

# Report of the Directors

The Directors present their report to the shareholders together with the audited financial statements for the year ended 31 December 2007.

## Group Results

Group revenue of €3.2 billion was 9 per cent higher than Group revenue of €2.93 billion in 2006. Group profit before taxation, excluding property profits of €7.3 million (2006: €38.0 million), amounted to €228.6 million compared with €211.4 million in the previous year, an increase of 8 per cent. Basic earnings per share amounted to 86.2 cent compared with 91.0 cent in the previous year. Adjusted earnings per share (before profit on disposal of property and intangible amortisation) increased by 8 per cent to 84.3 cent compared to 78.0 cent in 2006. After deducting taxation of €30.7 million, retained profit of €205.2 million was transferred to reserves.

The cost of purchasing two 'A' ordinary shares per Grafton Unit on 28 March 2007 and 3 October 2007 amounted to €49.0 million. The financial statements for the year ended 31 December 2007 are set out in detail on pages 38 to 96.

## Share Purchase

Following the purchase of one 'A' ordinary Share per Grafton Unit for a cash consideration of 10.00 cent paid on 3 October 2007, the Board approved the purchase of one 'A' ordinary Share per Grafton Unit for a cash consideration of 12.00 cent payable on 11 April 2008, giving total payments for the year of 22.00 cent. This represents an increase of 17 per cent on share purchase payments of 18.75 cent paid in respect of 2006.

At each Annual General Meeting, the Directors seek shareholders' approval to make purchases of 'A' ordinary shares under section 213 of the Companies Act, 1990. The Directors' exercise this power to purchase 'A' ordinary shares only at price levels which they consider to be in the best interests of the shareholders generally, after taking account of the Company's overall financial position. If such purchases take place, it is unlikely that a dividend would also be paid, and vice versa.

## Share Buybacks

The Directors exercised their rights during the year and bought back 10.5 million Grafton Units equivalent to 4.4 per cent of the Group's share capital at a total cost of €72.8 million. At the Annual General Meeting each year, shareholders are requested to give the Company authority to make market purchases of up to 10% of the Company's own shares. The Directors keep the Company's share price under review on an ongoing basis and will only exercise the power to make market purchases of the Company's own shares, if they consider it to be in the best interests of the Company and its shareholders generally, after taking account of the Company's overall financial position. The minimum price which may be paid for any market purchase of the Company's own shares is currently the nominal value of the shares and the maximum price which may be paid is 105% of the average market price of the shares.

## Review of the Business

Shareholders are referred to the Chairman's Statement and Group Finance Review which contain a review of operations and the financial performance of the Group for 2007 and the outlook for 2008. The Group Finance review also sets out the key performance indicators used to assess the performance of the Group.

## Principal Risks and Uncertainties

The Group is required under Irish Company Law to give a description of the principal risks and uncertainties which it faces. The principal risks are set out below:

Trading in the Group's businesses is influenced by the macro economic environment in both Ireland and the UK. The level of activity in the residential and non-residential construction and in the residential repair, maintenance and improvement markets in particular influence demand in the Group's UK and Irish builders merchanting, mortar and DIY businesses. Demand in these markets is sensitive to economic conditions generally including economic growth, interest rate movements, inflation, unemployment and demographic trends.

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In the Republic of Ireland, the performance of the Irish business in 2007 was influenced by a decline in activity in the new housing market in the second half of the year which was partially offset by continued growth in the repair, maintenance and improvement and DIY markets.

In the UK, the improvement in market conditions experienced in the second half of 2006 continued throughout the year.

Shareholders are referred to the Outlook for the Group on pages 12 and 13.

An important element of the Group's strategy over the past thirteen years has been growth through bolt-on acquisitions combined with a small number of larger strategically based acquisitions. The Group cannot control the pace of consolidation in the UK and Irish merchanting markets and the pace of acquisition activity going forward is not predictable although the Group continues to have a relatively good pipeline of acquisition opportunities.

The Group's objective is to maintain or develop strong market positions in the markets in which Group companies operate. The Group faces strong ongoing competition in its Irish merchanting, DIY and manufacturing businesses and in its UK merchanting and mortar businesses. The Group has traditionally grown a number of its businesses primarily or mainly through organic and greenfield development. The Group is committed to this development process as long as suitable opportunities can be identified and capitalised upon.

Adverse changes in the sterling/euro exchange rate could adversely affect the results and cash flow of the Group on translation into euro, as noted in the Outlook for the Group.

The Group's financial risk management policies and details of hedging are set out in Note 24 to the financial statements.

## Board of Directors

Mr. A.E. Collins, 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, being eligible, offer themselves for re-election. Mr. M. Chadwick, Mr. C. Ó Nualláin and Mr. F. Malone retire by rotation and, being eligible, offer themselves for re-election. Further details on the appointment and re-election of Directors is set out on page 26.

The Directors seeking re-election do not have service contracts with the Company with a period of notice extending beyond twelve months.

## Share Capital

At 31 December 2007, a Grafton Unit comprised one ordinary share of 5c and three '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. The structure of the Company's capital including rights and obligations attaching to the components of a Grafton Unit is set out in note 17 to the financial statements.

The Company has in place a number of employee share schemes, the details of which are set out in note 37 to the financial statements.

At each Annual General Meeting, in addition to the power to buy back shares referred to earlier, the Directors seek power to allot shares for cash, otherwise than in accordance with statutory pre-emption rights, by way of rights issues up to the amount of the unissued share capital of the Company, or otherwise up to approximately 5 per cent of the nominal value of the issued share capital of the Company. Under the Articles of Association, shareholders are requested to renew this power at each year's Annual General Meeting.

## Substantial Holdings

So far as the Company is aware, in addition to the Chairman, Mr. Michael Chadwick, whose holding of 19,653,230 ordinary shares represents 8.6 per cent of the shares in issue (excluding treasury shares), the following held shares representing 3 per cent or more of its ordinary share capital (excluding treasury shares) at 7 March 2008:

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Name	Holding	%
Bank of Ireland Asset Management Limited*	14,076,963	6.1
Sprucegrove Investment Management Limited*	13,638,083	5.9
Goodbody Stockbrokers Nominees Ltd. GSCLT Account*	12,562,616	5.5
Capital Group Companies	9,500,000	4.1
Bank of Ireland Nominees Ltd NRI Account*	7,853,011	3.4
Allied Irish Banks, p.l.c. and its subsidiaries	7,824,263	3.4
Irish Life Investment Managers	7,267,055	3.2

\*These shares are held on behalf of a range of clients who are each the beneficial owner of a portion of the holding.

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.

## Subsidiaries

The Group's principal operating subsidiary undertakings are set out on pages 95 and 96.

## Auditor

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

## Annual General Meeting

The Annual General Meeting of the Company will be held at the IMI Conference Centre, Sandyford Road, Dublin 16 on Thursday 8 May 2008 at 10.30 am 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

7 March 2008