



LIAM O'MAHONY

## Chief Executive's review

### Highlights

2002 saw a continuation, and in some cases intensification, of difficult economic conditions within and across many of the regions in which we operate. Despite this, the Group achieved new record levels of sales, profits and both earnings and cash earnings per share:

- Sales up 3.3% to €10.8 billion
- Profit before tax up 6.6% to €856 million
- Earnings per share before goodwill amortisation up 4.1% to 132.54c, despite an effective weighted increase of 3.6% in the number of shares in issue due to the residual impact of the successful March 2001 Rights Issue which raised additional equity of €1.1 billion
- Cash earnings per share up 2.8% to 219.82c
- €1 billion of development activity, reflecting 45 acquisitions, principally our traditional local and regional add-ons.

Performance and growth continued to be the hallmarks of CRH during an extremely challenging 2002. Thank you to our 50,000 employees worldwide who played their part in bringing about the achievements of the past year.

### 2002 operational performance

The major overriding influences for the year were continued sluggish economic performance in Mainland Europe, a flattening of activity in the United States, and the depreciation of the US Dollar versus the euro.

As in recent years, Mainland Europe continued to disappoint in terms of overall construction activity. Germany remained at a particularly low ebb, with knock-on impacts in the surrounding countries. In Poland, the economic readjustment evident in 2001 continued, while Benelux markets were flat. The mature Finnish and Swiss construction sectors were slightly down,

while in France activities were at broadly similar levels to 2001. Residential construction was generally weak across the continent. Spain was a notable exception to the overall picture, with strong construction growth. House building in the UK continued at the low levels of recent years. In Ireland, housing and infrastructure picked up significantly in the second half, following a sluggish prior 12-month period, although non-residential activity remained at lower levels reflecting considerable over-build and weak markets.

In the United States, house building was a significant bright spot. Supported by strong demographics, low interest rates from the Federal Reserve and a reasonably constrained increase in unemployment relative to previous slow downs, new housing remained strong at 1.7 million units. By contrast, non-residential building was extremely weak, with significant double-digit percentage declines in many sub-sectors. Infrastructure activity was mixed: while continuing to be underpinned by strong Federal funding from the TEA-21 programme, budget deficits in some states were a cause of concern.

Our divisional Chief Executives set out in some detail in their individual operating reviews how these issues were dealt with and their impact on operating performances. Both Europe and the Americas reported an increase in operating profit from 2001 in local currency terms, despite in many cases taking on board significant restructuring costs. Particularly noteworthy is the very substantial improvement in the performance of Europe Products & Distribution - a combination of gaining the benefits of the restructuring actions of recent years together with excellent contributions from recent acquisitions. While the decline of the US Dollar has reduced the euro impact of the gains in our American businesses, they performed strongly in their own markets.

Taken overall these results show yet again the strategic strength of our regional businesses and the powerful value that our decentralised management structure generates at local level.

### US asbestos litigation

In late September, we announced that our US Distribution Group had in recent years received a number of claims regarding alleged asbestos-related injuries. These claims have multiple co-defendants. Our review at that stage led us to believe that the outcome of the claims would not have a material impact on CRH. Experience since then strengthens us in that belief.

### Development activity

As in 2001, we continued to make good progress on the development front, with a total acquisition and investment spend of approximately €1 billion. These acquisitions were in the main add-on deals, building on established regional development platforms and were spread across all product groups.

The most significant acquisition during the year was the purchase in May of the EHL Group, the German market leader in concrete paving and landscape walling products which operates a comprehensive network of 32 modern production facilities in Germany and one in Poland. This is an exciting venture for CRH: EHL's activities are similar to our very successful North American Architectural Products Group and the company is a major addition to the Concrete Products Group in Europe. Aimed substantially at the more resilient repair, maintenance and improvement market, EHL has performed extremely well against the background of a very depressed German construction sector. We now have significant concrete products businesses in the Netherlands, Germany, Belgium, France and the United Kingdom, which together with our substantial North American presence, make us a world leader in these products.

Chief Executive's review *continued*

Other European developments in 2002 saw substantial expansion in our Dutch and Swiss Distribution activities, Dutch Insulation, UK Security Fencing and Belgian Concrete Products. Our Europe Materials Division built on the 2000 entry into Switzerland via the Jura acquisition by acquiring Hard AG, an aggregate and concrete manufacturer. There were also small add-ons in Poland, Finland and Ireland.

In North America, our Materials Division expanded its significant Utah base by acquiring various assets from US Aggregates out of bankruptcy. In the Midwest, it strengthened its aggregates position through the acquisition of a number of quarries in southern Ohio, complementing the existing Shelly businesses in that region, while the acquisition of Nuckolls Concrete Services in Iowa added critical mass in that market. The Products & Distribution team also had a busy year; notable developments included

the acquisition of Anchor Concrete Products in New Jersey and Dixie Cut Stone & Marble in Michigan, expanding our homecentre service capability, while the Distribution team strengthened positions in New Jersey and California by the acquisition of Arzee Supply and A.L.L. respectively.

Taken together with our existing operations and significant plant enhancements, this €1 billion development spend will contribute to the strategic strength of the Group and should underpin continued strong future performance.

**People**

During the year, our organisational structure continued to develop right across the Group. These changes streamline the reporting lines, while continuing to leave local company management with the high degree of individual responsibility and operational autonomy that is central to the culture of CRH.

I would particularly like to note the retirement of Brian Griffin, Managing Director of CRH Europe Materials, at the end of January 2003. Under Brian's leadership this Division has grown throughout the 1990s from its original base in Ireland to being a €2 billion leader in 11 countries across Europe. Brian is succeeded by Declan Doyle, who has a track record of substantial achievement within CRH. To Brian and all our retiring colleagues, a sincere thank you for your contribution to our team over the years.

Investing in people is key to the continued success of the Group, as we work to meet our future leadership requirements in a planned way. We are continuing to develop our future generations of leaders, whose integrity and skills will build on the Group's successes to date, and achieve our performance and growth targets in the years ahead.

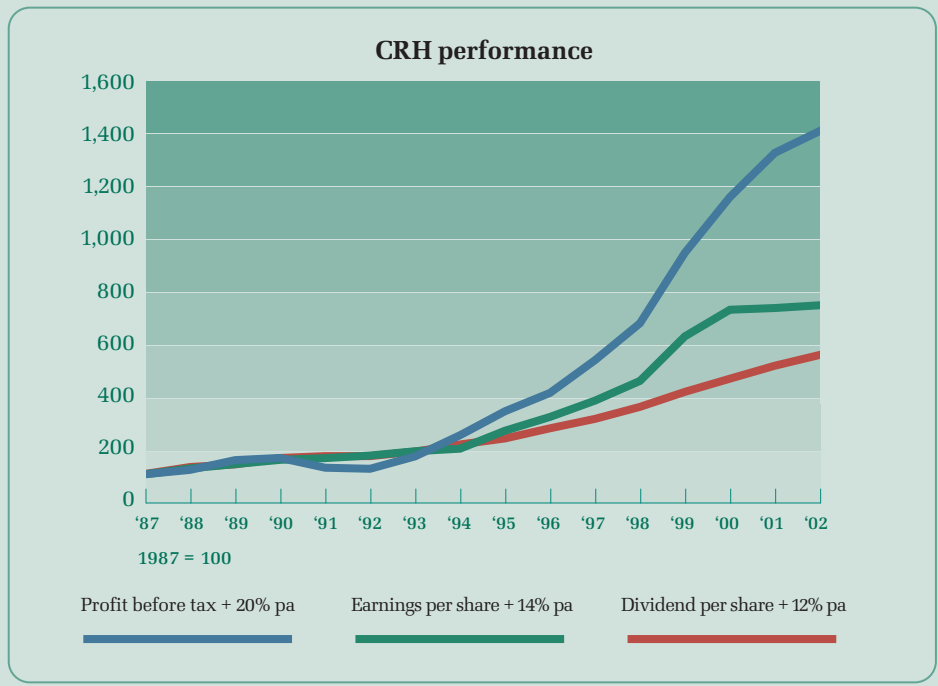
**Promoting continuous improvement**

Central to CRH's success is combining strong local operations with an effective sharing of resources and capabilities. Our 12 Best Practice groups are active across all regions and product groups. These are essential to identifying for everyone's benefit the ideas and innovations that have made individual businesses in the Group successful.

The provision of a safe and healthy work environment is a key objective for all CRH companies. All are of course required to comply with health and safety legislation, but also to go further by continuously improving beyond best industry practice, and placing a very high priority on regular safety training.

**Social responsibilities**

Our companies are committed to being ethical and responsible members of the communities in which we operate. We are committed to being fair employers, ensuring



equal opportunities and the absence of discrimination. We will continue our support of educational, environmental and other initiatives in the communities in which we work.

### Outlook 2003

As I write, the world is in an even more uncertain condition than normal. There are continuing terrorist outrages, instability in Iraq and the Middle East, oil prices remain high and world economic performance is sluggish at best. Markets are likely to remain difficult for the immediate future.

However, CRH is well positioned in the vast majority of its markets, and while there are risks, there are also opportunities. We have worked in recent years to restructure individual businesses, where necessary, to enable them to compete effectively. With a strong focus on cost control, optimising cash flow by rigorous management of working capital and capital expenditure, and a uniquely strong balance sheet, we are well positioned to further develop the Group through our continuing programme of acquisitions where we see value and good strategic fit. We remain committed to our twin goals – performance and growth.

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*The Glass Group produced all of the laminated glass for the Olympic Torch used in the 2002 Winter Games in Salt Lake City, Utah. The project required the complex lamination of 3,000 square feet of glass in five different configurations with simulated “ice” colours provided by Vanceva™ interlayer. The 117-foot tall cauldron was also laminated using specialist, fire-resistant glass.*

