

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 Committee, 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 2003 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 1999 Grafton Group Share 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 Scheme

It is the practice of the Group to enable key executives throughout the Group to acquire shares in 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 Scheme, two types of shares may be acquired by conversion subject to the conditions set out below:

- (i) Basic shares which cannot be acquired before the expiration of five years, unless the Remuneration Committee agrees to a shorter period which shall not be less than three years, and provided 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 shares which cannot be acquired before the expiration of five years and only if over a period of at least five years the growth in the Group's earnings per share would place it in the top 25 per cent of the companies listed on the Irish Stock Exchange Index over the same period and provided that such shares shall be acquired only if the Company's earnings per share growth over the relevant period is greater, by not less than 10 per cent on an annualised basis, than the increase in the Consumer Price Index over that period.

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The share scheme has a ten year life and the percentage of share capital which may be issued under the scheme and individual entitlement 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.

Remuneration for 2004	Basic salary 2004 €'000	Performance related bonus 2004 €'000	Other benefits 2004 €'000	Total 2004 €'000	Total 2003 €'000
Executive Directors					
M. Chadwick	439	298	37	774	712
N.D. Kilroy	-	-	-	-	352
C.Ó Nualláin	350	237	31	618	567
J.F. Malone	230	150	30	410	399
	<u>1,019</u>	<u>685</u>	<u>98</u>	<u>1,802</u>	<u>2,030</u>
		Other remuneration 2004 €'000	Fees 2004 €'000	Total 2004 €'000	Total 2003 €'000
Non-Executive Directors					
A.E. Collins		-	50	50	47
G. Bowler		-	40	40	38
R.W. Jewson		-	50	50	49
N.D. Kilroy		35	40	75	-
		<u>35</u>	<u>180</u>	<u>215</u>	<u>134</u>
Sub-total				2,017	2,164
Pension contribution on behalf of executive Directors				1,776	806
Total				<u>3,793</u>	<u>2,970</u>

A payment of €79,000 was made to Eugene F. Collins Solicitors for Board Committee work undertaken by Anthony Collins in 2004.

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Directors' Pensions

The pension contribution shown on page 32 includes a contribution of €221,000 (2003: €105,000) to a defined contribution pension scheme on behalf of Mr. Norman Kilroy, of which €200,000 was a special contribution on his retirement as Managing Director.

Pension benefits earned by Directors who are members of a defined benefit 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	32	341	446
C. Ó Nualláin	24	189	240
J.F. Malone	3	189	56

Directors' and Secretary's Interests

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

Director	31 December 2004 Grafton Units*	31 December 2003 Grafton Units
M. Chadwick	19,098,900	19,097,022
A.E. Collins	390,000	390,000
N.D. Kilroy	65,230	65,230
J.F. Malone	520,972	519,014
C. Ó Nualláin	658,176	656,298
G. Bowler	132,000	132,000
R.W. Jewson	42,204	42,204

Mr. M. Chadwick also holds a non-beneficial interest in 2,986,560 (2003: 2,986,560) 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 985,032 (2003: 1,323,521) Grafton Units in their capacities as Trustees of the Grafton Group plc Share Participation Scheme.

Mr. Fergus Malone had a beneficial interest in 80 ordinary shares in Tribiani Limited, a subsidiary undertaking at 31 December 2004 (31 December 2003: Nil). This represented 5 per cent of the issued ordinary shares of the company. Mr. Norman Kilroy had a beneficial interest in 80 ordinary shares in Tribiani Limited, a subsidiary undertaking at 31 December 2004 (31 December 2003: 76 shares). This also represented 5 per cent of the issued ordinary shares of the company. Mr. Malone and Mr. Kilroy therefore have entitlements on retirement to have the option to invest in an Approved Retirement Fund (ARF). The registered number of the company is 316401.

There have been no changes in the interests of the Directors between 31 December 2004 and the date of this report.

Mr. C. Rinn, Secretary, had an interest in 27,760 Grafton Units at 31 December 2004 (2003: 25,882).

* At 31 December 2004 a Grafton Unit comprised of one ordinary share of 5 cent each, 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.

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Directors' and Secretary's Interests under the Grafton Group Share Schemes

The interests of the Directors granted in accordance with the Grafton Group Share Schemes, to acquire Grafton Units are shown below:

	Number of Units				Price €	Period over which Grafton Units may be acquired	
	1 January 2004	31 December 2004	Basic	Second Tier			
N.D. Kilroy	<u>72,379</u>	<u>72,379</u>	<u>72,379</u>	<u>-</u>	0.65	April 2000	April 2005
C. Ó Nualláin	74,192	74,192	74,192	-	2.21	June 2003	May 2008
	159,192	159,192	90,209	68,983	1.81	July 2004	July 2009
	159,192	159,192	84,902	74,290	2.07	May 2005	April 2010
	159,192	159,192	5,306	153,886	2.83	May 2006	April 2011
	127,354	127,354	31,839	95,515	4.00	April 2007	March 2012
	160,000	160,000	80,000	80,000	5.45	Nov 2008	Oct 2013
	-	160,000#	80,000	80,000	6.20	May 2009	April 2014
	<u>839,122</u>	<u>999,122</u>	<u>446,448</u>	<u>552,674</u>			
J.F. Malone	159,192	159,192	159,192	-	2.21	June 2003	May 2008
	159,192	159,192	90,209	68,983	1.81	July 2004	July 2009
	159,192	159,192	84,902	74,290	2.07	May 2005	April 2010
	<u>477,576</u>	<u>477,576</u>	<u>334,303</u>	<u>143,273</u>			

Entitlement by conversion issued on 5 May 2004

The mid-market price of a Grafton Unit at 31 December 2004 was €8.00 and the price range during the year was between €5.50 and €8.25.

Mr. C. Rinn had an interest to acquire 451,852 Grafton Units at 31 December 2004 (31 December 2003: 371,852) in accordance with the Grafton Group plc Share Schemes including an interest to acquire 80,000 Grafton Units granted on 5 May 2004 at €6.20 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.