Grafton Group plc

ANNUAL REPORT 2003

Grafton Group plc ANNUAL REPORT 2003

Contents

Grafton Group plc

Group Profile

Grafton Group plc is an independent, profit growth oriented Company, operating in the UK and Ireland whose main activities are builders and plumbers merchanting, DIY retailing and manufacturing.

The Group aims to achieve above average returns for its shareholders. Grafton's strategy is to build on strong positions in businesses serving the UK and Irish construction sectors, to develop in related markets, and to grow in businesses with which it is familiar.

In the UK, Grafton's merchanting operations are the fourth largest in the market. These comprise 137 Plumbers Merchanting branches trading under the Plumbase brand and 139 Builders Merchanting branches trading principally under the Buildbase and Jackson brands.

In Northern Ireland, Macnaughton Blair is one of the leading builders merchants trading from 10 locations.

EuroMix is the UK market leader in dry mortar with 6 plants.

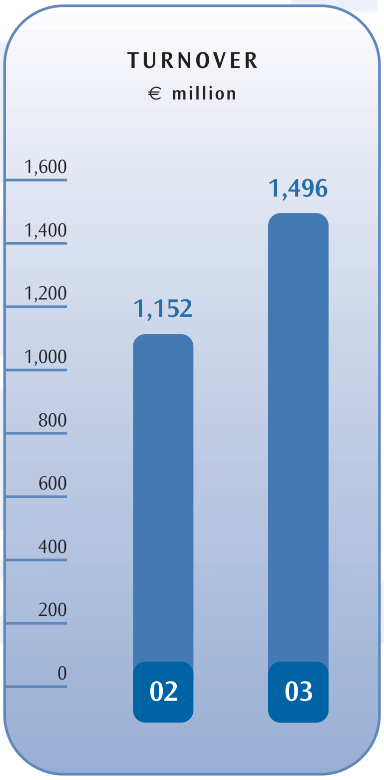
In the Republic of Ireland, the Group's leading Builders and Plumbers Merchanting business trades from 31 branches nationally principally under the Chadwicks brand.

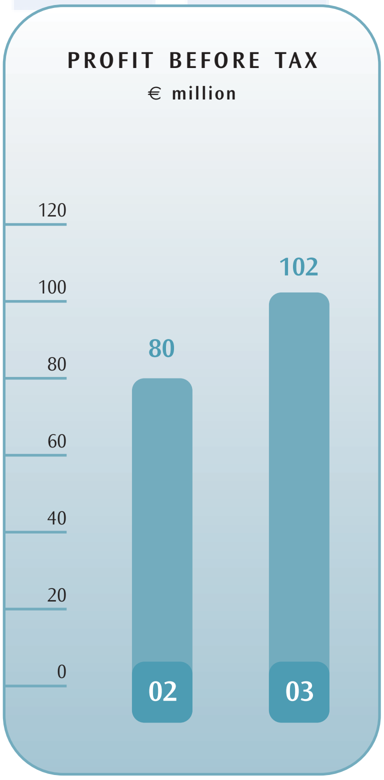
The Group is the clear market leader in DIY retailing in the Republic of Ireland with 16 Woodie's stores nationally and, amongst other activities, has manufacturing plants in plastics and concrete products, including EuroMix dry mortar.

Since becoming an independent Public Limited Company in 1987, Grafton has increased its adjusted earnings per share at an average annual rate of 28%. Grafton Group plc shares are listed on the Irish and London Stock Exchanges.

Jacksons, the leading East Midlands merchanting business acquired in March 2003, trades from 18 branches including this one at Scunthorpe.

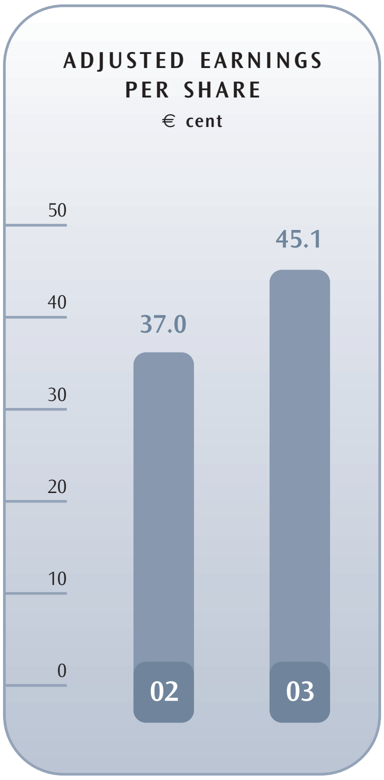
Financial Highlights

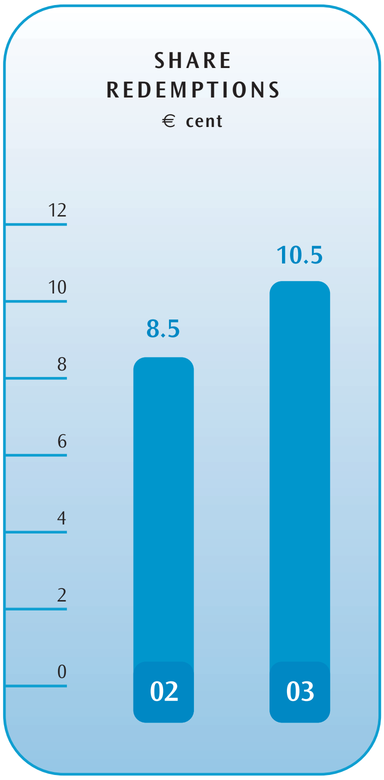




	2003	2002	Change
Turnover (€ million)	**1,496**	1,152	+30%
EBITDA (€ million)	**157**	120	+31%
Operating profit before goodwill (€ million)	**123**	92	+34%
Profit before taxation (€ million)	**102**	80	+27%
EPS	**41.9c**	36.5c	+15%
Adjusted EPS (before goodwill amortisation & property profit)	**45.1c**	37.0c	+22%
Adjusted diluted EPS	**44.2c**	36.2c	+22%
Share redemption	**10.5c**	8.5c	+24%
Share redemption cover (times)	**4.3**	4.4	
Interest cover (times)	**7.5**	7.4	
Cash flow per share*	**60c**	54c	+12%
Net assets per share	**212c**	182c	+16%
Net debt to shareholders' funds	**69%**	75%	
Depreciation charge (€ million)	**28.2**	22.4	
Goodwill amortisation (€ million)	**9.4**	4.2	
Acquisition expenditure (€ million)	**220**	89	
Capital expenditure (€ million)	**69**	68	

** Based on profit after tax plus depreciation and goodwill amortisation.*





Regions and Divisions

"The market leading Merchanting, DIY and Mortar businesses in the UK and Ireland demonstrate the core strengths and quality of the Group's brands."

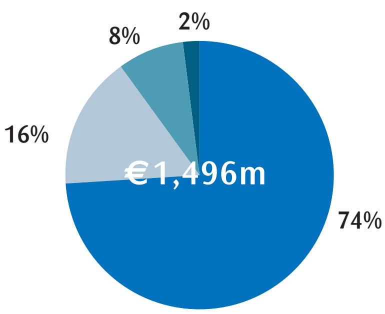
TRADING LOCATIONS

	UK	Ireland	Total
Builders Merchants	139	23	162
Plumbers Merchants	137	8	145
Manufacturing Plants	7	3	10
DIY	-	16	16
Total	283	50	333

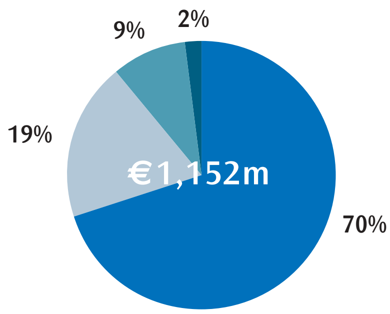
DIVISIONAL TURNOVER

- UK Operations
- Irish Merchanting
- Irish DIY Retailing
- Irish Manufacturing

2003



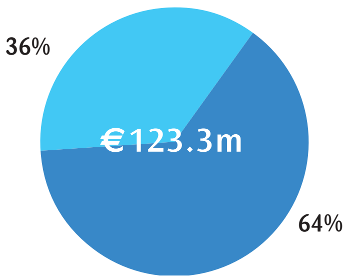
2002



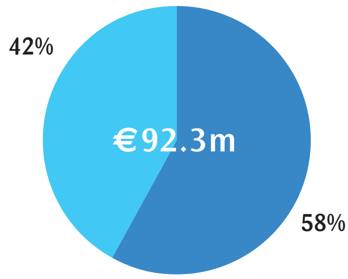
OPERATING PROFIT BEFORE GOODWILL

- UK
- Ireland

2003

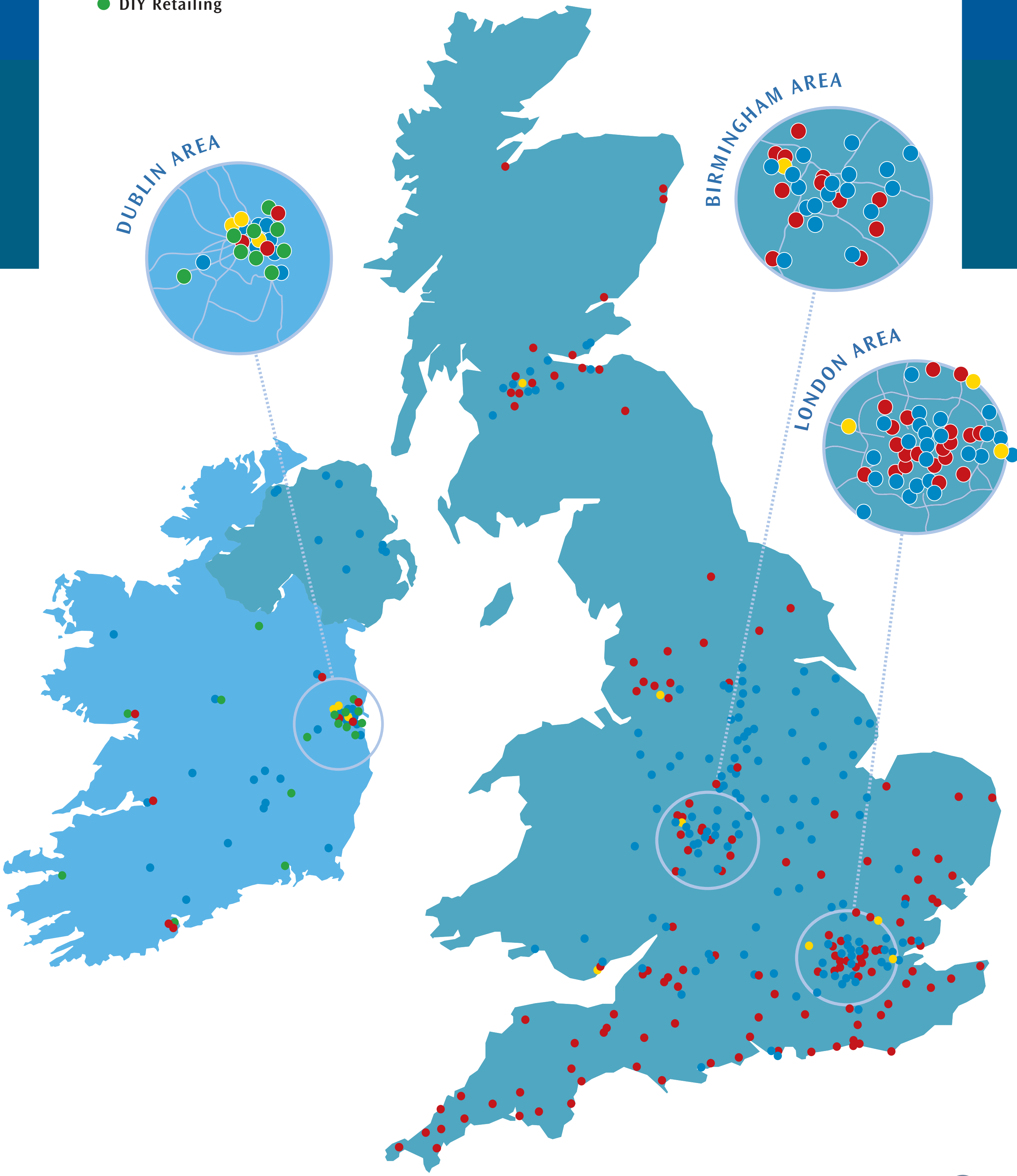


2002



Trading Locations

- Builders Merchanting
- Plumbers Merchanting
- Manufacturing
- DIY Retailing



The UK builders merchanting division developed three greenfield branches during 2003 including this one at Crawley, Sussex.

Chairman's Statement

"The strategy of the Group, determined in the early 1990's when profits were almost solely dependent on the Irish Merchanting market, has resulted in the creation of a business enjoying consistently strong profitable growth from an earnings base which is diversified both geographically and across the construction sector and related markets."

Grafton Group plc is pleased to report that 2003 has been another year of excellent progress and that record sales, profits and earnings have been achieved.

- Sales were up 30 per cent to €1.5 billion (2002: €1.15 billion).
- Operating profit before goodwill increased by 33.6 per cent to €123.3 million (2002: €92.3 million).
- Profit before tax increased by 27 per cent to €102.0 million (2002: €80.2 million).
- Earnings per share before goodwill and property profit increased by 21.8 per cent to 45.07 cent (2002: 36.99 cent).

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 2003 of 10.5 cent. This represents an increase of 23.8 per cent on 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.

The weighted average number of shares in issue increased by 10.7 per cent to 206.66 million (2002: 186.72 million) following the one for five rights issue in March 2003. The comparative earnings and redemption per share amounts for 2002 have been adjusted for the bonus element of the rights issue.

The results for 2003 are based on a strong performance across the Group's businesses and demonstrate the core strengths and quality of the Group's brands in the UK and Ireland. During 2003 the Group comfortably undertook a range of acquisition and development initiatives intended to

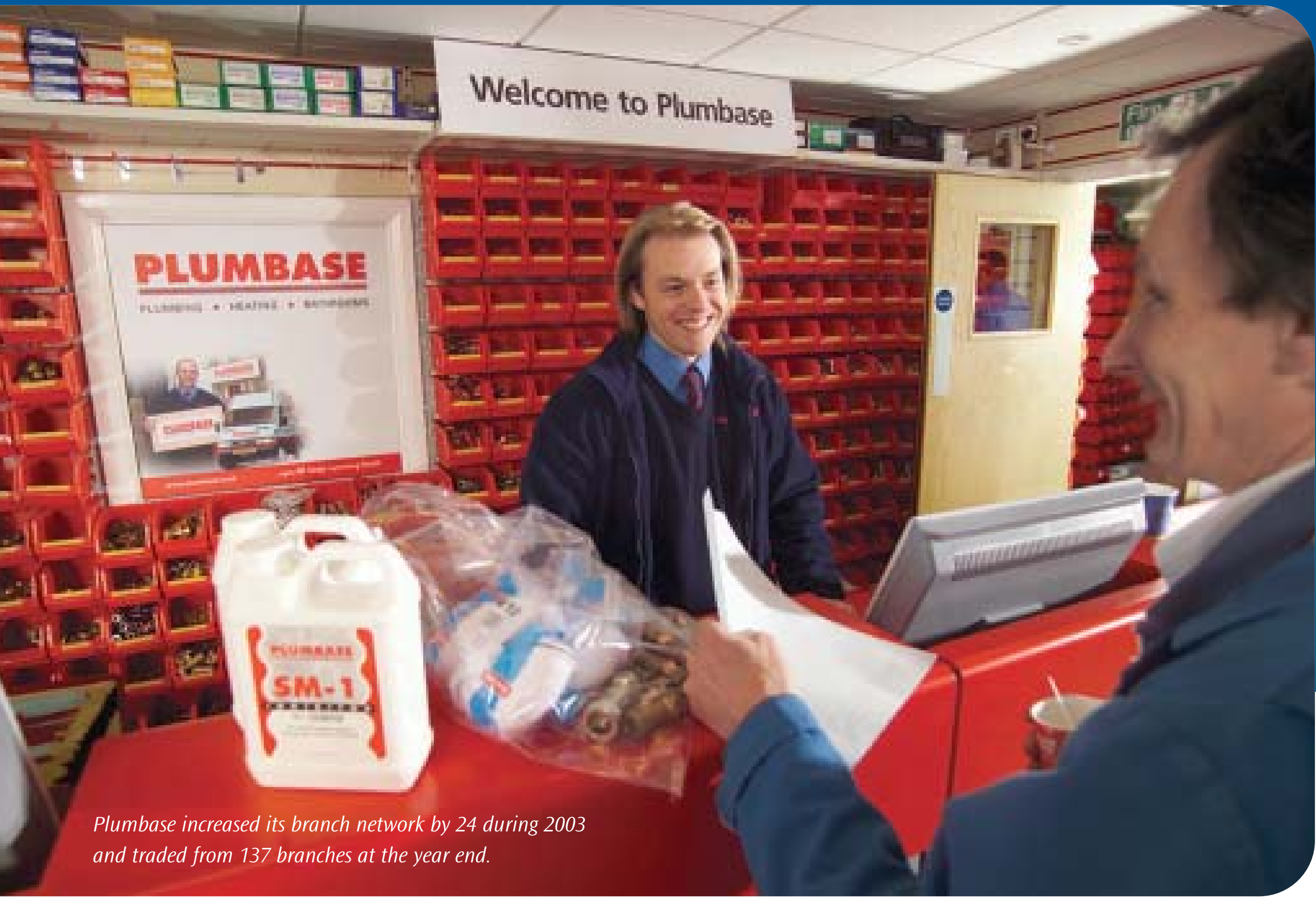
Chairman's Statement continued

strengthen its market position and provide a stronger base for the future profitable growth of its market leading businesses.

In 2003 the Group maintained the momentum of consistently strong profitable growth which has been a feature of its results since becoming an independent public Company in 1987. The results for 2003 also reflect the benefit of the Group's strategy of diversifying its earnings base both geographically and across the construction sector and related markets.

2003 was a year of substantial progress for the Group's UK businesses with turnover exceeding the equivalent of €1 billion for the first time. UK turnover grew by 37 per cent to €1.1 billion (2002: €808.5 million) and represented 74 per cent of Group turnover. UK operating profit before goodwill amortisation increased by 46 per cent to €78.6 million (2002: €53.7 million) contributing 64 per cent of Group operating profit (2002: 58 per cent). The UK operating profit margin increased as anticipated to 7.1 per cent (2002: 6.6 per cent).

In line with the Group strategy of actively participating in the ongoing consolidation in the UK builders merchanting market, nine acquisitions were completed during 2003. The acquired businesses included Jackson Building Centres which was the largest ever acquisition undertaken by the Group and Plumbline, Scotland's largest independent plumbers merchanting chain trading from seventeen branches.



Plumbase increased its branch network by 24 during 2003 and traded from 137 branches at the year end.

Chairman's Statement continued

Seven bolt-on acquisitions trading from twelve branches were also completed. The nine acquisitions together with the greenfield development of ten branches added 57 trading locations to the Group's UK merchanting network.

EuroMix, the Group's UK dry mortar business continued to benefit from its brand and market leadership position showing excellent growth in turnover and profit. A sixth mortar plant at Harlow, Essex commenced trading in May and EuroMix's seventh dry mortar plant is now under construction in Southampton.

In the Republic of Ireland, the Group experienced strong turnover and profit growth on the back of a very buoyant market for both new residential building and repair, maintenance and improvement work. Turnover increased 11.8 per cent to €384.5 million (2002: €343.8 million) and operating profit was up 16.0 per cent to €44.8 million (2002: €38.6 million). The operating profit margin increased to 11.6 per cent (2002: 11.2 per cent).

Chadwicks Limited, the leading Irish merchanting Company, completed a significant Irish acquisition with the purchase in October 2003 of Telfords, a three branch builders merchant based in the Midlands. Further development of the Irish merchanting and DIY businesses continued with the opening of two Chadwicks Plumb Centres in Galway city and North Dublin and two Woodie's DIY stores were opened in Cavan and Carlow.

The Group's operations continue to be strongly cash generative. Cash flow generated internally amounted to €129.8 million for the year and these funds together with the €67.3 million proceeds of the Rights issue part funded an expansive investment programme which resulted in over €289.4 million being invested in acquisitions and capital

Chairman's Statement continued

programmes. Shareholders funds were €449.8 million at the year end and the net debt to equity ratio was 69% (2002: 75%).

Operations Review - United Kingdom

UK sales increased by 37 per cent to €1.1 billion (2002: €808.5 million) and operating profit increased by 46 per cent to €78.6 million (2002: €53.7 million). Consistent with margin improvements achieved in recent years, the UK operating profit margin increased to 7.1 per cent (2002: 6.6 per cent). The UK operating profit margin has over the past five years increased from 3.0 per cent in 1998 to 7.1 per cent in 2003 due to increased scale, buying benefits and operational efficiencies.

The results of the UK business benefited from a strong performance in like for like activities, incremental profit from an active acquisition programme completed in 2002 and a strong initial ten month contribution from the Jacksons acquisition. Like for like merchanting sales increased by 5.4 per cent.

The first phase of improved operational efficiency and purchasing benefits have been realised and are included in the results for the year and are reflected in the continuing increase in operating margin being achieved in the UK. Additional gains are anticipated during 2004.

Sterling was on average 9 per cent weaker during 2003 when compared to 2002 and accordingly the underlying increase in profit in the UK businesses was in fact higher in local currency terms.

The results for 2003 demonstrate the UK managements' success in taking advantage of opportunities presented in a consolidating market and improving profitability in the enlarged business.

UK Builders Merchanting

The UK builders merchanting business, trading principally under the Buildbase and Jackson brands, had a year of very strong growth in sales and operating profit.

Buildbase, now regarded as a leading player in the UK merchanting market with strong brand recognition and an integrated branch network, had another excellent year increasing sales and operating profit strongly. The improved performance resulted mainly from solid like for like sales growth and significant progress in integrating a number of small chain and single branch acquisitions completed during 2002.

The division benefited from good like for like sales growth in a positive RMI market and from very good progress on integration of the 31 builders merchanting branches acquired during 2002. The 18 branch Jackson acquisition added critical mass to the division and continues to perform ahead of expectations. A further seven UK builders merchanting businesses acquired in 2003 traded from 12 branches. In addition the division developed three greenfield branches.

The successful acquisition of Jacksons on 3 March 2003 was in line with the Group's strategy of expanding its presence in the UK Merchanting market and represented a unique opportunity for Grafton to expand its builders merchanting presence into the

Plumbase expanded into Scotland with the acquisition of Plumbline which trades from 17 branches.

The EuroMix brand continued to penetrate the UK Mortar market with the opening of its sixth plant at Harlow, Essex.

Chairman's Statement continued

East Midlands region by acquiring the leading player in that market and one of the UK's most respected merchanting businesses.

As previously announced, it is anticipated that the annual synergies and cost savings for the enlarged Group will be achieved ahead of the estimates and in advance of the time frame contained in the original acquisition announcement.

Jacksons improved profitability in 2003 and achieved good like for like sales growth, cost savings and improved purchasing benefits due to membership of the enlarged group. The planned further development of the Jacksons business includes the opening of a greenfield branch in Louth, and refurbishment of the Swinton, South Yorkshire branch with a new purpose built facility.

In Northern Ireland Macnaughton Blair, the leading Merchant in the region, traded from ten branches and had another excellent year increasing sales and operating profit in a competitive market. Good like for like sales growth, purchasing benefits and a full year contribution from the Peter Woods acquisition made at the end of 2002 all contributed strongly to the Company's improved performance.

UK Plumbers Merchanting

Plumbase the UK plumbers merchanting chain increased sales and profit. Good sales growth, a full year contribution from acquisitions made at the end of 2002 and a contribution in the last quarter from the Plumbline acquisition contributed to an improved level of profitability in Plumbase.

Plumbase, one of the UK's largest plumbers merchanting chains, increased its branch network by 24 in 2003 and traded from 137 branches at the year end. The Plumbase branch network, which was concentrated in the South East, Midlands, East Anglia, West Country and North West, expanded into Scotland with the acquisition of Plumbline, the leading independent plumbers merchant trading from 17 branches. The three month contribution from Plumbline was in line with expectations and this acquisition offers opportunity for further profit growth in 2004.

The nine branch JKS and BJ White acquisitions made at the end of 2002 were successfully integrated into the Plumbase network in 2003 and made a good contribution to profit.

Plumbase has successfully developed its branch network through a combination of acquisitions and greenfield development and this approach continued in 2003 with the opening of seven greenfield branches.

EuroMix supplies a range of mortars for use in block and brick laying.

The Group's Irish merchanting business was strengthened with the acquisition of Telfords which trades from three branches in the Midlands.

Chairman's Statement continued

UK Mortar

EuroMix, the leading producer of dry mortar in the UK market, continued to consolidate its brand leadership position in this important growth segment of the residential and non-residential building market. The business grew volumes strongly and reported excellent growth in sales and operating profit.

EuroMix supplies a range of dry mortars for use in block and brick laying from six plants in the London, Birmingham, Manchester and Glasgow areas. The sixth plant at Harlow, Essex commenced production in May 2003 and the plant at Glasgow increased its capacity following a major investment programme. The EuroMix business has developed a strong reputation for the quality and range of its value added mortar and render products and also for the service and technical support available to its national, regional and local contractor customer base. During the year construction of the seventh EuroMix dry mortar plant in Southampton commenced with production scheduled to start in Summer 2004.

Operations Review - Republic of Ireland

Irish turnover increased by 11.8 per cent to €384.5 million (2002: €343.8 million) and operating profit increased by 16.0 per cent to €44.8 million (2002: €38.6 million). The operating profit margin increased to 11.6 per cent (2002: 11.2 per cent).

The Irish economy proved remarkably resilient during 2003 despite a weak global economic environment. While overall construction output is estimated to have shown only modest growth, the residential sector had a very strong year with completions of 68,800 units compared to 57,700 units in 2002. Demand also continued to be strong in the repair, maintenance and improvement market.

Irish Merchanting

The Irish Merchanting division increased sales by 11.5 per cent to €239.8 million (2002: €215.0 million) including like for like growth of 8 per cent.

Chadwicks builders and plumbers merchanting business traded strongly, increasing sales and operating profit due to volume growth and tight operational management of the business. The

Chairman's Statement continued

resumption of growth in residential construction activity in the second half of 2002 continued strongly during 2003. Chadwicks national branch network was well positioned to benefit from record activity in new residential building and a buoyant RMI market where it has a significant presence.

Chadwicks continued its successful programme of branch relocations from provincial town centre premises to high profile purpose built out of town sites. The relocation of the Wexford branch at the end of 2003 follows the successful relocation of the Clonmel and Kilkenny branches during 2002. Each new site has increased capacity providing operational efficiency and improved customer service.

The acquisition, in October 2003 of Telfords, a long established three branch builders merchant based in Portlaoise, has significantly strengthened Chadwicks presence in the Midlands market. Telfords traded ahead of pre-acquisition expectations and made a positive contribution to profitability in its first three months with the Group.

Chadwicks also increased its branch network with the greenfield development of two Plumb Centre branches in Galway and North Dublin.

Irish Retailing

Woodie's had another excellent year with significant turnover and profit growth. Turnover increased by 12.4 per cent to €110.3 million (2002: €98.1 million). Woodie's like for like sales growth was 4 per cent despite a weak Irish retail environment. Like for like operating profit improved as a result of volume growth, increased product margin due to sourcing benefits, a continuous focus on range improvement and control of store overheads.

New store openings in Cavan in August 2003 and Carlow in October 2003 increased Woodie's store network to 16. Both stores traded successfully. Woodie's results also benefited from a full year contribution from the Tralee and Newbridge stores which opened during 2002. Woodie's seventeenth store at Clonmel opened earlier this month. Woodie's have announced plans to open further stores at Naas Road, Dublin, Limerick, Kilkenny and Naas which will bring the network to 21 over the next two years.

Irish Manufacturing

Manufacturing turnover increased by 12.1 per cent to €34.4 million (2002: €30.7 million) due substantially to volume growth by CPI's EuroMix silo mortar business which supplies the Greater Dublin area.

Board

The Group announced in May 2003 that Norman Kilroy would be retiring as Managing Director in April 2004. Norman joined the Board as a Non-Executive Director in 1988 and was appointed Managing Director in 1990. In this role Norman has made an outstanding contribution to the success of the Group over the last 13 years. He will continue as a Non-Executive Director until later this year. The Nomination Committee of the Board has commenced a search for two additional Non-Executive Directors whose appointment will reflect the scale and geographical spread of the Group's interests.

Chadwicks relocated its Wexford branch to a purpose built out of town facility.


Curtain Poles

Chairman's Statement continued

Management and Staff

The record results achieved in 2003 were due in large measure to the skill, dedication and loyalty of the management and staff of the Group's businesses. The Board greatly appreciates the success which our management and staff bring to the Group and warmly welcome all of those who have joined the Group during 2003.

Strategy

The market leading Merchanting, DIY and Mortar businesses in the UK and Ireland demonstrate the core strengths and quality of the Group's brands. The strategy of the Group, determined in the early 1990's when profits were almost solely dependent on the Irish Merchanting market, has resulted in the creation of a business enjoying consistently strong profitable growth from an earnings base which is diversified both geographically and across the construction sector and related markets.

Group Outlook

The Group's strong cashflows, balance sheet and interest cover leave it ideally placed to grow its businesses organically and by acquisition.

Economic conditions in the UK are expected to continue to underpin demand in the repairs, maintenance and improvement sector. The UK merchanting business will benefit from organic growth, ongoing integration and scale related purchasing benefits being realised through the significant increase in the Group's business. The EuroMix mortar business is expected to continue on a significant growth path with completion of the seventh plant in Southampton.

Although there has been a gradual improvement in the Irish economy in recent months and the economic outlook for 2004 is positive, we expect that a number of the factors which have influenced record levels of house completions in Ireland in recent years to moderate leading to a gradual slow down to long term sustainable levels of new house building. Improved consumer sentiment and higher real disposable incomes should provide a favourable environment for Chadwicks to grow its RMI business and for continued growth in the Woodie's DIY business. Woodie's will also benefit in 2004 from a full year's contribution from the two stores opened in the second half of 2003, the recent store opening in Clonmel and from further store openings planned.

Trading has started well in 2004 and the Group looks forward with confidence to another year of further progress and improved earnings.

On behalf of the Board

Michael Chadwick
Chairman

Woodie's store opening programme continued during 2003 with the addition of new stores in Cavan (left) and Carlow (right).

Group Finance Review

Results

This was the Group's twelfth year of uninterrupted profit growth.

Turnover increased by 30 per cent to €1.5 billion having exceeded €1 billion for the first time in 2002. Operating profit before goodwill amortisation was up 34 per cent to €123.3 million (2002: €92.3 million) and profit before taxation increased by 27 per cent to €102.0 million (2002: €80.2 million)

Shareholders' funds increased by €127.9 million to €449.8 million (2002: €322.0 million) including €67.3 million raised in the one for five rights issue completed in March 2003 to part fund the acquisition of Jacksons.

The Group's net debt at 31 December 2003 was €311.7 million (2002: €240.6 million) and the net debt to equity ratio was 69 per cent (2002: 75 per cent). Interest was covered 7.5 times (2002: 7.4 times). The Group's average working capital intensity has remained consistent at 13.4 per cent (2002: 13.6 per cent).

Cash Flow

Cash flow from operating activities amounted to €129.8 million (2002: €109.3 million). In addition the Group generated €31.0 million (2002: €14.7 million) from asset disposals and €69.2 million (2002: €0.9 million) from the issue of shares. The total cash flow from operating activities, asset disposals and shares issued amounted to €229.9 million (2002: €124.8 million).

Acquisitions

The Group acquired ten businesses during 2003 at a cost of €220.1 million including Jacksons acquired at a cost of €138.8 million, Plumbline in Scotland and Telfords in Ireland. The ten acquired businesses traded from 50 branches and turned over in excess of €350 million.

The Group entered 2004 with a healthy pipeline of potential acquisitions under active consideration. It is planned to continue the Group's successful formula of acquisition led growth in the UK builders merchanting and plumbers merchanting market as opportunities arise which represent a good strategic fit and add value for our shareholders.

Capital Expenditure and Asset Disposals

Capital expenditure during 2003 amounted to €69.3 million (2002: €68.0 million). This included expenditure of €36.3 million (2002: €35.2 million) on projects of a development nature. These projects included the greenfield development of twelve merchanting outlets, two Woodie's DIY stores and a dry mortar plant. The Group also developed and re-located a number of branches. Further capital was invested to support the continued successful development of the Group's UK mortar business including the addition of increased capacity at the Glasgow plant.

The Group realised a profit of €3.4 million on disposal of surplus land principally at Stanford-le-Hope, Essex, a site that originated as surplus property on the acquisition of British Dredging in 1998. The Group has already announced that the sale of freehold property on the Naas Road, Dublin acquired during 2002 has been completed. A new flagship Woodie's DIY store will be developed on the site and is scheduled for completion during the third quarter of 2004. It is anticipated that a profit in excess of €6 million will be realised and accounted for in 2004 on successful completion of this development.

Interest Rate Management

The Group took advantage of a prolonged period of declining interest rates by leaving its debt, which is denominated in sterling, at floating rates. In the last quarter of 2002 one third of the Group's debt was fixed for five years. During the first quarter of 2003 the Group increased its fixed rate debt to almost half of the total debt. The average pre-tax fixed rate of interest secured is 4.6 per cent.

Group Finance Review continued

Cash Resources

The Group funds its ongoing development mainly from the strong cash flows generated by its businesses and leveraging its balance sheet strength through the use of committed bank facilities. The Group also holds significant short term cash deposits on an ongoing basis.

At 31 December 2003 cash and short term bank deposits with a maturity profile of six months or less amounted to €139 million.

The Group had gross debt of €451 million at 31 December 2003. More than half of gross debt is repayable after more than three years from the balance sheet date.

The Group's debt is denominated in sterling and arose in the context of the Group's active UK acquisition and development programme undertaken in recent years. The sterling debt proceeds provide a natural currency hedge against sterling assets acquired and purchased.

The Group had undrawn committed bank facilities of €68.2 million at 31 December 2003.

Rights Issue

The Group raised €67.3 million net of expenses in a one for five rights issue completed in March 2003 to part fund the acquisition of Jacksons and to enable the Group to continue to finance its acquisition and development programme. The Group's spend on acquisitions and capital expenditure was €289 million during 2003.

In the previous five years to the end of 2002 the Group spent almost €500 million on acquisitions and capital expenditure. This acquisition and investment programme was funded from internal cash flow and the utilisation of the Group's debt capacity except for a small share placing in 1999 which raised €15.5 million.

Summary

The Group's healthy cash flows, strong balance sheet, high level of interest cover and healthy debt profile leave it well placed to fund acquisition led development projects and greenfield initiatives which should provide a strong platform for continued growth in profitability.

Colm Ó Nualláin
Finance Director

Principal Brands

BUILDBASE

Builders Merchanting

The UK builders merchants division, trading principally under the Buildbase brand, from 121 branches, has a strong presence in the South East, Midlands and North of England.

jackson
Building Centres
JACKSON BUILDING CENTRES LIMITED

Builders Merchanting

Jacksons trade from 18 branches in the East Midlands where it is the leading builders merchanting brand.

PLUMBASE

Plumbers Merchanting

The UK plumbers merchanting division, trading under the Plumbase brand from 137 branches, has a strong presence in the South East, Midlands, East Anglia, West Country and Scotland.

CPI
EuroMix

Mortar Manufacturing

EuroMix, the UK's largest manufacturer of silo based mortar, for use in a range of construction projects, trades from 6 plants which provide an almost nationwide coverage. EuroMix is the leading dry mortar brand in the UK and Ireland.

CHADWICKS

Builders Merchanting

In the Republic of Ireland, the Group's leading builders and plumbers merchanting business trades from 31 branches nationally principally under the Chadwicks brand.

Woodie's DIY
AND GARDEN CENTRES

DIY Retailing

Woodie's DIY is the market leader in DIY retailing in the Republic of Ireland, trading from 16 stores nationally.

Board of Directors

Michael Chadwick
BA, MSc

EXECUTIVE CHAIRMAN

Michael Chadwick (52) joined the Group in 1975 and was appointed to the Board in 1979. He was appointed Executive Chairman in 1985.

Norman D. Kilroy
FCA

MANAGING DIRECTOR

Norman D. Kilroy (64) was appointed Managing Director in 1990 having previously been a non-executive Director. He will retire as Managing Director on 30 April 2004. He is a Director of Banque Nationale de Paris in Ireland and PEI Surgical and Medical Supplies Ltd. He previously served as an Authority Member of the IDA and as a member of the Irish Trade Board. He is a past President and a Fellow of the Irish Management Institute.

Colm Ó Nualláin
B Comm, FCA

FINANCE DIRECTOR

Colm Ó Nualláin (50) joined the Group as Financial Controller in 1989 and was appointed Finance Director in 1990. He previously held senior financial positions in a number of public and semi-state companies.

Fergus Malone
BE, MBA

EXECUTIVE DIRECTOR

Fergus Malone (61) joined the Group's Plastics division in 1972, having previously worked as an engineer in various industries. He was appointed to the Board in 1978 and is responsible for the Group's manufacturing businesses in the UK and Ireland.

Anthony E. Collins
MA, B Comm, Solicitor

DEPUTY CHAIRMAN - NON-EXECUTIVE

Anthony Collins (64) became a non-executive Director in 1988 and was appointed Deputy Chairman in 1995. A former President of the Law Society of Ireland, he is Senior Partner of Eugene F. Collins, Solicitors, Chairman of the Advisory Board of the Automobile Association Ireland, Deputy Chairman of The Leinster Leader Ltd and a Director of the Institute of Directors in Ireland Ltd.

Richard W. Jewson (UK)
MA

NON-EXECUTIVE DIRECTOR

Richard Jewson (59) joined the Board in 1995. He is Chairman of Archant Ltd, Savills plc and a Director of Temple Bar Investment Trust plc.

Gillian Bowler (UK)

NON-EXECUTIVE DIRECTOR

Gillian Bowler (51) joined the Board in 1995. She is Chairman of Budget Travel Ltd and a Director of Irish Life & Permanent plc and the VHI. She is also Chairman of Fáilte Ireland and a Director of the Institute of Directors in Ireland Ltd. She formerly served as Chairman of The Irish Museum of Modern Art and as a member of the Independent Radio and Television Commission.

Charles Rinn
MBA FCCA

GROUP FINANCIAL CONTROLLER AND SECRETARY

BOARD COMMITTEES

Audit	Remuneration	Nomination	Finance
R.W. Jewson (Chairman)	G. Bowler (Chairman)	A.E. Collins (Chairman)	M. Chadwick (Chairman)
G. Bowler	A.E. Collins	G. Bowler	N.D. Kilroy
A.E. Collins	R.W. Jewson	M. Chadwick	C. Ó Nualláin
		R.W. Jewson	C. Rinn

Financial Review

Profit and Loss Accounts	2003 €m	2002 €m	2001 €m	2000 €m	1999 €m	1998 €m	1997 €m
Turnover	**1,496.0**	1,152.4	988.8	830.5	620.2	427.6	327.6
Operating profit*	**115.8**	89.7	77.3	64.6	46.3	33.1	25.6
Exceptional profit	**3.4**	3.7	2.3	-	-	-	-
Interest payable (net)	**(17.2)**	(13.2)	(12.4)	(11.8)	(8.1)	(4.9)	(2.4)
Profit before taxation	**102.0**	80.2	67.2	52.8	38.2	28.2	23.2
Taxation	**(15.3)**	(12.0)	(8.7)	(6.9)	(4.6)	(4.0)	(3.5)
Profit after taxation	**86.7**	68.2	58.5	45.9	33.6	24.2	19.7

Balance Sheets	2003 €m	2002 €m	2001 €m	2000 €m	1999 €m	1998 €m	1997 €m
Capital employed							
Goodwill	**210.8**	100.4	62.5	51.7	31.7	9.8	-
Tangible assets	**346.8**	302.3	251.5	209.6	175.9	140.7	61.8
Financial assets	**33.7**	33.6	33.6	18.9	19.0	0.2	12.5
Net current assets#	**198.5**	144.3	129.5	106.5	76.2	60.2	29.4
Other liabilities	**(28.3)**	(18.0)	(17.7)	(16.1)	(14.1)	(12.4)	(1.2)
	761.5	562.6	459.4	370.6	288.7	198.5	102.5
Financed as follows:							
Shareholders' funds equity	**449.8**	322.0	264.5	216.5	181.3	139.8	78.6
Net debt/(cash)	**311.7**	240.6	194.9	154.1	107.4	58.7	23.9
	761.5	562.6	459.4	370.6	288.7	198.5	102.5
Other Information							
Acquisition & investment expenditure	**220.1**	88.8	61.8	56.6	63.6	53.4	29.7
Purchase of tangible fixed assets	**69.3**	68.0	42.0	43.2	29.5	20.6	14.6
Total capital & investment expenditure	**289.4**	156.8	103.8	99.8	93.1	74.0	44.3
Depreciation and goodwill amortisation	**37.6**	26.6	21.9	16.5	12.6	7.2	5.4

Financial Highlights	2003	2002	2001	2000	1999	1998	1997
Earnings per share before goodwill & exceptional profit (cent)	**45.1**	37.0	32.1	25.9	19.5	14.2	11.6
Share redemption/dividend per share (cent)	**10.5**	8.5	7.5	6.1	4.5	3.3	2.7
Cashflow per share (cent)	**60.1**	53.9	46.2	36.2	27.5	19.4	15.7
Net assets per share (cent)	**211.5**	181.6	150.2	124.3	104.9	84.9	48.8
Interest cover (times)	**7.5**	7.4	6.7	5.7	5.8	6.8	10.6
Share redemption/dividend cover (times)	**4.3**	4.4	4.3	4.3	4.3	4.3	4.3
Net debt to shareholders' funds	**69%**	75%	74%	71%	59%	42%	30%

* Including income from financial assets # Excluding net debt

1996 €m	1995 €m	1994 €m	1993 €m	1992 €m	1991 €m	1990 €m	1989 €m	1988 €m	1987 €m
244.0	195.7	169.0	133.2	122.4	119.9	109.5	87.8	67.6	62.8
19.1	14.2	11.3	6.1	6.5	6.1	7.3	5.7	3.3	2.2
1.8	0.8	-	-	-	-	-	-	-	-
(1.3)	(1.1)	(1.2)	(0.9)	(1.6)	(1.6)	(0.7)	(0.8)	(0.5)	(0.6)
19.6	13.9	10.1	5.2	4.9	4.5	6.6	4.9	2.8	1.6
(2.9)	(2.5)	(2.1)	(1.1)	(1.2)	(1.1)	(2.1)	(1.8)	(0.7)	(0.4)
16.7	11.4	8.0	4.1	3.7	3.4	4.5	3.1	2.1	1.2

1996 €m	1995 €m	1994 €m	1993 €m	1992 €m	1991 €m	1990 €m	1989 €m	1988 €m	1987 €m
-	-	-	-	-	-	-	-	-	-
48.5	43.2	40.1	35.9	33.0	33.7	30.6	21.2	19.4	18.1
0.1	-	1.2	3.4	1.0	1.9	1.3	-	-	0.4
21.4	21.5	18.2	17.9	18.4	18.6	18.7	16.1	11.1	9.3
(1.1)	(1.1)	(1.1)	(1.1)	(1.0)	(1.0)	(1.0)	(0.6)	(0.5)	(0.2)
68.9	63.6	58.4	56.1	51.4	53.2	49.6	36.7	30.0	27.6
70.6	57.7	49.9	45.7	42.2	40.7	38.7	36.0	25.1	23.9
(1.7)	5.9	8.5	10.4	9.2	12.5	10.9	0.7	4.9	3.7
68.9	63.6	58.4	56.1	51.4	53.2	49.6	36.7	30.0	27.6
8.0	1.4	5.8	2.7	-	1.2	7.8	0.1	1.6	-
7.6	7.7	5.7	5.2	2.4	5.9	7.8	3.5	2.7	1.3
15.6	9.1	11.5	7.9	2.4	7.1	15.6	3.6	4.3	1.3
4.2	3.6	3.0	2.6	2.1	2.1	1.4	1.0	0.9	1.1

1996	1995	1994	1993	1992	1991	1990	1989	1988	1987
9.0	6.5	4.8	2.5	2.2	2.0	2.7	2.3	1.6	0.9
2.1	1.5	1.0	0.9	0.8	0.7	0.7	0.6	0.5	0.4
13.1	9.5	7.0	4.3	3.7	3.5	3.8	3.3	2.4	1.8
44.2	36.6	31.7	29.3	27.0	26.2	24.9	23.1	20.2	19.4
15.4	13.1	9.8	7.0	4.1	3.8	10.2	6.9	6.7	3.8
4.3	4.3	4.7	2.9	2.9	2.7	3.8	3.8	3.3	2.4
-	10%	17%	23%	22%	31%	28%	2%	19%	16%

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 though 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.

Report of the Directors

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

Corporate Governance

The Board is committed to maintaining the highest standard of corporate governance and supports the principles set out in the Hampel Combined Code published in 1998. The Board is currently considering the provisions of the 2003 FRC Code.

The following statement describes how the relevant principles set out in the 1998 Combined Code are applied.

Board of Directors

The Board comprises the Executive Chairman, three executive Directors and three non-executive Directors who are independent of management and free from any current direct business or other relationship with the Group other than as shareholders. The three independent non-executive Directors are Anthony E. Collins, Gillian Bowler and Richard W. Jewson and their biographies appear on page 19. The senior non-executive Director is Anthony E. Collins who is Deputy Chairman of the Board. The Board believes that it is in the interest of shareholders that the Executive Chairman, Michael Chadwick, continues to hold the combined roles of Chairman and Chief Executive.

The Board meets at least six times a year and there is contact between meetings as required in order to progress the Group's business. The Board takes the major decisions while allowing management sufficient scope to run the businesses within a centralised reporting framework. All Directors have full and timely access to all relevant information in a form appropriate to enable them to discharge their duties. The Board has a formal schedule of matters specifically reserved to it for decision, which covers the key areas of the Group's business including financial statements, budgets, acquisitions, major items of capital expenditure and the strategic development of the Group.

All Directors have access to the advice and services of the Company Secretary who is responsible for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

Board Committees

The Board is assisted by committees of Board members, which focus on specific aspects of its responsibilities.

The *Audit Committee*, which comprises only the three non-executive Directors, meets at least twice each year and assists the Board in its responsibilities for financial reporting and internal control. The Committee reviews the interim and annual financial statements including the accounting principles, policies and practices adopted. The Committee discuss the results and scope of the audit with the Group's Auditors who have direct access to the Committee Chairman at all times. The Committee also reviews the cost effectiveness, independence and objectivity of the external auditors and the scope and findings of the Group's internal audit function.

The *Nomination Committee* comprises the three non-executive Directors and the Executive Chairman. The Committee is responsible for proposing any new executive and non-executive appointments to the Board having regard to the balance and structure of the Board.

The *Remuneration Committee*, which consists solely of the three non-executive Directors, makes recommendations to the Board, within agreed terms of reference, on the Group's framework of executive remuneration and on specific remuneration packages for each of the executive Directors. The Executive Chairman is fully consulted about remuneration proposals and outside advice is sought by the Remuneration Committee when necessary. The remuneration of the non-executive Directors is determined by the Board within limits set out in the Articles of Association.

The *Finance Committee* comprises the Executive Chairman, the Managing Director, the Finance Director and the Group Financial Controller. The Committee deals with capital expenditure and treasury activities within prescribed limits and other management issues.

Internal Control

The Directors acknowledge that they have overall responsibility for the Group's system of internal control and for reviewing its effectiveness. The Directors recognise that such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material mis-statement or loss.

Corporate Governance

A process for identifying, evaluating and managing significant risks faced by the Group, in accordance with the Guidance for Directors on the Combined Code, has been in place throughout the accounting period and up to the date the financial statements were approved.

Group management are responsible for implementing strategy and for the continued development of the Group's businesses within parameters set down by the Board. Similarly, day to day management of the Group's businesses is devolved to operational management within clearly defined authority limits and subject to very tight reporting of financial performance. Group and operating Company management are responsible for internal control including the identification and evaluation of significant risks and for the implementation of appropriate internal controls to manage risk. Group management report to the Board on key risks and internal control issues including the way in which these are managed.

The key features of the Group's system of internal control include:

- A clear focus on implementing the Group's strategy.
- Defined structures and authority limits for the operational and financial management of the Group and its businesses.
- A comprehensive system of reporting on trading, operational issues and financial performance incorporating results and cash flows, working capital management, return on capital employed and other relevant measures of performance.
- Board approval of capital expenditure and acquisition proposals.

The internal audit function focuses on areas of greatest risk to the Group, monitors compliance and considers the effectiveness of internal control throughout the Group. The audit committee receives reports and meets with internal and external auditors in order to satisfy itself on the adequacy of the Group's internal control system. The Chairman of the audit committee reports to the Board on significant matters considered by the committee.

The Directors confirm that they have reviewed the effectiveness of internal control. In particular, they have considered the significant risks affecting the business and the way in which these risks are managed, controlled and monitored.

Going Concern

The Directors, having made enquiries, believe that the Group has adequate resources to continue in operational existence for the foreseeable future and, on this basis, they continue to adopt the going concern basis in preparing the financial statements.

Communication with Shareholders

The Company recognises the importance of communication with shareholders. Presentations are made to both existing and prospective institutional shareholders principally after the release of Interim and Annual results. The Annual General Meeting provides individual shareholders with an opportunity to raise questions with the Directors.

The Company's website www.graftonplc.com presents information about the Group including Interim and Annual results and other announcements.

Statement of Compliance with the 1998 Combined Code

The Directors confirm that, in applying the Principles of Good Governance, the Group has complied throughout the accounting period with the Code of Best Practice as set out in the 1998 Combined Code.

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 the Committee, had 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 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 Grafton Group Share Option 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 Option Scheme

It is the practice of the Group to grant share options periodically to key executives throughout 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 Option Scheme, two types of options are available subject to the conditions set out below:

Directors' Report on Remuneration

(i) Basic options which cannot be exercised before the expiration of five years after the date upon which they were granted unless the Remuneration Committee agrees to a shorter period which shall not be less than three years and only then, if 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 options cannot be exercised before the expiration of five years after the date upon which they were granted. Second tier options are exercisable if over a period of at least five years subsequent to the granting of the options, the growth in the Group's earnings per share would place it in the top 25% of the companies listed on the Irish Stock Exchange Index over the same period; provided that second tier options shall in any case be exercisable if the Company's earnings per share growth over the relevant period is greater, by not less than 10% on an annualised basis, than the increase in the Consumer Price Index over that period.

The share option 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.

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.

	Basic salary 2003 €'000	Performance related bonus 2003 €'000	Other benefits 2003 €'000	Total 2003 €'000	Total 2002 €'000
Remuneration for 2003					
Executive Directors					
M. Chadwick	398	273	41	**712**	177
N.D. Kilroy	221	94	37	**352**	406
C. Ó Nualláin	318	218	31	**567**	412
J.F. Malone	221	150	28	**399**	300
	1,158	735	137	**2,030**	1,295

	Fees 2003 €'000	Total 2003 €'000	Total 2002 €'000
Non-executive Directors			
A.E. Collins	47	**47**	38
G. Bowler	38	**38**	32
R.W. Jewson	49	**49**	44
	134	**134**	114
Sub-total		**2,164**	1,409
Pension contribution on behalf of Executive Directors		**806**	740
Total		**2,970**	2,149

Directors' Report on Remuneration

Directors' Pensions

The pension contribution shown on page 28 includes a contribution of €105,000 (2002: €100,000) to a defined contribution pension scheme on behalf of Mr. Norman Kilroy.

Pension benefits earned by Directors who are members of a defined benefits 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	44	302	545
C. Ó Nualláin	25	162	233
J.F. Malone	3	186	30

Directors' and Secretary's Interests

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

Director	**31 December 2003 Grafton Units***	31 December 2002 Grafton Units
M. Chadwick	**19,097,022**	17,902,010
A.E. Collins	**390,000**	360,000
N.D. Kilroy	**65,230**	51,610
J.F. Malone	**519,014**	429,830
C. Ó Nualláin	**656,298**	640,000
G. Bowler	**132,000**	110,000
R.W. Jewson	**42,204**	35,170

Mr. M. Chadwick also holds a non-beneficial interest in 2,986,560 (2002: 2,806,560) 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 1,323,521 (2002: 1,489,050) Grafton Units in their capacities as Trustees of the Grafton Group plc Share Participation Scheme.

There have been no changes in the interests of the Directors between 31 December 2003 and the date of this report.

Mr. C. Rinn, Secretary, had an interest in 25,882 Grafton Units at 31 December 2003 (2002: 18,820).

*At 31 December 2003 a Grafton Unit comprised of one ordinary share of 5 cent each, seven redeemable shares of 0.01 cent each in Grafton Group plc and one C ordinary share of Stg0.0001p in Grafton Group (UK) plc.

Directors' Report on Remuneration

Directors' and Secretary's Share Options

The interests of the Directors in options, granted in accordance with the Company's share option scheme, to subscribe for Grafton Units in the Company are given below:

	Number of Options									
	1 January 2003	Rights Issue Adjustment	Exercised	31 December 2003	Basic	Second Tier	Exercise Price €	Dates from which exercisable	Dates on which options expire	Market price on date of exercise €
N.D. Kilroy	68,200	4,179	-	72,379	72,379	-	0.65	April 2000	April 2006	-
C. Ó Nualláin	150,000	9,192	(85,000)	74,192	74,192	-	2.21	June 2003	June 2008	4.10*
	150,000	9,192	-	159,192	90,209	68,983	1.81	June 2004	June 2009	
	150,000	9,192	-	159,192	84,902	74,290	2.07	April 2005	April 2010	
	150,000	9,192	-	159,192	5,306	153,886	2.83	April 2006	April 2011	
	120,000	7,354	-	127,354	31,839	95,515	4.00	April 2007	April 2012	
	-	-	-	160,000#	80,000	80,000	5.45	Oct 2008	Oct 2013	
	720,000	44,122	(85,000)	839,122	366,448	472,674				
J.F. Malone	80,000	4,902	(84,902)	-	-	-	0.65	April 2001	April 2006	5.00*
	150,000	9,192	(159,192)	-	-	-	1.07	April 2002	April 2007	5.00*
	150,000	9,192	-	159,192	159,192	-	2.21	June 2003	June 2008	
	150,000	9,192	-	159,192	90,209	68,983	1.81	June 2004	June 2009	
	150,000	9,192	-	159,192	84,902	74,290	2.07	April 2005	April 2010	
	680,000	41,670	(244,094)	477,576	334,303	143,273				

* This represents the weighted average market price at the dates of exercise.

These options were granted on 20 October 2003

The mid-market price of a Grafton Unit at 31 December 2003 was €5.47 and the price range during the year was between €2.68 and €5.60.

Mr. C. Rinn, Secretary, had options to subscribe for 371,852 Grafton Units in the Company at 31 December 2003 (31 December 2002: 275,000). The adjustment in respect of the rights issue was 16,852 and options over 80,000 Grafton Units were granted on 20 October 2003 at a price of €5.45 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.

The number of share options held at the time of the rights issue and the option prices were adjusted by a factor of 1.06128 in order to adjust for the bonus element of the rights issue. Further information on the rights issue adjustment factor is contained in Note 10 to the Financial Statements.

Statement of Directors' Responsibilities

Irish Company law requires the Directors to prepare financial statements for each financial year which, in accordance with applicable Irish law and accounting standards, give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial year and of the profit or loss of the Group for that year. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- comply with applicable accounting standards, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The Directors are responsible for keeping proper books of account which disclose with reasonable accuracy at any time the financial position of the Company and of the Group and which enable them to ensure that the financial statements comply with the Companies Acts, 1963 to 2001 and all Regulations to be construed as one with those Acts. They are also responsible for safeguarding the assets of the Company and of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

On behalf of the Board

M. Chadwick
C. Ó Nualláin

Independent Auditors’ Report

To the Members of Grafton Group plc

We have audited the financial statements on pages 34 to 64.

This report is made solely to the Company’s members, as a body, in accordance with Section 193 of the Companies Act, 1990. Our audit work has been undertaken so that we might state to the Company’s members those matters we are required to state to them in an auditors’ report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company’s members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors in relation to the Annual Report

The Directors are responsible for preparing the Annual Report including, as described on page 31 the financial statements in accordance with applicable Irish law and accounting standards. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the Irish Stock Exchange and by our profession’s ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Acts. As also required by the Acts, we state whether we have obtained all the information and explanations we require for our audit, whether the financial statements agree with the books of account and report to you our opinion as to whether

- the Company has kept proper books of account;
- the Report of the Directors is consistent with the financial statements;
- at the balance sheet date a financial situation existed that may require the Company to hold an extraordinary general meeting, on the grounds that the net assets of the Company, as shown in the financial statements, are less than half of its share capital.

We also report to you if, in our opinion, information specified by law or the Listing Rules regarding Directors’ remuneration and transactions with the Company is not disclosed. We review whether the statement on pages 25 and 26 reflects the Company’s compliance with the paragraphs of the Combined Code on Corporate Governance specified for our review by the Irish Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the Company’s corporate governance procedures or its internal controls.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group’s circumstances, consistently applied and adequately disclosed.

Independent Auditors' Report

To the Members of Grafton Group plc

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Acts, 1963 to 2001 and all Regulations to be construed as one with those Acts.

We have obtained all the information and explanations we considered necessary for the purposes of our audit. In our opinion, proper books of account have been kept by the Company. The Company's balance sheet is in agreement with the books of account. In our opinion, the information given in the Report of the Directors on pages 22 to 24 is consistent with the financial statements.

The net assets of the Company, as stated in the balance sheet on page 38, are more than half of the amount of its called up share capital and, in our opinion, on that basis there did not exist at 31 December 2003 a financial situation which, under Section 40(1) of the Companies (Amendment) Act, 1983, would require the convening of an extraordinary general meeting of the Company.

KPMG
Chartered Accountants
Registered Auditors
Dublin
9 March 2004

Group Profit and Loss Account

For the year ended 31 December 2003

	Note	2003 €'000	2002 €'000
Turnover			
Continuing operations		**1,280,423**	1,152,358
Acquisitions		**215,595**	-
Total turnover	1	**1,496,018**	1,152,358
Operating profit before goodwill amortisation	2		
Continuing operations		**107,314**	92,311
Acquisitions		**16,009**	-
		123,323	92,311
Goodwill amortisation	11	**9,358**	4,195
Operating profit	2	**113,965**	88,116
Profit on disposal of property	3	**3,437**	3,711
Trading profit	2	**117,402**	91,827
Income from financial assets		**1,788**	1,611
Interest payable (net)	6	**17,169**	13,219
Profit on ordinary activities before taxation		**102,021**	80,219
Tax on profit on ordinary activities	8	**15,320**	12,048
Profit on ordinary activities after taxation		**86,701**	68,171
Dividend on ordinary shares		**-**	9
Profit retained for the financial year	26	**86,701**	68,162
Earnings per share	10	**41.95c**	36.51c
Adjusted earnings per share	10	**45.07c**	36.99c
Diluted earnings per share	10	**41.15c**	35.71c
Adjusted diluted earnings per share	10	**44.20c**	36.18c

On behalf of the Board

M. Chadwick
C. Ó Nualláin
Directors

9 March 2004

Other Statements

For the year ended 31 December 2003

Statement of Total Recognised Gains and Losses

		2003 €'000	2002 €'000
Profit for the financial year attributable to ordinary shareholders		**86,701**	68,171
Currency translation adjustment	– on foreign currency net investments	**(13,095)**	(8,415)
	– on foreign currency borrowings	**3,908**	3,503
Total recognised gains and losses for the year		**77,514**	63,259

Historical Cost Profits and Losses

	2003 €'000	2002 €'000
Profit on ordinary activities before taxation	**102,021**	80,219
Realisation of revaluation reserve on sale of property	**-**	731
Difference between historical cost depreciation charge and actual depreciation charge for the year calculated on the revalued amount	**273**	273
Historical cost profit on ordinary activities before taxation	**102,294**	81,223
Historical cost profit retained for the financial year	**86,974**	69,166

Movements on Group Profit and Loss Account

	2003 €'000	2002 €'000
At 1 January	**236,934**	179,290
Retained profit for the financial year	**86,701**	68,162
Redemption of redeemable shares	**(18,816)**	(6,610)
Currency translation adjustment	**(9,187)**	(4,912)
Re-issue of treasury shares	**486**	-
Transfer from revaluation reserve	**273**	1,004
At 31 December	**296,391**	236,934
The profit and loss account reserve is analysed as follows:		
Parent Company	**49,756**	50,816
Subsidiary undertakings	**246,635**	186,118
	296,391	236,934

Reconciliation of Movements in Group Shareholders' Funds

	Note	2003 €'000	2002 €'000
Total recognised gains and losses for the year		**77,514**	63,259
Dividends	9	**-**	(9)
Redemption of redeemable shares	9	**(18,816)**	(6,610)
Issue of ordinary share capital (net of issue expenses)	22/23	**68,684**	866
Re-issue of treasury shares	22	**486**	-
Net addition to shareholders' funds		**127,868**	57,506
Opening shareholders' funds		**321,973**	264,467
Closing shareholders' funds – equity		**449,841**	321,973

Group Balance Sheet

As at 31 December 2003

	Note	2003 €'000	2002 €'000
Fixed assets			
Goodwill	11	**210,840**	100,443
Tangible assets	12	**346,812**	302,336
Financial assets	13	**33,665**	33,579
		591,317	436,358
Current assets			
Stock	14	**194,436**	159,345
Debtors	15	**272,797**	209,276
Cash and short term bank deposits	31	**138,956**	103,108
		606,189	471,729
Creditors (amounts falling due within one year)	16	**354,798**	282,015
Net current assets		**251,391**	189,714
Total assets less current liabilities		**842,708**	626,072
Creditors (amounts falling due after more than one year)	18	**369,926**	288,083
Provisions for liabilities and charges	21	**22,941**	16,016
		392,867	304,099
Net Assets		**449,841**	321,973
Capital and reserves			
Share capital	22	**10,781**	9,023
Share premium account	23	**102,352**	35,465
Capital redemption reserve	24	**57**	18
Revaluation reserve	25	**40,260**	40,533
Profit and loss account	26	**296,391**	236,934
Shareholders' funds – equity		**449,841**	321,973

On behalf of the Board

M. Chadwick
C. Ó Nualláin
Directors

9 March 2004

Group Cash Flow Statement

For the year ended 31 December 2003

	Note	2003 €'000	2002 €'000
Net cash inflow from operating activities	27	**129,793**	109,259
Returns on investments and servicing of finance	29	**(15,824)**	(9,424)
Taxation		**(7,057)**	(5,213)
		106,912	94,622
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(69,267)**	(68,007)
Disposal of tangible fixed assets		**30,951**	14,656
		(38,316)	(53,351)
Acquisitions			
Acquisition of subsidiary undertakings and businesses	30	**(187,497)**	(76,379)
Net(debt)/cash acquired with subsidiary undertakings	30	**(1,912)**	5,250
Deferred acquisition consideration		**(1,342)**	(3,728)
		(190,751)	(74,857)
Redemption of shares/dividends			
Equity dividends paid		**-**	(8,330)
Redemption of redeemable shares		**(18,816)**	(6,610)
		(18,816)	(14,940)
Cash outflow before use of liquid resources and financing		**(140,971)**	(48,526)
Cash (outflow)/inflow from movement in liquid resources	31	**(40,312)**	7,272
Financing			
Issue of ordinary share capital		**69,170**	866
Increase in term debt		**78,889**	95,329
Capital element of finance leases repaid		**(1,080)**	(1,723)
Redemption of loan notes payable		**(11,240)**	(18,627)
Financing from lease and leaseback		**22,501**	-
		158,240	75,845
(Decrease)/increase in cash in the year	31	**(23,043)**	34,591

Reconciliation of Net Cash Flow to Movement in Net Debt

	Note	2003 €'000	2002 €'000
(Decrease)/increase in cash in the year		**(23,043)**	34,591
Cash inflow from increase in debt and lease financing		**(89,070)**	(74,979)
Cash flow from management of liquid resources		**40,312**	(7,272)
Change in net debt resulting from cash flows		**(71,801)**	(47,660)
Loan notes issued on acquisition of subsidiary undertakings		**(24,567)**	(14,473)
Finance leases acquired with subsidiary undertakings		**(478)**	(744)
Translation adjustment		**25,775**	17,138
Movement in net debt in the year	31	**(71,071)**	(45,739)
Net debt at 1 January		**(240,644)**	(194,905)
Net debt at 31 December	31/32	**(311,715)**	(240,644)

Company Balance Sheet

As at 31 December 2003

	Note	2003 €'000	2002 €'000
Fixed assets			
Tangible assets	12	**400**	489
Financial assets	13	**18,407**	18,407
		18,807	18,896
Current assets			
Debtors	15	**277,244**	208,407
Cash at bank and in hand		**1,505**	876
		278,749	209,283
Creditors (amounts falling due within one year)	16	**97,153**	82,126
Net current assets		**181,596**	127,157
Total assets less current liabilities		**200,403**	146,053
Creditors (amounts falling due after more than one year)	18	**37,457**	50,731
		162,946	95,322
Capital and reserves			
Share capital	22	**10,781**	9,023
Share premium account	23	**102,352**	35,465
Capital redemption reserve	24	**57**	18
Profit and loss account	26	**49,756**	50,816
Shareholders' funds – equity		**162,946**	95,322

On behalf of the Board

M. Chadwick
C. Ó Nualláin
Directors

9 March 2004

Accounting Policies

A summary of the principal Group accounting policies are set out below which have been applied consistently throughout the year and the preceding year.

Basis of accounting

The financial statements are prepared under the historical cost convention, as modified by the revaluation of certain tangible fixed assets, and comply with the accounting standards applicable in the Republic of Ireland and the United Kingdom.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the parent undertaking and its subsidiary undertakings all of which are made up to 31 December 2003. The results of Companies acquired are dealt with in the profit and loss account from the date on which control passes. Rationalisation and integration costs relating to acquisitions are charged to the profit and loss account in the year in which they are incurred.

Goodwill

Purchased goodwill in respect of acquisitions before 1 January 1998 was charged directly to reserves in the year of acquisition. Goodwill arising on acquisitions since 1 January 1998, being the excess of the cost of acquisition over the fair value of the net assets acquired, is included within fixed assets and amortised over its expected useful economic life of 20 years.

Euro and Foreign currencies

The results and cashflows of non-euro subsidiary undertakings are translated into euro using the average exchange rate and related balance sheets have been translated at the rates of exchange ruling at the balance sheet date. Exchange rate differences arising on translation of results of non-euro subsidiary undertakings and on the restatement of opening net assets are dealt with through retained profit net of differences on related foreign currency borrowings.

Foreign currency transactions during the year have been converted at the rate of exchange ruling at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated into euro at the rates of exchange ruling at the balance sheet date. The resulting profits or losses are dealt with in the profit and loss account.

Turnover

Turnover represents the fair value of goods, excluding value added tax, delivered to or collected by third party customers in the year. Goods are deemed to have been delivered to customers, when the customer has access to the significant benefits inherent in the goods and exposure to the risks inherent in those benefits.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at historical cost less accumulated depreciation except for certain freehold and leasehold properties which are carried at revalued amounts less accumulated depreciation. The Group is availing of the transitional provisions of FRS 15, Tangible Fixed Assets, in continuing to carry such property assets at their previously revalued amount, which is not being updated for subsequent changes in value, but is adjusted for subsequent additions, disposals, depreciation and impairment as applicable.

Land is not depreciated. Depreciation is calculated to write-off the cost or valuation of other tangible fixed assets over their estimated useful lives in equal annual instalments as follows:

Buildings	50 to 100 years
Plant and machinery	5 to 10 years
Motor vehicles	5 years
Plant hire equipment	4 to 8 years

The carrying value of tangible assets is reviewed for impairment if events or changed circumstances indicate that the carrying value in the financial statements may not be recoverable.

Accounting Policies

Financial fixed assets

The investment in subsidiary undertakings in the Company balance sheet and other listed investments are shown at cost less provision for any impairment in value where applicable. Dividends from listed securities are accrued once they are declared.

Stocks

Stocks are valued at the lower of cost and net realisable value. In the case of finished goods and work in progress, cost includes direct materials, direct labour and attributable overheads. Net realisable value is based on estimated selling price less any further costs expected to be incurred.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. Provision is made at the rates expected to apply when the timing differences reverse. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in taxable profits in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Liquid resources

Liquid resources represent bank deposits of less than one year.

Pension costs

Pension costs are recognised on a systematic basis so that the costs of providing retirement benefits to employees are evenly matched, so far as is possible, to the service lives of the employees concerned. Any excess or deficiency of the actuarial value of assets over the actuarial value of liabilities of the pension scheme is allocated over the average remaining service lives of the relevant current employees.

Leased assets

Assets held under leasing arrangements that transfer substantially all the risks and rewards of ownership to the Group are capitalised. Amounts payable under such leases are shown, net of finance charges, as short or medium term obligations, as appropriate. The interest element of the lease obligations is charged to the profit and loss account annually on the outstanding balance.

Operating lease rentals are charged to the profit and loss account in the year to which they relate.

Financial instruments

Hedging instruments, principally forward exchange contracts and interest rate swaps, are matched with the underlying hedged transaction. Gains and losses on forward foreign exchange contracts, which relate primarily to purchases of stock for re-sale or for use in manufacturing processes, are included in the carrying amount of stock when purchased and are recognised in the profit and loss account when the sales transactions occur.

Interest rate swap agreements are used where appropriate to manage interest rate exposures. Amounts payable or receivable in respect of these derivatives are recognised as adjustments to interest payable over the period of the contracts.

Notes to the Financial Statements

Year ended 31 December 2003

1 Turnover

The amount of turnover by class of activity is as follows:	**2003 €'000**	2002 €'000
Irish merchanting and wholesaling	**239,829**	215,037
DIY retailing	**110,308**	98,117
Irish manufacturing and related activities	**34,391**	30,665
Total turnover from Irish activities	**384,528**	343,819
UK merchanting and other activities	**1,111,490**	808,539
	1,496,018	1,152,358

2 Operating Profit and Trading Profit

	2003 €'000	2002 €'000
Republic of Ireland	**44,768**	38,596
Great Britain and Northern Ireland	**78,555**	53,715
Operating profit before goodwill amortisation	**123,323**	92,311
Goodwill amortised	**(9,358)**	(4,195)
Operating profit	**113,965**	88,116
Profit on disposal of property	**3,437**	3,711
Trading profit	**117,402**	91,827
Income from financial assets	**1,788**	1,611
	119,190	93,438

In the opinion of the Directors, it would be seriously prejudicial to the interests of the Group to disclose further segmental information for its separate classes of business.

The operating profit of €113,965,000 comprises of €102,047,000 relating to continuing operations and €11,918,000 for 2003 acquisitions.

The following have been charged/(credited) in arriving at operating profit:

	2003 €'000	2002 €'000
Increase in stocks	**4,682**	(11,162)
Purchases and consumables	**997,816**	782,097
Staff costs (note 5)	**201,344**	153,518
Auditors' remuneration	**699**	854
Depreciation	**28,212**	22,439
Lease rentals and other hire charges	**16,017**	13,698
Goodwill amortisation	**9,358**	4,195
Profit on disposal of non-property fixed assets	**(1,615)**	(1,839)
Other operating charges	**125,540**	100,442
	1,382,053	1,064,242

During 2003 acquisitions accounted for €203.7 million of the above costs and expenses.

Notes to the Financial Statements

Year ended 31 December 2003

3 Profit on Disposal of Property

The Group realised a profit of €3,437,000 (2002: €3,711,000) principally on the sale of property at Stanford-le-Hope, Essex, which had been originally acquired with the British Dredging plc acquisition in 1998. The estimated taxation payable on the property profit amounts to €515,000 (2002: €416,000)

4 Directors' Remuneration, Pension Entitlements and Interests

Directors' remuneration, pension entitlements and interests in shares and share options are presented in the Report of the Remuneration Committee on pages 27 to 30.

5 Employment

The average number of persons employed during the year by activity was as follows:

	2003	2002
Merchanting and DIY retailing	**5,874**	4,364
Manufacturing	**405**	340
	6,279	4,704

	2003	2002
	€'000	€'000
The aggregate remuneration costs of employees were:		
Wages and salaries	**178,353**	137,600
Social welfare	**15,700**	11,445
Pensions	**7,291**	4,473
	201,344	153,518

6 Interest Payable (net)

	2003	2002
	€'000	€'000
Interest payable and similar charges:		
Bank overdrafts and loans repayable within five years	**11,341**	8,626
Bank loans repayable by instalments within five years	**2,593**	1,433
Bank loans repayable by instalments after five years	**2,828**	2,487
Interest on finance leases	**77**	65
Interest on loan notes	**3,319**	3,131
	20,158	15,742
Interest receivable	**(2,989)**	(2,523)
	17,169	13,219

7 Foreign Currencies

The results and cash flows of the Group's United Kingdom subsidiaries have been translated into euro using the average exchange rate. The related balance sheets of the Group's United Kingdom subsidiaries at 31 December 2003 and 31 December 2002 have been translated at the rate of exchange ruling at the balance sheet date.

The average euro/sterling rate of exchange for the year ended 31 December 2003 was Stg69.20p (2002: Stg62.88p). The euro/sterling exchange rate at 31 December 2003 was Stg70.48p (2002: Stg65.05p).

Notes to the Financial Statements

Year ended 31 December 2003

8 Tax on Profit on Ordinary Activities

(a) Analysis of charge for the year

	2003 €'000	2002 €'000
Based on the profit on ordinary activities:		
Irish corporation tax	**1,305**	1,281
UK corporation tax	**11,219**	8,993
	12,524	10,274
Deferred tax:		
- Irish	**1,230**	111
- UK	**1,566**	1,663
	15,320	12,048

The charge for Irish corporation tax has been reduced by manufacturing relief in the amount of €103,000 (2002: €231,000), timing differences on Group financing arrangements, capital allowances and other reliefs.

(b) Group tax reconciliation

	2003 €'000	2002 €'000
Profit on ordinary activities before taxation	**102,021**	80,219
Profit on ordinary activities at standard corporation tax rate in Ireland of 12.5% (2002: 16%)	**12,753**	12,835
Effects of:		
Expenses not deductible for tax purposes	**512**	127
Adjustment for earnings taxed at higher rates	**6,565**	4,909
Adjustment for earnings taxed at lower rates including manufacturing relief	**(4,596)**	(5,383)
Profits on disposals of fixed assets	**86**	(440)
Capital allowances for year in excess of depreciation	**(1,555)**	1,159
Other timing differences	**(1,241)**	(2,933)
Corporation tax charge for the year	**12,524**	10,274

(c) Factors that may affect future tax rates

No provision has been made for deferred tax on gains recognised on revaluing property to its market value or on the sale of the properties where taxable gains have been rolled over into replacement assets. Such tax would become payable only if the property were sold without it being possible to claim rollover relief. The total amount unprovided is €8.1 million (2002: €8.1 million). No amount has been recognised as there is no binding agreement to sell any property at the year end.

Rollover relief claimed in respect of property disposals in 2003 was nil (2002: €2.16 million). Relief previously claimed will be withdrawn if assets into which the gains were rolled over are sold without further re-investment, into qualifying assets, but this is not anticipated.

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries. No remittance of profit is expected to arise in such a way that an incremental tax charge will arise.

Manufacturing relief is due to expire by 31 December 2010. The standard rate of corporation tax reduced to 12.5% with effect from 1 January 2003.

The tax effect of the implementation of FRS 17 on pensions is included in note 37.

9 Redemption of Redeemable Shares

	2003 €'000	2002 €'000
Redemption of one redeemable share for 4.5c (2002: 3.75c)	**9,556**	6,610
Redemption of one redeemable share for 6.0c (2002: 5.25c)	**12,759**	9,260
Total redemptions	**22,315**	15,870

The Board has decided to redeem one redeemable share for a cash consideration of 6.0 cent payable on 19 March 2004. Accordingly, no final dividend will be declared in respect of the year ended 31 December 2003. This follows the redemption of one redeemable share per Grafton Unit for a cash consideration of 4.5 cent per share on 3 October 2003 to give total redemption payments for the year of 10.5 cent. This represents an increase of 23.8 per cent on redemptions of 8.48 cent (adjusted for the bonus element of the rights issue) 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. The redemptions on 19 March 2004 are chargeable to reserves in 2004.

10 Earnings per Share

The computation of basic and diluted earnings per share is set out below:

	2003	2002
Profit on ordinary activities after taxation (€'000)	**86,701**	68,171
Weighted average Grafton Units outstanding during the year	**206,659,076**	186,717,006
Earnings per share	**41.95c**	36.51c
Number of dilutive Grafton Units under option	**9,588,723**	10,290,794
Number of Grafton Units that would have been issued at fair value	**(5,543,126)**	(6,099,116)
Dilutive potential Grafton Units	**4,045,597**	4,191,678
Number of Grafton Units for calculating diluted earnings per share and adjusted diluted earnings per share	**210,704,673**	190,908,684
Diluted earnings per share	**41.15c**	35.71c

Notes to the Financial Statements

Year ended 31 December 2003

10 Earnings per Share (continued)

Earnings per share of 41.95c (2002: 36.51c) have been calculated on profits after taxation of €86,701,000 (2002: €68,171,000) and the weighted average number of Grafton Units of 206,659,076 (2002: 186,717,006 which has been adjusted for the bonus element of the rights issue).

The calculation of adjusted earnings per share of 45.07c (2002: 36.99c) is arrived at after eliminating goodwill of €9,358,000 (2002: €4,195,000) and property profit after taxation of €2,922,000 (2002: €3,295,000) from profit after taxation of €86,701,000 (2002: €68,171,000). Adjusted earnings per share was increased by 4.53c (2002: 2.24c) due to the elimination of goodwill from earnings and reduced by 1.41c (2002: 1.76c) due to the elimination of property profit from earnings.

Diluted earnings per share of 41.15c (2002: 35.71c) have been calculated on profits after taxation of €86,701,000 (2002: €68,171,000) and the weighted average number of Grafton Units in issue during the year adjusted for the dilutive effect of outstanding share options.

The calculation of adjusted diluted earnings per share of 44.20c (2002: 36.18c) uses the same earnings figure as for adjusted earnings per share and the weighted average number of Grafton Units as adjusted to reflect the dilutive effect of outstanding share options.

Earnings per Share – Adjusted for Bonus Element of Rights Issue (Previous Year)

	2002 Actual	2002 Adjusted for Rights Issue
Earnings per share (EPS)	38.75c	36.51c
Adjusted EPS	39.26c	36.99c
Diluted EPS	37.90c	35.71c
Adjusted diluted EPS	38.40c	36.18c

The Group raised €67.3 million, net of expenses, by the issue of 35,276,228 New Grafton Units at a price of €2.00 per New Grafton Unit by way of a 1 for 5 Rights Issue.

The actual cum rights price on 28 February 2003, the last day of quotation cum rights, was €3.06 and the theoretical ex-rights price for a Grafton Unit was therefore €2.8833 per Grafton Unit. The 2002 adjusted earnings per share figures shown above are calculated by applying the factor 1.06128 (3.06/2.8833) to the weighted average number of Grafton Units for 2002 in order to adjust for the bonus element of the Rights Issue.

The 1987 to 2001 inclusive earnings per share and dividend per share amounts, set out in the Financial Review on pages 20 and 21, have also been adjusted for the bonus element of the rights issue.

11 Goodwill

	2003 €'000	2002 €'000
Cost		
At 1 January	**111,034**	69,489
Acquired during the year (note 30)	**129,422**	46,841
Translation adjustment	**(10,593)**	(5,296)
At 31 December	**229,863**	111,034
Amortisation		
At 1 January	**10,591**	6,948
Amortised during the year	**9,358**	4,195
Translation adjustment	**(926)**	(552)
At 31 December	**19,023**	10,591
Net book amount	**210,840**	100,443

12 Tangible Fixed Assets

	Freehold Land and Buildings €'000	Leasehold Land and Buildings €'000	Plant Machinery and Motor Vehicles €'000	Total €'000
Group				
Cost or Valuation				
At 1 January 2003	187,612	34,125	151,212	372,949
Additions	19,498	5,697	44,612	69,807
Acquisitions	28,890	4,153	11,076	44,119
Disposals	(17,672)	(386)	(16,033)	(34,091)
Exchange adjustment	(9,400)	(1,893)	(10,191)	(21,484)
At 31 December 2003	208,928	41,696	180,676	431,300
Comprising				
Cost	162,274	30,304	180,144	372,722
Valuation	46,654	11,392	532	58,578
	208,928	41,696	180,676	431,300
Depreciation				
At 1 January 2003	5,328	4,077	61,208	70,613
Charge for year	2,251	1,604	24,357	28,212
Disposals	-	(272)	(7,920)	(8,192)
Exchange adjustment	(465)	(449)	(5,231)	(6,145)
At 31 December 2003	7,114	4,960	72,414	84,488
Net book amount				
At 31 December 2003	201,814	36,736	108,262	346,812
At 31 December 2002	182,284	30,048	90,004	302,336

Notes to the Financial Statements

Year ended 31 December 2003

12 Tangible Fixed Assets (continued)

The Group's freehold and long leasehold properties located in the Republic of Ireland were professionally valued as at December 1998 by professional valuers in accordance with the Appraisal and Valuation Manual of the Society of Chartered Surveyors. The valuations, which were made on an open market for existing use basis, amounted to €58.0 million. The remaining properties, which are located in the United Kingdom, are included at cost less depreciation.

Freehold land and buildings and leasehold land and buildings would have been stated as follows under the historical cost convention:

	2003	2002
	€'000	€'000
Cost	**209,250**	180,364
Accumulated Depreciation	**(12,269)**	(9,873)
Net book amount	**196,981**	170,491

	Tangible Fixed Assets €'000
Company	
Cost	
At 1 January 2003	**959**
Additions	**56**
Disposals	**(23)**
At 31 December 2003	**992**
Depreciation	
At 1 January 2003	**470**
Charge for year	**137**
Disposals	**(15)**
At 31 December 2003	**592**
Net book amount	
At 31 December 2003	**400**
At 31 December 2002	489

The tangible fixed assets of the Group include leased assets as follows:

	Plant, Machinery & Motor Vehicles	
	2003	2002
	€'000	€'000
Cost	**34,071**	10,569
Accumulated depreciation	**(10,697)**	(6,532)
Net book amount	**23,374**	4,037
Depreciation charge for year	**1,333**	1,290

Notes to the Financial Statements

Year ended 31 December 2003

13 Financial Fixed Assets

	Group	Company		
			Shares in	
	Other	Other	Subsidiary	
	Investments	Investments	Undertakings	Total
	€'000	€'000	€'000	€'000
At 1 January 2003	**33,579**	**13**	**18,394**	**18,407**
Translation adjustment	**(13)**	**-**	**-**	**-**
Arising on acquisition	**99**	**-**	**-**	**-**
At 31 December 2003	**33,665**	**13**	**18,394**	**18,407**

Other Group investments include a holding of 11,760,291 ordinary shares or 23.83 per cent in the ordinary share capital of Heiton Group plc, an Irish registered Company whose shares are listed on the Irish and London Stock Exchanges. The original cost of this investment was €33.5 million and the market value at 31 December 2003 was €48.2 million. The main activities of Heitons are builders merchanting, steel stockholding, homecare/DIY and plant and tool hire. Heitons profit before tax in the financial year ended 30 April 2003 was €9.1 million and its capital and reserves at that date were €137.6 million. The shares are held for investment purposes and the investment has not been treated as an associate, as defined in FRS 9, as the Company does not actively exercise significant influence over Heiton Group plc. Related dividend income is only accrued once declared. The registered office of Heiton Group plc is Ashfield, Naas Road, Clondalkin, Dublin 22.

14 Stocks

	Group	
	2003	2002
	€'000	€'000
Raw materials	**1,771**	1,385
Finished goods	**6,160**	3,479
Goods purchased for resale	**186,505**	154,481
	194,436	159,345

The estimated replacement cost of stocks is not considered to be materially different from the amounts stated above.

15 Debtors

	Group		Company	
	2003	2002	**2003**	2002
	€'000	€'000	**€'000**	€'000
Amounts falling due within one year:				
Trade debtors	**215,754**	169,286	**-**	-
Amounts owed by subsidiary undertakings	**-**	-	**266,070**	205,503
Prepayments and accrued income	**51,728**	39,990	**7,012**	2,904
Pension prepayment	**5,315**	-	**4,162**	-
	272,797	209,276	**277,244**	208,407

Notes to the Financial Statements

Year ended 31 December 2003

16 Creditors

	Group		Company	
	2003	2002	**2003**	2002
	€'000	€'000	**€'000**	€'000
Amounts falling due within one year:				
Trade creditors	**175,182**	150,371	**-**	-
Accruals and deferred income	**60,415**	43,062	**8,927**	4,338
Social welfare	**1,512**	1,190	**-**	-
Income tax deducted under PAYE	**2,885**	1,987	**-**	-
Value added tax	**12,428**	12,075	**-**	-
	252,422	208,685	**8,927**	4,338
Bank loans and overdrafts	**45,169**	41,171	**4**	4
Loan notes (note 17)	**36,359**	15,551	**9,777**	459
Obligations under finance leases (note 20)	**4,590**	998	**-**	-
Deferred acquisition consideration	**2,945**	1,777	**-**	-
Amounts owed to subsidiary undertakings	**-**	-	**78,430**	77,313
Corporation tax	**13,313**	13,833	**15**	12
	354,798	282,015	**97,153**	82,126

17 Loan Notes

In the case of loan notes issued to vendors of businesses acquired, the notes are redeemable at the option of the note holders on specified dates between February 2004 and May 2008. The interest rates payable on these notes are set at fixed rates or on terms which relate directly to London Inter-Bank Offer Rate (LIBOR). The remaining loan notes were issued in the US Private Placement Market (see note 18).

18 Creditors

	Group		Company	
	2003	2002	**2003**	2002
	€'000	€'000	**€'000**	€'000
Amounts falling due after more than one year:				
Bank loans	**308,560**	235,008	**-**	-
Unsecured senior notes due 2008	**37,457**	50,731	**37,457**	50,731
Obligations under finance leases (note 20)	**18,536**	293	**-**	-
Deferred acquisition consideration	**5,373**	2,051	**-**	-
	369,926	288,083	**37,457**	50,731

During 1998 the Group completed a US$55 million debt financing in the US Private Placement Market and issued unsecured senior loan notes maturing in 2008. The US dollar proceeds were swapped into sterling and the interest rate payable on the loan notes is currently variable by reference to six month LIBOR rates.

The deferred acquisition consideration is expected to be payable between March 2005 and March 2006.

19 Loans

	2003	2002
Group	**€'000**	€'000
Bank loans, loan notes and senior unsecured notes 2008 are repayable as follows:		
Between one and two years	**48,382**	85,340
Between two and five years	**252,134**	128,809
After five years	**45,501**	71,590
	346,017	285,739
Bank loans repayable within one year	**12,770**	27,671
Loan notes repayable within one year	**36,359**	15,551
	395,146	328,961
Loans fully repayable between one and five years		
Not by instalment	**224,750**	136,670
By instalment	**75,766**	77,479
	300,516	214,149
Loans fully repayable in more than five years		
By instalment	**45,501**	71,590
	346,017	285,739

20 Obligations under Finance Leases

	2003	2002
Group	**€'000**	€'000
Finance lease obligations, included in creditors, net of interest to which the Group is committed are due as follows:		
Within one year	**4,590**	998
Between one and five years	**18,536**	293
	23,126	1,291

21 Provision for Liabilities and Charges

	2003	2002
Group	**€'000**	€'000
Deferred taxation		
At 1 January	**16,016**	16,891
Profit and loss account	**2,796**	1,774
Acquired with subsidiaries	**(5,129)**	(2,308)
Transfer from corporation tax	**9,500**	-
Exchange adjustment	**(242)**	(341)
At 31 December	**22,941**	16,016
Deferred taxation arises as follows:		
Capital allowances	**4,846**	2,970
Other timing differences	**18,095**	13,046
	22,941	16,016

No provision has been made for deferred tax in respect of the surplus arising on property revaluations, as there is no current intention to dispose of the properties concerned, and on the unremitted earnings of overseas subsidiaries as there is no current intention to repatriate these earnings. The amount provided above reflects all other timing differences.

Notes to the Financial Statements

Year ended 31 December 2003

22 Share Capital

	2003 €'000	2002 €'000
Authorised:		
Equity shares		
300 million ordinary shares of 5c each	**15,000**	10,000
Redeemable shares		
2.8 billion redeemable shares of 0.01c each	**280**	200
	15,280	10,200

	Issue Price €	Number Of Shares	2003 Nominal Value €'000	2002 Nominal Value €'000
Issued and fully paid:				
Ordinary shares				
At 1 January		**177,281,140**	**8,864**	8,804
Rights issue		**34,376,228**	**1,719**	-
Executive share option scheme				
Date options granted				
May 1992	0.17	**-**	**-**	3
April 1993	0.19	**31,838**	**2**	2
September 1994	0.45	**84,902**	**4**	9
October 1995	0.52	**53,064**	**3**	15
April 1996	0.65	**127,353**	**6**	10
April 1997	1.07	**270,726**	**13**	21
June 1998	2.21	**397,162**	**20**	-
September 1998	1.65	**21,226**	**1**	-
		986,271	**49**	60
At 31 December		**212,643,639**	**10,632**	8,864
Redeemable shares				
At 1 January		**1,595,530,260**	**159**	-
Redeemable shares issued under rights issue and share options		**282,613,451**	**29**	177
Redemption of redeemable shares transferred to the capital redemption reserve		**(389,638,238)**	**(39)**	(18)
At 31 December		**1,488,505,473**	**149**	159
Total share capital			**10,781**	9,023

Grafton Units

In May 1999, C ordinary shares of Stg0.001p each were issued by Grafton Group (UK) plc in order to give shareholders the option of receiving dividends on either ordinary shares in Grafton Group plc or on their C ordinary shares in Grafton Group (UK) plc. Following the ten for one share split in 2001, the issue of redeemable shares in July 2002 and the redemption of redeemable shares in September 2002, March 2003 and October 2003, a Grafton Unit at 31 December 2003 comprises of one ordinary share of 5c in Grafton Group plc and one C ordinary share of Stg0.0001p in Grafton Group (UK) plc and seven redeemable shares of 0.01c each in Grafton Group plc.

22 Share Capital (continued)

Redeemable Shares

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. The Board has also decided to redeem the remaining six redeemable shares per Grafton Unit for a total cash consideration of 5.0 cent payable on 19 March 2004.

Share Option Schemes

The number of Grafton Units issued during the year under the Company's Share Option Schemes was 986,271 and the total consideration received amounted to €1,359,000. Costs relating to the issues were €11,000. In accordance with the terms of the 1999 Grafton Group Share Option Scheme and the Grafton Group (UK) plc Approved Share Option Scheme, options over 1,852,700 Grafton Units were granted during the year. Total options outstanding at 31 December 2003 amounted to 9,984,619 Grafton Units. Options granted are exercisable, in accordance with the terms of the schemes, at prices ranging between €0.45 and €5.45 during the period to 2013.

UK SAYE Scheme

Options over 1,456,794 Grafton Units were outstanding at 31 December 2003, pursuant to a three year saving contract under Grafton Group (UK) plc Saving's Related Share Option Scheme at a price of €2.26, which represented a discount of 20 per cent to the market price on the date of the grant. These options are normally excercisable within a period of six months after the third anniversary of the savings contract.

Treasury Shares

The Company re-issued 900,000 treasury shares as part of the rights issue in March 2003. These shares which were bought back in 1995 at a cost of €486,000 were re-issued for €1,800,000. The original costs of €486,000, which was charged to the profit and loss account in 1995, has been released back to the profit and loss account and the balance of €1,314,000 has been credited to share premium.

23 Share Premium Account

	2003	2002
	€'000	€'000
Group and Company		
At 1 January	**35,465**	34,836
Premium on shares issued under rights issue	**64,275**	-
Premium on shares issued under share option scheme	**1,298**	806
Premium on re-issue of treasury shares	**1,314**	-
Bonus issue of redeemable shares	**-**	(177)
At 31 December	**102,352**	35,465

The premium on shares issued under rights issue is net of expenses of €2.73 million.

24 Capital Redemption Reserve

	2003	2002
	€'000	€'000
Group and Company		
At 1 January	**18**	-
Redemption of redeemable shares	**39**	18
At 31 December	**57**	18

Notes to the Financial Statements

Year ended 31 December 2003

25 Revaluation Reserve

	2003 €'000	2002 €'000
Group		
At 1 January	**40,533**	41,537
Transfer to profit & loss account	**(273)**	(1,004)
At 31 December	**40,260**	40,533

26 Profit and Loss Account

The Group revenue reserves of €296,391,000 (2002: €236,934,000) are after charging goodwill of €12,982,000 (2002: €12,982,000) directly to reserves between 1 January 1988 and 31 December 1997.

In accordance with Section 3(2) of the Companies (Amendment) Act, 1986, the profit and loss account of the parent undertaking has not been presented separately in these financial statements. There was a profit after tax of €17.3 million (2002: €15.3 million) attributable to the parent undertaking for the financial year.

27 Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities

	2003 €'000	2002 €'000
Operating profit	**113,965**	88,116
Depreciation	**28,212**	22,439
Goodwill amortisation	**9,358**	4,195
Profit on disposal of plant, machinery and motor vehicles	**(1,615)**	(1,839)
Increase in working capital (note 28)	**(20,127)**	(3,652)
Net cash inflow from operating activities	**129,793**	109,259

28 Movement in Working Capital

	Stocks €'000	Debtors €'000	Creditors €'000	Total €'000
At 1 January 2003	**159,345**	**209,276**	**(208,685)**	**159,936**
Translation adjustment	**(9,362)**	**(17,228)**	**15,130**	**(11,460)**
Interest accruals and other movements	**-**	**99**	**(195)**	**(96)**
Acquisitions	**39,771**	**57,880**	**(51,347)**	**46,304**
Movement in 2003	**4,682**	**22,770**	**(7,325)**	**20,127**
At 31 December 2003	**194,436**	**272,797**	**(252,422)**	**214,811**
Movement in 2002	17,447	13,421	(27,216)	3,652

29 Returns on Investments and Servicing of Finance

	2003	2002
	€'000	€'000
Interest received	**2,984**	2,549
Interest paid	**(20,425)**	(13,472)
Interest element of finance lease payments	**(77)**	(65)
Net cash outflow from servicing of finance	**(17,518)**	(10,988)
Dividend income received	**1,694**	1,564
	(15,824)	(9,424)

30 Acquisition of Subsidiary Undertakings

During the year the Group made nine UK acquisitions and one Irish acquisition at a total cost of €220.1 million. The only substantial acquisition under FRS 6 was Jackson Building Centres Limited, a regional builders merchant chain trading from eighteen branches in the East Midlands. Four other merchanting chains acquired in the UK were Plumbline, a Scottish based plumbers merchant trading from 17 branches, Boole's, a three branch merchanting business based in Stockport, Cheshire; Rowlinsons, a three branch builders merchant based in Cheshire and Gloster Building Supplies, a two branch builders merchant based in Gloucester. The Group also acquired four single branch builders merchanting businesses located at Falkirk, Scotland; Bilston, West Midlands; Wantage, Oxfordshire and Haverhill, Suffolk.

In Ireland, the Group acquired Telfords, a three branch builders merchant based in the Midlands.

	2003	2002
	€'000	€'000
The fair values of assets and liabilities acquired are set out below:		
Tangible fixed assets	**44,119**	24,560
Financial fixed assets	**99**	30
Stocks	**39,771**	14,730
Debtors	**57,880**	28,262
Creditors	**(51,347)**	(25,361)
Corporation tax	**(4,492)**	(1,846)
Deferred tax liability	**(272)**	(335)
Deferred tax asset	**5,401**	2,643
Finance leases acquired	**(478)**	(744)
Net assets acquired excluding cash and overdrafts	**90,681**	41,939
Goodwill	**129,422**	46,841
Consideration	**220,103**	88,780
Satisfied by:		
Cash paid	**187,497**	76,379
Cash acquired	**(7,813)**	(10,712)
Bank overdrafts assumed on acquisition	**9,725**	5,462
Net cash outflow	**189,409**	71,129
Deferred acquisition consideration	**6,127**	3,178
Loan notes issued to vendors of businesses acquired	**24,567**	14,473
	220,103	88,780

Notes to the Financial Statements

Year ended 31 December 2003

30 Acquisition of Subsidiary Undertakings (continued)

The fair value of net assets acquired of €90,681,000 includes the Jackson Building Centres Ltd acquisition which was made on 3 March 2003 and which constituted a substantial acquisition for the Group.

	Fair Values €'000	Consideration €'000	Goodwill €'000
Jackson Building Centres Ltd	60,979	138,797	77,818
Other acquisitions	29,702	81,306	51,604
	90,681	220,103	129,422

The fair values were calculated as follows:

	Book Values €'000	Fair Value Adjustments €'000	Fair Values €'000
Jackson Building Centres Ltd			
Tangible fixed assets	26,812	4,378	31,190
Financial fixed assets	72	-	72
Working capital	36,721	(9,193)	27,528
Corporation tax	(1,698)	-	(1,698)
Deferred tax asset	1,167	2,758	3,925
Finance leases	(38)	-	(38)
	63,036	(2,057)	60,979
Other acquisitions	€'000	€'000	€'000
Tangible fixed assets	12,929	-	12,929
Financial fixed assets	27	-	27
Working capital	18,776	-	18,776
Corporation tax	(2,794)	-	(2,794)
Deferred tax liability	(272)	-	(272)
Deferred tax asset	1,476	-	1,476
Finance leases	(440)	-	(440)
	29,702	-	29,702

The fair value adjustment of €4,378,000 relates to the revaluation of freehold land and buildings on the acquisition of Jacksons. A further fair value adjustment was also made for the Jackson pension deficit of €9,193,000 and the related deferred tax credit of €2,758,000.

No provisions were made in respect of reorganisation and rationalisation costs or asset write-downs in the financial statements of the businesses acquired during the twelve months preceding the date of acquisition.

The effect of acquisitions made during the year on the principal headings of the Group Cash Flow Statement is as follows:

	Operating Cash Flow €'000	Servicing of Finance €'000	Taxation €'000	Capital Expenditure €'000	Total €'000
Jackson Building Centres Ltd	21,397	(2,563)	(762)	(1,901)	16,171
Other acquisitions	3,728	(1,854)	(139)	(228)	1,507
	25,125	(4,417)	(901)	(2,129)	17,678

Post-acquisition integration and re-organisation costs of acquired businesses are charged to the profit and loss account as incurred.

30 Acquisition of Subsidiary Undertakings (continued)

The results of Jackson Building Centres Ltd for its previous financial year, being the year ended 31 December 2002, and for the period from 1 January 2003 to 28 February 2003, are set out below:

	Period ended 28 Feb 2003 €'000	Year ended 31 Dec 2002 €'000
Turnover	31,159	212,849
Operating profit	814	10,963
Net interest (receivable)/payable	(52)	346
Profit on ordinary activities before taxation	866	10,617

The turnover and operating profit before goodwill from 3 March 2003 to 31 December 2003 amounted to €174,883,000 and €12,612,000 respectively.

31 Analysis of Net Debt

	At 1 Jan 2003 €'000	Cash Flow €'000	Acquisitions €'000	Non-Cash Movement €'000	Translation Adjustments €'000	At 31 Dec 2003 €'000
Cash at bank and in hand	35,386	(2,925)	-	-	(1,515)	30,946
Overdrafts	(13,500)	(20,118)	-	-	1,219	(32,399)
Total cash and demand debt	21,886	(23,043)	-	-	(296)	(1,453)
Short term deposits and liquid resources	67,722	40,312	-	-	(24)	108,010
Debt due after 1 year	(235,008)	(80,308)	-	(11,350)	18,106	(308,560)
Unsecured Senior Notes and loan notes due after 1 year	(50,731)	-	-	9,365	3,909	(37,457)
Debt due within 1 year						
- Bank loans	(27,671)	1,419	-	11,350	2,132	(12,770)
- Loan notes	(15,551)	11,240	(24,567)*	(9,365)	1,884	(36,359)
Finance leases	(1,291)	(21,421)	(478)	-	64	(23,126)
Total term finance	(330,252)	(89,070)	(25,045)	-	26,095	(418,272)
Net debt	(240,644)	(71,801)	(25,045)	-	25,775	(311,715)

*These loan notes were issued by the Group to the vendors of businesses acquired in part settlement of the purchase consideration payable.

The non-cash movements reflects the re-scheduling of debt in the year.

Notes to the Financial Statements

Year ended 31 December 2003

32 Group Net Debt

	2003 €'000	2002 €'000
Bank loans and overdrafts repayable within one year	**45,169**	41,171
Bank loans repayable after more than one year	**308,560**	235,008
Loan notes repayable after more than one year	**37,457**	50,731
Loan notes repayable within one year	**36,359**	15,551
Finance leases	**23,126**	1,291
	450,671	343,752
Cash and short term bank deposits	**(138,956)**	(103,108)
Net debt	**311,715**	240,644
Shareholders' funds	**449,841**	321,973
Gearing	**69%**	75%

33 Financial Instruments and Risk Management

Interest Rate and Currency Profile

The interest rate and currency profile of the Group's net debt and net worth as at 31 December 2003 was as follows:

	Euro	Sterling	Total
Weighted average fixed interest rates	-	4.55%	4.55%
Weighted average fixed debt periods – years	-	3.81	3.81

	Euro €'000	Sterling €'000	Total €'000
Fixed rate debt	-	(194,809)	(194,809)
Floating rate debt	(1,448)	(254,414)	(255,862)
Cash and short term bank deposits	89,423	49,533	138,956
Net debt by currency	87,975	(399,690)	(311,715)
Financial fixed assets	33,472	193	33,665
Deferred acquisition consideration due after more than one year	(4,425)	(948)	(5,373)
Net financial assets and liabilities (excluding short term debtors and creditors)	117,022	(400,445)	(283,423)
Capital employed	230,830	502,434	733,264
Shareholders' funds (net worth)	347,852	101,989	449,841

33 Financial Instruments and Risk Management (continued)

The interest rate and currency profile of the Group's net debt and net worth as at 31 December 2002 was as follows:

	Euro	Sterling	Total
Weighted average fixed interest rates	4%	5.04%	5.03%
Weighted average fixed debt periods – years	1	4.24	4.23

	Euro €'000	Sterling €'000	Total €'000
Fixed rate debt	(490)	(110,020)	(110,510)
Floating rate debt	(841)	(232,401)	(233,242)
Cash and short term bank deposits	82,788	20,320	103,108
Net debt by currency	81,457	(322,101)	(240,644)
Deferred acquisition consideration due after more than one year	-	(2,051)	(2,051)
Net financial assets and liabilities (excluding short term debtors and creditors)	81,457	(324,152)	(242,695)
Capital employed	175,426	389,242	564,668
Shareholders' funds (net worth)	256,883	65,090	321,973

The Group's floating rate debt attracts interest rates primarily on one to twelve month EURIBOR (Euro) and LIBOR (Sterling). Cash and short term bank deposits comprise deposits placed at money market rates for periods of up to six months.

Maturity of Financial Liabilities

The maturity profile of the Group's financial liabilities (bank debt, loan notes, deferred consideration and finance leases) is set out in notes 16 to 20 and can be summarised as follows:

	Bank and other debt 2003 €'000	**Other financial liabilities 2003 €'000**	**Total 2003 €'000**	Bank and other debt 2002 €'000	Other financial liabilities 2002 €'000	Total 2002 €'000
Due within one year	**86,118**	**2,945**	**89,063**	57,720	1,777	59,497
Between one and two years	**52,765**	**3,198**	**55,963**	85,633	1,025	86,658
Between two and five years	**266,287**	**2,175**	**268,462**	128,809	1,026	129,835
After five years	**45,501**	**-**	**45,501**	71,590	-	71,590
	450,671	**8,318**	**458,989**	343,752	3,828	347,580

Borrowing Facilities

The Group had undrawn committed borrowing facilities at 31 December 2003 of €68.2 million in respect of which all conditions precedent have been met and which expire after three years.

Notes to the Financial Statements

Year ended 31 December 2003

33 Financial Instruments and Risk Management (continued)

Fair Value of Financial Assets and Financial Liabilities

A comparison of the book and fair values of the Group's financial assets and financial liabilities is set out below:

	Book value 2003 €'000	**Fair value 2003 €'000**	Book value 2002 €'000	Fair Value 2002 €'000
Overdraft and short term borrowings	**(45,169)**	**(45,169)**	(41,171)	(41,171)
Loans and Unsecured Senior Notes due after more than one year	**(346,017)**	**(346,017)**	(285,739)	(285,739)
Loan notes	**(36,359)**	**(36,359)**	(15,551)	(15,551)
Leasing	**(23,126)**	**(23,126)**	(1,291)	(1,291)
Cash and short-term deposits	**138,956**	**138,956**	103,108	103,108
	(311,715)	**(311,715)**	(240,644)	(240,644)
Other investments	**33,665**	**48,425**	33,579	25,994
Sterling SWAP's	**-**	**2,287**	-	(3,533)
	(278,050)	**(261,003)**	(207,065)	(218,183)

Gains and Losses on Hedges

At 31 December 2003 there were no gains or losses on forward foreign exchange contract hedges carried forward for future recognition in the profit and loss account.

Treasury Policy

The Group's treasury policies, which are regularly reviewed, are designed to reduce financial risk in a cost efficient way. A limited number of foreign exchange swaps, forward and spot foreign currency contracts and interest rate swaps are undertaken periodically to hedge underlying trading and interest rate exposures.

Foreign Currency Risk Management

The majority of trade conducted by the Group's Irish businesses is in euro. Sterling is the principal currency for the Group's UK businesses. The Group uses a limited number of forward currency contracts to manage currency risks arising in the ordinary course of business where considered appropriate.

The Group's current policy in relation to its UK operations is to hedge the balance sheet exposure by means of matching sterling assets with sterling borrowings.

Interest Rate Risk

The majority of the Group's ongoing operations are financed from a mixture of cash generated from operations and borrowings. Borrowings are initially secured at floating interest rates and interest rate risk is monitored on an ongoing basis. Interest rate swaps and forward rate agreements are used to manage interest rate risk when considered appropriate having regard to the interest rate environment.

Funding and Liquidity

The Group has significant cash resources at its disposal which together with undrawn bank facilities provide flexibility in financing existing operations, acquisitions and other developments.

34 Capital Expenditure Commitments

At the year end the following capital commitments authorised by the Board had not been provided for in the financial statements:

	2003	2002
	€'000	€'000
Contracted for	**15,852**	11,096
Not contracted for	**41,289**	30,819
	57,141	41,915

35 Operating Leases

Annual commitments under non cancelable operating leases are as follows:

	Land and Buildings 2003 €'000	**Other 2003 €'000**	Land and Buildings 2002 €'000	Other 2002 €'000
Group				
Operating leases which expire:				
Within one year	**233**	**697**	382	339
Between two and five years	**1,849**	**576**	1,429	811
Over five years	**15,523**	**88**	12,284	148
	17,605	**1,361**	14,095	1,298

36 Guarantees

The Company has given guarantees in respect of the bank borrowings of subsidiary undertakings which amounted to €381 million at the balance sheet date.

Pursuant to the provisions of Section 17, Companies (Amendment) Act, 1986, the Company has guaranteed the liabilities of its Irish subsidiaries the result of which is to exempt them from the provisions of Section 7, Companies (Amendment) Act, 1986. The principal operating subsidiaries operating in Ireland as set out on page 65 are covered by this guarantee. This guarantee also applies to the following wholly owned subsidiaries, whose Registered Office is 1 Stokes Place, St. Stephen's Green, Dublin 2: CPI Limited, MFP Plastics Limited, MFP Sales Limited, Pulsar Direct Limited, Telford Group Limited, Telfords (Portlaoise) Limited, Telfords (Athy) Limited, J.E. Telford Limited, Knottingley Limited, Weeksbury Limited, Titanium Limited, W&S Timber Components Limited, Grafton Financial Services Limited, Chadwicks Holdings Limited, Tribiani Limited, Athina Limited, Perchura Limited, Heatovent Ireland Limited, Payless D.I.Y. Limited, Circle Syntalux Limited, Circle Paints Manufacturing Ireland Limited, Cheshunt Limited, Kenn Truss Limited, Tiska Limited, Topez Limited, Denningco Limited, Universal Providers Limited, Heron Financial Services Limited, Grafton Group Management Services Limited and Grafton Group Secretarial Services Limited.

37 Pension Commitments

The Group has continued to account for pensions in accordance with SSAP 24 and the relevant disclosures are given in (a) below. FRS 17, the new accounting standard on retirement benefit will be fully adopted by the Group during the year ended 31 December 2005. In the meantime the phased transitional disclosure requirements of FRS 17 are given in (b) below.

Notes to the Financial Statements

Year ended 31 December 2003

37 Pension Commitments (continued)

(a) SSAP 24 Disclosures

A number of defined benefit and defined contribution pension schemes are operated by the Group and the assets of the schemes are held in separate trustee administered funds.

Contributions to the schemes are charged to the profit and loss account based on the recommendations of independent qualified actuaries, so as to spread the cost of pensions over employees' working lives with the Group using the projected unit credit or attained age methods of funding. The most recent actuarial valuations were carried out in January 2001 and April 2001 for the existing schemes and in December 2002 for the Jacksons scheme and confirmed that the total market value of the schemes' assets were €77,464,000. Since the actuarial valuations were carried out, the financial position of the schemes will have changed due to the fall in the value of the schemes' assets such that in some cases the assets are insufficient to cover the value of the schemes' liabilities on a current funding level basis. Special additional contributions totalling €13.6 million were made during the year to reduce the deficits in the schemes.

The assumptions which have the most significant effect on the results of the valuations are those relating to the rate of return on investments and the rates of increase in pensionable remuneration. In the case of most of the valuations it was assumed that the investment return would be two per cent per annum in excess of the assumed rate of growth in pensionable remuneration.

Allowing for expected future increases in pensionable remuneration up to the assumed retirement dates of members, the actuarial value of the schemes' assets before future contributions, represented 87% of the benefits that had accrued to members. The employer's contribution rate over the average remaining service lives of the members of the schemes takes account of the current actuarial funding level.

The pension charge for the year was €7,291,000 (2002: €4,473,000).

The actuarial reports are not available for public inspection.

(b) FRS 17 Retirement Benefits

The Group operates six defined benefit schemes in Ireland and three in the UK. Full actuarial valuations were carried out at 1 January 2001, 1 April 2001 and 31 December 2002 and updated to 31 December 2003 by a qualified independent actuary. All schemes except for one are closed to new entrants and as a result the current service cost will increase as members of the schemes approach retirement.

Financial Assumptions

The financial assumptions used to calculate the retirement benefit liabilities under FRS 17 were as follows:

	2003	2002	2001
Valuation Method	Projected Unit	Projected Unit	Projected Unit
Rate of increase in salaries	3.5%	3.5%	3.5%
Rate of increase of pensions in payment	2.5%	2.5%	2.5%
Discount rate	5.3%	5.5%	6.0%
Inflation rate increase	2.5%	2.5%	2.5%

37 Pension Commitments (continued)

(b) FRS 17 Retirement Benefits (continued)

Scheme Assets

The assets in these schemes and the long term rates of return expected at 31 December 2003, 31 December 2002 and 31 December 2001 are set out below:

	2003	2002	2001
	%	%	%
Equities	**7.25%**	7.0%	7.0%
Bonds	**5.3%**	5.5%	5.5%
Property	**7.0%**	7.0%	7.0%
Cash	**4.0%**	4.0%	5.0%

	2003	2002	2001
	€'000	€'000	€'000
Equities	**58,987**	31,702	41,766
Bonds	**13,417**	8,146	8,043
Property	**2,332**	2,474	3,843
Cash	**12,969**	1,273	2,370
	87,705	43,595	56,022
Actuarial value of liabilities	**(112,867)**	(69,266)	(60,237)
Recoverable deficit in the schemes	**(25,162)**	(25,671)	(4,215)
Related deferred tax asset	**5,705**	5,161	769
Net pension liability under FRS 17	**(19,457)**	(20,510)	(3,446)

Analysis of the amount that would have been charged to operating profit in 2003 and 2002 under FRS 17:

	2003	2002
	€'000	€'000
Current service cost	**2,575**	1,332
Past service cost	**-**	-
Total operating charge	**2,575**	1,332

Analysis of the amount that would have been credited to other finance income in 2003 and 2002 under FRS 17:

	2003	2002
	€'000	€'000
Expected return on scheme assets	**4,795**	3,600
Interest on scheme liabilities	**(5,342)**	(3,476)
Net return	**(547)**	124

Notes to the Financial Statements

Year ended 31 December 2003

37 Pension Commitments (continued)

(b) FRS 17 Retirement Benefits (continued)

Analysis of amount that would have been recognised in statement of total recognised gains and losses (STRGL)

	2003 €'000	2002 €'000
Actual return less expected return on pension scheme assets	**4,493**	(13,711)
Experience gains and losses arising on the scheme liabilities	**12**	(2,179)
Changes in assumptions underlying the present value of scheme liabilities	**(10,677)**	(5,895)
Actuarial loss recognised in STRGL	**(6,172)**	(21,785)

	2003	2002
Movement in deficit during the year		
Recoverable deficit in the schemes at beginning of year	**(25,671)**	(4,215)
Movement in year:		
Currency adjustment on opening deficit	**860**	88
On acquisition	**(7,835)**	-
Current service cost	**(2,575)**	(1,332)
Employer contribution paid	**16,778**	1,449
Past service cost	**-**	-
Other finance income	**(547)**	124
Actuarial loss	**(6,172)**	(21,785)
Recoverable deficit in the schemes at end of year	**(25,162)**	(25,671)

History of experience gains and losses:	2003 €'000	2002 €'000
Difference between the expected and actual return on scheme assets:		
Amount	**4,493**	(13,711)
Percentage of scheme assets	**(5.1%)**	(31.5%)
Experience gains and (losses) on scheme liabilities:		
Amount	**12**	(2,179)
Percentage of past service scheme liabilities	**(-)**	(3.1%)
Total amount recognised in STRGL:		
Amount	**(6,172)**	(21,785)
Percentage of past service scheme liabilities	**(5.5%)**	(31.5%)

37 Pension Commitments (continued)

(b) FRS 17 Retirement Benefits (continued)

	2003 €'000	2002 €'000
Net assets		
Net assets per Group balance sheet	**449,841**	321,973
Less SSAP 24 pension asset	**(5,315)**	-
Net pension liabilities	**(19,457)**	(20,510)
Net assets of Group including pension assets and liabilities	**425,069**	301,463
Reserves		
Profit and loss reserve per Group balance sheet	**296,391**	236,934
Add SSAP 24 pension asset charged	**116**	-
Pension deficit	**(19,457)**	(20,510)
Profit and loss reserve including pension assets and liabilities	**277,050**	216,424

38 Principal Operating Subsidiary Undertakings

Details of the principal operating subsidiary undertakings are set out on page 65.

39 Approval of Financial Statements

The Board of Directors approved the financial statements on 9 March 2004.

Principal Operating Subsidiary Undertakings

Details of principal operating subsidiary undertakings, all of which are wholly owned, are set out below:

Incorporated and Operating in Ireland:

Name of Company	Nature of Business
Chadwicks Limited	Builders merchants
Woodie's DIY Limited	DIY superstores

Incorporated and Operating in the United Kingdom:

Name of Company	Nature of Business
Buildbase Limited	Builders merchants
Jackson Building Centres Limited	Builders merchants
Plumbase Limited	Plumbers merchants
Macnaughton Blair and Company Limited	Builders merchants
CPI Mortars Limited	Mortar manufacturers

The Company owns 100% of the ordinary shares, the only class of shares in issue, of its principal operating subsidiary undertakings. The registered office of principal subsidiary undertakings operating in Ireland is 1 Stokes Place, St. Stephen's Green, Dublin 2. The registered office of Buildbase Limited, Plumbase Limited and CPI Mortars Limited is Aquis Court, 31 Fishpool Street, St. Albans, Hertfordshire. The registered office of Jackson Building Centres Limited is Pelham House, Canwick Road, Lincoln, Lincolnshire and for Macnaughton Blair and Company Limited the registered office is 4 Balmoral Road, Balmoral Industrial Estate, Belfast, Northern Ireland.

Corporate Information

Auditors KPMG

Bankers
Bank of Ireland
Ulster Bank Markets
AIB Bank
Lloyds TSB Bank
IIB Bank
Barclays Bank

Solicitors
Arthur Cox, Dublin
Lyons Davidson, Bristol

Stockbrokers Goodbody Stockbrokers, Dublin

Corporate & Registered Office
Heron House
Corrig Road
Sandyford Industrial Estate
Dublin 18
Phone: 00-353-1-216 0600
Fax: 00-353-1-295 4470
Email: email@graftonplc.com

Registrars
Capita Corporate Registrars Plc
Unit 5, Manor Street Business Park,
Manor Street, Dublin 7.
Phone: 00-353-1-810 2400
Email: enquiries@capitacorporateregistrars.ie
www.capitacorporateregistrars.ie

Financial Calendar

Results

Interim results	5 September 2003
Full year results	10 March 2004
Annual report issued	6 April 2004
Annual general meeting	11 May 2004

Share Redemptions

Interim	3 October 2003
Final	19 March 2004

Notes

Notes

Notes

Grafton Group plc

Heron House, Corrig Road,
Sandyford Industrial Estate,
Dublin 18, Ireland.

TELEPHONE +353 1 216 0600
FAX +353 1 295 4470

EMAIL email@graftonplc.com
WEB www.graftonplc.com