

# Report of the Directors

The Directors present their report to the shareholders, together with the audited financial statements for the year ended 31 December 2003.

## Group Results

Group turnover of €1,496 million was 30% higher than Group turnover of €1,152 million in 2002. Group profit before taxation amounted to €102.0 million compared with €80.2 million in the previous year, an increase of 27%. Earnings per share amounted to 41.95c compared with 36.51c in the previous year, an increase of 15%. Adjusted earnings per share (before goodwill amortisation and property profit) increased by 22% to 45.07c compared to 36.99c in 2002. After deducting taxation of €15.3 million, retained profit of €86.7 million has been transferred to reserves. The cost of redeeming shares on 14 February 2003 and on 3 October 2003 in the amounts of €9.3 million and €9.5 million respectively have been charged to the profit and loss reserve in 2003. The financial statements for the year ended 31 December 2003 are set out in detail on pages 34 to 64.

## Share Redemption

An interim redemption of one redeemable share per Grafton Unit for a cash consideration of 4.5 cent per share was paid on 10 October 2003 and 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 of 10.5 cent. This represents an increase of 23.8% on equivalent 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.

## Rights Issue

On 21 March 2003, the Group raised €67.3 million net of expenses by the issue of 35.28 million Grafton Units through a rights issue on the basis of one new Grafton Unit for every five Grafton Units held.

## 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, recent events and the outlook for 2004.

## Board of Directors

Ms. G. Bowler and Mr. R.W. Jewson 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

Following the redemption of the seven remaining redeemable shares per Grafton Unit on 19 March 2004 as noted above, a Grafton Unit will comprise of one ordinary share of 5c in Grafton Group plc and one C ordinary share of Stg0.0001p in Grafton Group (UK) plc.

## Substantial Holdings

So far as the Company is aware, in addition to the Chairman, Mr. Michael Chadwick, whose holding of 19,097,022 ordinary shares represents 8.98% of the shares in issue, the following held shares representing three per cent or more of its ordinary share capital at 9 March 2004.

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Name	Holding	%
Bank of Ireland Nominees Ltd NRI Account *	32,756,663	15.40
Bank of Ireland Asset Management Ltd#	23,199,683	10.91
Bank of Ireland Nominees Ltd NRS Account	19,856,812	9.34
Citibank Nominees (Ireland) Ltd Exempt Account	11,419,518	5.37
Nortrust Nominees Limited Exempt Account	9,191,882	4.32

\*This nominee shareholder has informed the Company that this shareholding relates to 86 different holdings.

#This nominee shareholder has informed the Company that this shareholding relates to 151 different holdings.

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

### International Accounting Standards

In 2002 the European Council adopted a Regulation requiring all listed companies to prepare their consolidated accounts in accordance with International Financial Reporting Standards (IFRS) from 31 December 2005. The Group is currently reviewing the implications of reporting its results under IFRS.

### Companies (Auditing and Accountancy) Act 2003

The Directors note that the Companies (Auditing and Accountancy) Act 2003 has been issued and are assessing its implications for relevant Group Companies.

### 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 at all relevant locations and that all relevant Group Companies meet the requirements of the Act.

### Subsidiaries

The Group's principal operating subsidiary undertakings are set out on page 65.

### Auditors

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

# Report of the Directors

## 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 11 May 2004 at 12.30pm.

The Letter to Shareholders from the Chairman and Notice of Annual General Meeting, included in a circular which accompanies this report, set out details of matters to be considered at the Annual General Meeting.

On behalf of the Board

**M. Chadwick**

**C. Ó Nualláin**

Directors

9 March 2004