. Rinn, Secretary, had an interest in 25,882 Grafton Units at 31 December 2003 (2002: 18,820).

*At 31 December 2003 a Grafton Unit comprised of one ordinary share of 5 cent each, seven redeemable shares of 0.01 cent each in Grafton Group plc and one C ordinary share of Stg0.0001p in Grafton Group (UK) plc.

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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	Dates from which exercisable	Dates on which options expire	Market price on date of exercise
	1 January 2003	Rights Issue Adjustment	Exercised	31 December 2003	Basic	Second Tier				
N.D. Kilroy	<u>68,200</u>	<u>4,179</u>	<u>-</u>	<u>72,379</u>	<u>72,379</u>	<u>-</u>	0.65	April 2000	April 2006	-
C. Ó Nualláin	150,000	9,192	(85,000)	74,192	74,192	-	2.21	June 2003	June 2008	4.10*
	150,000	9,192	-	159,192	90,209	68,983	1.81	June 2004	June 2009	
	150,000	9,192	-	159,192	84,902	74,290	2.07	April 2005	April 2010	
	150,000	9,192	-	159,192	5,306	153,886	2.83	April 2006	April 2011	
	120,000	7,354	-	127,354	31,839	95,515	4.00	April 2007	April 2012	
	-	-	-	160,000 [#]	80,000	80,000	5.45	Oct 2008	Oct 2013	
	<u>720,000</u>	<u>44,122</u>	<u>(85,000)</u>	<u>839,122</u>	<u>366,448</u>	<u>472,674</u>				
J.F. Malone	80,000	4,902	(84,902)	-	-	-	0.65	April 2001	April 2006	5.00*
	150,000	9,192	(159,192)	-	-	-	1.07	April 2002	April 2007	5.00*
	150,000	9,192	-	159,192	159,192	-	2.21	June 2003	June 2008	
	150,000	9,192	-	159,192	90,209	68,983	1.81	June 2004	June 2009	
	150,000	9,192	-	159,192	84,902	74,290	2.07	April 2005	April 2010	
	<u>680,000</u>	<u>41,670</u>	<u>(244,094)</u>	<u>477,576</u>	<u>334,303</u>	<u>143,273</u>				

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

[#] These options were granted on 20 October 2003

The mid-market price of a Grafton Unit at 31 December 2003 was €5.47 and the price range during the year was between €2.68 and €5.60.

Mr. C. Rinn, Secretary, had options to subscribe for 371,852 Grafton Units in the Company at 31 December 2003 (31 December 2002: 275,000). The adjustment in respect of the rights issue was 16,852 and options over 80,000 Grafton Units were granted on 20 October 2003 at a price of €5.45 per unit.

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 number of share options held at the time of the rights issue and the option prices were adjusted by a factor of 1.06128 in order to adjust for the bonus element of the rights issue. Further information on the rights issue adjustment factor is contained in Note 10 to the Financial Statements.