

Report of the Directors

The Directors present their report to the shareholders, together with the audited financial statements for the year ended 31 December 2004.

Group Results

Group turnover of €1,872 million was 25 per cent higher than Group turnover of €1,496 million in 2003. Group profit before taxation amounted to €131.9 million compared with €102.0 million in the previous year, an increase of 29 per cent. Earnings per share amounted to 52.64c compared with 41.95c in the previous year, an increase of 25 per cent. Adjusted earnings per share (before goodwill amortisation, property development profit and profit on disposal of property) increased by 23 per cent to 55.64c compared to 45.07c in 2003. After deducting taxation of €19.8 million and dividends of €0.3 million, the retained profit of €111.8 million has been transferred to reserves. The cost of redeeming shares on 19 March 2004 and the A share purchase on 24 September 2004 in the amounts of €23.4 million and €2.1 million respectively have been charged to the profit and loss reserve in 2004. The financial statements for the year ended 31 December 2004 are set out in detail on pages 38 to 66.

Special Dividend and New "A" Ordinary shares

The company declared a special dividend of 0.125 cent per ordinary share payable on 14 June 2004 which was used as subscription proceeds for the issue of ten A ordinary shares per Grafton unit.

Share Redemption / Share Purchase

Following the redemption of the remaining six redeemable shares per Grafton Unit for a cash consideration of 5 cent per share on 19 March 2004 and the purchase of one A ordinary share per Grafton Unit for a cash consideration of 1 cent on 24 September 2004, the Board has decided to purchase a further A ordinary share per Grafton Unit for a cash consideration of 7.0 cent, giving total payments for the year of 13.0 cent. This represents an increase of 24 per cent on redemptions of 10.5 cent paid for 2003. The purchase of the A ordinary share will take effect in respect of Grafton Units on the register at the close of business on 18 March 2005 and the cash consideration will be paid on 29 March 2005.

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 2005.

Board of Directors

Mr. A.E. Collins and Mr. J.F. Malone retire from the Board by rotation and, being eligible, offer themselves for re-election. Ms. G. Bowler and Mr R.W. Jewson have served on the Board for more than nine years and, in accordance with Board Policy, they resign and offer themselves for re-election. The Directors seeking re-election do not have service contracts with the Company.

Mr Leo Martin was appointed to the Board on 7 January 2005 and, in accordance with the Articles of Association, holds office until the Annual General Meeting and, being eligible, offers himself for re-election.

Share Capital

At 31 December 2004, a Grafton Unit comprised of one ordinary share of 5 cent and nine A ordinary shares of 0.01 cent each 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 19,098,900 ordinary shares represents 8.1 per cent of the shares in issue, the following held shares representing three per cent or more of its ordinary share capital at 8 March 2005.

Name	Holding	%
Bank of Ireland Asset Management Limited*	25,241,130	10.7
Bank of Ireland Nominees Ltd NRI Account #	23,482,166	9.9
Bank of Ireland Nominees Ltd NRS Account	16,611,945	7.0
Citibank Nominees (Ireland) Ltd Exempt Account	13,132,258	5.6
Goodbody Stockbrokers Nominees Ltd GSCLT Account	10,927,911	4.6

* This nominee shareholder has informed the company that this shareholding relates to 143 different holdings.

This nominee shareholder has informed the company that this shareholding relates to 81 different holdings.

Report of the Directors

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.

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 the Group.

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 67.

Post Balance Sheet Event

On 7 January 2005, following clearance from the Competition Authority in Ireland, the Group completed the acquisition of Heiton Group plc for a total consideration of approximately €398 million including estimated debt assumed and the cost of the Group's 29 per cent investment in the business held prior to the offer.

Auditors

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

Annual General Meeting

The Annual General Meeting of the Company will be held at the Burlington Hotel, Upper Leeson Street, Dublin 4 on 9 May 2005 at 12.00pm and your attention is drawn to the circular enclosed with this report which sets out details of the matters to be considered at the Annual General Meeting.

On behalf of the Board

M. Chadwick
C. Ó Nualláin
Directors

8 March 2005