

Report on Directors' Remuneration

The Remuneration Committee comprises Ms. Gillian Bowler, who chairs the Committee, Mr. Anthony E. Collins and Mr. 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, 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 fee payable to non-executive Directors is determined by the Board within the provisions and 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 2006 FRC 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 pay, pension and the ability to participate in the 1999 Grafton Group Share Scheme and the Grafton Group Employee Share Participation Scheme.

Service Contracts

Mr. L.J. Martin, an executive Director, has a service contract with a period of notice of twelve months.

Basic Salary and Benefits

The basic salaries of executive Directors are reviewed annually having regard to personal performance, Company performance and competitive market practice. No salary increases have been granted to Directors since 1 July 2007.

Performance Related Pay

The level of performance pay is determined for each individual executive Director. The level earned in any one year depends on the Remuneration Committee's assessment of each individual's performance for that year and also on an assessment of the overall performance of the Group.

Retirement Benefits

Three executive Directors ceased to participate in a Group defined benefit pension scheme as detailed on page 32. Following the transfer of the defined benefit entitlement of the three Directors to schemes external to the Grafton Group, payments are no longer made to the defined benefit scheme on behalf of these Directors. Instead, taxable payments are now paid to these Directors in lieu of future pension benefits. This allowance, which is calculated based on independent and external actuarial advice, ceases to be payable on the earlier of a Director leaving the service of the Company or on reaching normal retirement age. The transfers eliminate related liabilities and risks from the Group's balance sheet that could include additional funding costs associated with shortfalls in investment returns and longevity.

Share Schemes

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 share are available subject to the conditions set out below:

- (i) Basic shares which cannot be converted before the expiration of five years, unless the Remuneration Committee agrees to a shorter period which shall not be less than three years, and may be converted any time after that to the end of their contractual life 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.

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- (ii) Second tier shares which cannot be converted before the expiration of five years and at any time thereafter up to the end of their contractual life, 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 also 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.

The share 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. Basic shares granted after 8 May 2008 cannot be converted before the expiration of three years.

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 Retirement Benefits

The following table presents the remuneration of the Directors in accordance with the Irish Stock Exchange Listing Rules.

	Basic salary 2008 (i) €'000	Performance related pay 2008 (ii) €'000	Other benefits 2008 €'000	Total 2008 €'000	Total 2007 €'000
Remuneration for 2008					
Executive Directors					
M. Chadwick	635	-	45	680	964
C.Ó Nualláin	500	125	37	662	764
L. J. Martin	490	125	61	676	750
J.F. Malone	250	63	27	340	404
	1,875	313	170	2,358	2,882
			Fees 2008 €'000	Total 2008 €'000	Total 2007 €'000
Non-Executive Directors					
A.E. Collins			70	70	70
G. Bowler			70	70	70
R.W. Jewson			70	70	70
R. Ryan			70	70	70
P. S. Wood			70	70	70
			350	350	350
Sub-total				2,708	3,232
Share-based payments (credit)/charge				(240)	429
Pension charge – refer to note on page 32				938	398
Total Directors' Remuneration				3,406	4,059

(i) No basic salary increases have been granted to Directors since 1 July 2007.

(ii) Mr. M. Chadwick waived his entitlement to performance related pay for 2008 of €158,750.

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Directors' Retirement Benefits

The liabilities and risks associated with the defined benefit scheme have been reduced following the decision of three directors to transfer their defined pension entitlements from the scheme to revenue approved defined contribution schemes, as already announced in the 2008 Half-yearly Report and the 2008 Preliminary Statement. The three executive directors ceased to be members of the Group's defined benefit scheme on 1 January 2008 and were paid a taxable allowance, determined on the basis of independent and external actuarial advice, with effect from that date in lieu of future pension benefits as set out below:

	Defined Benefit Scheme							
	Retirement benefits expense		Increase in accrued pension during the year		Accumulated total accrued pension at the year end		Transfer value of the increase in accumulated accrued benefits at the year end	
	2008	2007	2008	2007	2008	2007	2008	2007
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
M. Chadwick	307	-	-	42	-	523	-	785
C. Ó Nualláin	337	-	-	30	-	311	-	446
L.J. Martin	294	-	-	28	-	325	-	436
	938	-						

Arrangements for the transfers from the defined benefit pension schemes were negotiated with these Directors by the Remuneration Committee based on independent professional advice. The relevant pensions showed a deficit of €4.74 million in the defined benefit scheme and the Group Income Statement for the year reflects a charge in this amount to fund the deficit related to the new arrangements. Obligations under the Pensions Act to have sufficient funds to purchase annuities for these Directors on retirement have ceased as a result of these transfers. The purchase of annuities is currently more expensive than transfer payments. The transfers also eliminate related liabilities and risks from the Group's balance sheet that could include additional funding costs associated with shortfalls in investment returns and longevity. The solvency of the pension schemes has not changed as a result of the transfers and the removal of significant obligations in respect of these pensions introduces greater stability for the remaining active members. Each of these directors has long service with the Group and their pension benefits have been built up over the duration of their employment. The final transfer values from the defined benefit pension scheme in respect of their accrued entitlements and benefits were M. Chadwick €11.7 million, C. Ó Nualláin €7.9 million and L.J. Martin €6.7 million.

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Directors' and Secretary's Interests

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

Director	31 December 2008 Grafton Units *	31 December 2007 Grafton Units
M. Chadwick	19,656,921	18,840,230
A.E. Collins	450,000	450,000
C. Ó Nualláin	1,141,759	1,138,068
L.J. Martin	204,605	184,605
J.F. Malone	693,963	531,080
G. Bowler	132,000	132,000
R.W. Jewson	42,204	42,204
R. Ryan	25,000	25,000
P. Wood	5,000	5,000

Mr. M. Chadwick purchased 813,000 Grafton Units on 7 January 2008 at a market price of €5.30 per unit. On 17 September 2008, Mr. Chadwick was appropriated 3,691 Grafton Units under the Grafton Group Share Participation Scheme at a market price of €3.44 per unit.

Mr. Chadwick also holds a non-beneficial interest in 2,986,560 (2007: 2,986,560) Grafton Units in his capacity as a Trustee of a family trust. He also holds a non-beneficial interest as nominee in 178,640 (2007: 178,640) Grafton Units. Mr. M. Chadwick and Mr. C. Ó Nualláin have a non-beneficial interest in 1,126,645 (2007: 647,735) Grafton Units as Trustees of the Grafton Group plc Employee Share Participation Scheme.

On 17 September 2008, Mr. C. Ó Nualláin was appropriated 3,691 Grafton Units at a market price of €3.44 per unit under the Grafton Group Share Participation Scheme. Mr. L. J. Martin acquired 10,000 Grafton Units on 23 September 2008 at a market price of €3.67 per Grafton Unit. Mr. Martin acquired a further 10,000 Grafton Units on 24 September 2008 at a market price of €3.69 per Grafton Unit. Mr. J. F. Malone acquired 159,192 Grafton Units on 7 April 2008 at €2.21 per Unit in accordance with the rules of the Grafton Group Share Schemes. The market value of a Grafton Unit on 7 April 2008 was €5.85. On 17 September 2008, Mr. Malone was appropriated 3,691 Grafton Units at a market price of €3.44 per unit under the Grafton Group Share Participation Scheme.

There have been no changes in the interests of the Directors between 31 December 2008 and the date of this report.

Mr. C. Rinn, Secretary, had a beneficial interest in 263,396 Grafton Units at 31 December 2008 (2007: 259,705). Mr. Rinn was appropriated 3,691 Grafton Units on 17 September 2008 under the Grafton Group Share Participation Scheme at a market price of €3.44 per unit.

*At 31 December 2008 a Grafton Unit comprised one ordinary share of 5 cent each and nineteen 'A' ordinary shares of 0.001 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 and the Secretary to acquire Grafton Units in accordance with the Grafton Group Share Schemes are shown below:

	Number of Units				Price €	Period over which Grafton Units may be acquired	
	1 January 2008	31 December 2008	Basic	Second Tier			
L. J. Martin	120,000	120,000	60,000	60,000	8.11	Oct 2010	Oct 2015
	120,000	120,000	60,000	60,000	11.50	Oct 2011	Oct 2016
	120,000	120,000	60,000	60,000	8.48	Sept 2012	Sept 2017
	360,000	360,000	180,000	180,000			
C.Ó Nualláin	160,000	160,000	80,000	80,000	5.45	Nov 2008	Oct 2013
	160,000	160,000	87,500	72,500	6.20	May 2009	April 2014
	120,000	120,000	60,000	60,000	8.11	Oct 2010	Oct 2015
	120,000	120,000	60,000	60,000	11.50	Oct 2011	Oct 2016
	120,000	120,000	60,000	60,000	8.48	Sept 2012	Sept 2017
	680,000	680,000	347,500	332,500			
J. F. Malone	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
	477,576	318,384	175,111	143,273			

Mr. J. F. Malone acquired 159,192 Grafton Units at €2.21 per Unit on 7 April 2008 in accordance with the rules of the Grafton Group Share Schemes. The market value of a Grafton Unit on 7 April 2008 was €5.85.

Mr. C. Rinn had an interest to acquire 440,177 Grafton Units at 31 December 2008 at prices ranging between €4.00 and €11.50 (31 December 2007: 440,177) in accordance with the 1999 Grafton Group Share Scheme.

The closing price of a Grafton Unit on 31 December 2008 was €2.30 (31 December 2007: €5.40) and the price range during the year was between €2.07 and €6.27 (2007: €5.20 and €12.88).

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 except for the pension arrangements outlined on page 32.