

Grafton Group plc Interim Results For the Six Months Ended 30 June 2004

Released: 08/09/2004

Highlights

GROUP

- Sales were up 29% to €11.4m (2003: €706.5m)
- Operating profit before goodwill and property profit increased by 31% to €69.9m (2003: €3.4m)
- Profit before tax and property profit increased by 30% to €54.3m (2003: €41.7m)
- Earnings per share before goodwill and property profit increased by 25% to 24.63 cent (2003: 19.63 cent)

UK OPERATIONS

- UK now represents 76% of Group Sales and 72% of Group Operating Profit
- Turnover in the UK increased by 32% or €167.5m to €90m
- UK Operating Profit increased by 41% or €14.6m to €0.2m

IRISH OPERATIONS

- Irish Turnover grew by 20% or €7.3m to €21.3m
- Irish Operating Profit increased by 10.7% or €1.9m to €19.7m

Commenting on the results today, Michael Chadwick, Chairman, said:

“Our UK operations have generated high levels of growth which fully endorses Grafton’s strategy of development in that market. The Irish operations have also shown good growth under strong management in an increasingly competitive market environment. Group operating cash flow increased strongly to €92.5m compared with €45.8m. We have a healthy pipeline of bolt on acquisitions and are confident about the Group’s prospects for the remainder of the current financial year.”

INTERIM STATEMENT

Grafton Group plc is pleased to report record levels of sales, profits and earnings for the half year to 30 June 2004. Group sales were up 29 per cent to €111.4 million, compared with €706.5m in the same period last year. Operating profit before goodwill and property profit increased by 31 per cent to €69.9m from €3.4m. Profit before tax and property profit was 30 per cent higher at €4.3m compared to €1.7m. Earnings per share before goodwill and property profit increased by 25 per cent to 24.63 cent against 19.63 cent. Share redemption/purchase payments to shareholders increased by 33 per cent for the period.

Positive market conditions in the UK and Ireland in the half year provided a favourable operating environment for the continued development of the Merchanting, DIY and Mortar businesses. These results are consistent with the Group’s long term record of achieving high growth rates and are based on a good like for like performance in both the UK and Ireland and strong contributions from acquisitions completed during 2003.

UK turnover was up €167m or 32 per cent to €690m (2003: €523m) and accounted for 76 per cent of Group turnover. The UK businesses had an outstanding half year reporting operating profit growth of 41 per cent to €50.2m (2003: €35.6m) representing 72 per cent of Group operating profit. The UK operating margin improved in line with expectations and was up 46 basis points to 7.3 per cent (2003: 6.8 per cent).

The Group continued its successful strategy of bolt-on acquisitions which has been the cornerstone of the development of its UK Merchanting business. Six acquisitions were completed in the half year, adding nine branches to the UK network and €60m in annualised turnover. The Group has a healthy pipeline of potential acquisitions that are expected to complete during the second half. Greenfield developments include the opening of five Merchanting branches and the Group’s 7th EuroMix dry mortar plant in Southampton.

In Ireland, against a favourable economic background and continued growth in construction activity, the Group’s operations performed strongly in competitive markets. Turnover increased by 20 per cent to €221m (2003: €184m) and operating profit was up 11 per cent to €19.7m (2003: €17.8m). Like for like sales growth and the Telfords acquisition completed in October 2003 increased Merchanting sales by 22 per cent. Good like for like sales growth and new store openings enabled Woodie’s to increase turnover by 22 per cent.

Share Redemptions / Purchase

The Board redeemed the remaining six redeemable shares per Grafton unit for a total cash consideration of 5 cent per Grafton Unit which was paid on 26th March 2004. Following the restructuring of the Group's share capital in June 2004, the Board has now approved the purchase of one A ordinary share per Grafton Unit for 1 cent. The combined cash payments of 6 cent per Grafton Unit represent an increase of 33 per cent on the equivalent share redemption of 4.5 cent paid for the half year to 30 June 2003. No interim dividend will be declared.

OPERATIONS REVIEW

TURNOVER AND OPERATING PROFIT - UK AND IRELAND

	Six months to 30 June 2004 (unaudited)	Six months to 30 June 2003 unaudited)	Increase
	€000	€000	
Turnover			
Great Britain and Northern Ireland	690.0	522.5	32%
Republic of Ireland	<u>221.4</u>	<u>184.0</u>	<u>20%</u>
Total	<u>911.4</u>	<u>706.5</u>	<u>29%</u>
Operating Profit			
Great Britain and Northern Ireland	50.2	35.6	41%
Republic of Ireland	<u>19.7</u>	<u>17.8</u>	<u>11%</u>
Total	<u>69.9</u>	<u>53.4</u>	<u>31%</u>

The UK results are converted at the average Euro/Sterling rate of exchange for the half year. Sterling was on average 2 per cent stronger in the first half of 2004 compared to the first half of 2003.

United Kingdom

UK sales increased by 32 per cent to €90.0m (2003: €522.5m) and operating profit increased by 41 per cent to €50.2m (2003: €35.6m). The operating profit margin increased to 7.3 per cent from 6.8 per cent. All divisions performed strongly and like for like sales increased by 6.8%.

The UK economy continues to perform well with strong consumer activity, a buoyant housing market and good employment creation supported by low inflation and relatively low interest rates. This has been a very favourable environment for the UK's businesses which trade mainly in the repair, maintenance and improvement markets.

The excellent half year results from the UK businesses were due to profitable growth in the established merchanting branches and incremental profit from nine acquisitions, with an annualised turnover of €20m, completed during 2003. Further positive scale and integration benefits were derived from turnover more than doubling over the last three years.

UK Builders Merchanting

The UK Builders Merchanting division, which trades principally under the Buildbase and Jacksons brands from 150 locations, achieved excellent sales and profit growth. This strong performance was aided by good like for like sales growth in the more established branches, incremental profit from a significant acquisition programme in 2003 and contributions from acquisitions made during the half year. The division also benefited from ongoing integration of prior year acquisitions and purchasing benefits following a substantial acquisition programme during 2002 and 2003 which added sixty one branches. Six bolt-on acquisitions and the greenfield development of two branches in London added eleven branches to the network in the half year. These infill greenfield developments continue to improve our regional coverage.

Buildbase has been an active participant in the UK Builders Merchanting consolidation process since acquiring its first branch in Oxford in January 1996. Development of the business has been based mainly on the acquisition of long established small chain and single branch merchants with strong local market positions. Buildbase traded strongly in the half year increasing sales and operating profit at higher margins. Substantial profit growth in the established business due to increased sales and purchasing benefits was supplemented by contributions from acquisitions made in 2003.

Jacksons, the UK's largest regional independent merchanting business prior to acquisition by Grafton in March 2003, traded strongly with good like for like sales growth and a strong advance in operating profit. The nineteen branch East Midlands business is an excellent fit with Buildbase's strength in the South East and West Midlands. We now anticipate that the financial benefits for the enlarged Group as a result of this acquisition will be realised in this its first full year under Grafton ownership rather than in 2006 as stated in the announcement at the time of acquisition. Jacksons increased its presence in the Lincolnshire market in the half year with the completion of a single branch acquisition.

In Northern Ireland, Macnaughton Blair, one of the leading merchants in the province, traded strongly in a stable market and yielded double digit like for like sales and operating profit growth during the period. The branch network in the province increased to twelve with the acquisition of two builders merchanting businesses trading from branches in Bangor and Coleraine.

UK Plumbers Merchanting

The UK Plumbers Merchanting division trades from 140 branches under the Plumbase brand and has a strong regional presence in the South East, Midlands, East Anglia, West Country and Scotland. Sales and operating profit increased strongly in the half year. The results benefited from the acquisition of Plumblin in September 2003. This seventeen branch business, which has a strong position in the Scottish market, traded ahead of pre-acquisition expectations. The ongoing programme of greenfield developments continued with the opening of three new branches.

UK Mortar

EuroMix, the UK's leading producer of dry mortar for use in block and brick laying, had a successful half year with a further growth in sales and operating profit. The plant at Harlow, Essex which commenced production in May 2003 grew volumes strongly. The opening of the seventh dry mortar plant in Southampton in July leaves EuroMix well placed to service and support house builders, developers and contractors throughout the South of England.

Republic of Ireland

In Ireland, against a favourable economic background, the Group's businesses performed strongly in competitive markets. The Irish economy recovered strongly during the second half of 2003 and this trend continued into 2004. The Group's Irish turnover increased by 20 per cent to €221m (2003: €184m) and operating profit was up 11 per cent to €19.7m (2003: €17.8m). The operating profit margin reduced to 8.9 per cent from 9.7 per cent. This reflected an increase in merchanting margins which was offset by lower profitability in manufacturing, opening costs of 2 new Woodie's DIY stores, the consolidation of lower margins of acquired businesses and higher pension costs.

Irish Merchanting

The Irish Merchanting division increased sales by 22 per cent to €138.8m (2003: €114.1m), including like for like growth of 3.4 per cent. Chadwicks increased sales and operating margins in a very competitive market place. The Irish Merchanting division benefited from strong demand in the housing market which was at an all-time high. The Telfords three branch midlands network, acquired in October 2003, traded ahead of expectations and strengthened the Group's position in the region. Telfords also benefited from purchasing synergies as part of the larger merchanting group.

Irish Retailing

Woodie's continued to consolidate its market leadership position in the Irish DIY market with turnover growth of 22 per cent to €64.8m (2003: €53.1m) including like for like growth of 6 per cent. Woodie's had an excellent half year increasing operating profit strongly. Two new stores were opened during the period, one in Clonmel and a new flagship store on the Naas Road in Dublin. Stores opened in the second half of 2003 in Cavan and Carlow traded well ahead of budget. These openings increase Woodie's

network to eighteen and further store openings are planned over the next two years. Woodie's existing stores in Cork and Bray will be relocated into larger more modern facilities during 2005.

FINANCE

Good cash generation in the half year resulted in a strong cash inflow of €2.5m (2003: €45.8m) from operations.

The Group successfully completed the sale and leaseback of the new Woodie's flagship store on the Naas Road realising a development profit of €6.7m which is separately disclosed in the Profit and Loss account.

The Group spent €2.4m (2003: €148.0m) on six bolt on acquisitions. Capital expenditure amounted to €45.4m (2003: €37.9m) including a spend of €28.0m (2003: €22.0m) on development projects. The Group's consistent reinvestment of its substantial cashflow on acquisitions and development projects is intended to enhance profits in future years and support the ongoing development of the Group.

The Group increased its holding in Heiton Group plc to 29.01 per cent in the half year through the acquisition of 5.18 per cent of the ordinary shares in issue at a cost of €13.4m.

Payments to shareholders through the redemption of redeemable shares amounted to €23.4m (2003: €9.3m). This covered the second redemption payment for 2003 of 6.0 cent per Grafton unit and a further payment of 5 cent per Grafton Unit to redeem the remaining redeemable shares in issue.

EBITDA interest cover was 8.1 times (2003: 7.8 times). Shareholders' funds were €488.8m at 30 June 2004 (30 June 2003: €410.8m) and net debt amounted to €62.2m (30 June 2003: €307.3m) giving a debt to equity ratio of 74 per cent (30 June 2003: 75 per cent).

Heiton Group plc

It was announced on 12 August 2004 that the Boards of Grafton Group plc and Heiton Group plc had agreed the terms of recommended offers to be made by AIB Corporate Finance on behalf of Grafton Group Holdings, a wholly owned subsidiary of Grafton, to acquire the entire issued and to be issued share capital of Heiton Group plc. Heiton Group plc is a builders merchants and DIY retailer in Ireland trading principally under the Heiton Buckley and Atlantic Homecare brands. The Group also operates a specialist builders merchants chain in the UK. In the year ended 30th April 2004 Heiton Group plc reported turnover of €503m and a profit before taxation of €32.8m. The proposed acquisition of Heiton is in line with Grafton's stated strategy of participating in the development of the UK and Irish merchanting and DIY sectors. Grafton believes that Heiton's Irish merchanting and DIY businesses are an excellent strategic fit with

Grafton's existing operations and would enhance Grafton's position in the Irish merchanting and DIY markets.

The proposal, if successful, would result in Grafton Group increasing its shareholding in Heiton from 29% to 100%. As noted in the announcement of the offers on 12 August 2004 the ordinary share offer values 100% of the current issued and to be issued ordinary share capital of Heiton at approximately €336 million, based on the closing price of €6.65 per Grafton Unit on the day before that announcement.

The proposed acquisition is subject inter alia to approval by Grafton shareholders, Competition Authority approval and valid acceptances being received in respect of not less than 80 per cent of the ordinary shares in Heiton Group plc.

OUTLOOK

The Board believes that the Group's strategy of diversifying its earnings base across the UK and Ireland by building strong brands and market positions through organic development and acquisitions should continue to provide a sound basis for profitable growth.

Despite a tightening of interest rates, the outlook for the UK economy is positive and we expect continued growth in the repair, maintenance and improvement market which is the principal end use market for our UK business. The UK businesses should benefit from synergies and ongoing integration of prior year acquisitions. Current year acquisitions will contribute to future profitability and we continue to seek out acquisition opportunities which we believe will add value for our shareholders.

The Irish economy is forecast to enjoy further growth in the medium term. Activity in the housing market continues to be strong but we expect demand to moderate from current record levels. A continuation of low interest rates, low inflation, a stronger labour market and a pick up in consumer spending should provide a favourable environment for Chadwicks to grow its RMI business and for further growth in the Woodie's DIY business. Woodie's should also benefit from recent and planned store openings.

The strong performance in the first half has continued to date in the second half.

Ends

Enquiries:

Michael Chadwick
Executive Chairman
Grafton Group plc
Telephone: (+353) (01) 216 0600

Joe Murray
Murray Consultants
Telephone: (+353) (01) 498 0300

Colm ó Nualláin
Finance Director
Grafton Group plc
Telephone: (+353) (01) 216 0600

Ginny Pulbrook
Citigate Dewe Rogerson
Telephone: (+44) (0207) 282 2945