



Grafton Group Plc

INTERIM REPORT 2005





Profile

- UK and Ireland based Building Materials Group
- Principal activities
 - Builders and Plumbers Merchandising
 - DIY Retailing
 - Dry Mortar Manufacturing
- 2004 Turnover exceeded €1.87 billion, First half 2005 €1.3 billion
- Market leader or strong market positions
- Trading from over 450 locations
- About 9,500 employees
- Full listing in Dublin and London



Principal Brands - UK

BUILDBASE



Builders Merchenting - Significant Market Positions

PLUMBASE

Plumbers Merchenting - Significant Market Position

EuroMix

Silo Mortar Manufacturing - Market Leader



Principal Brands – Ireland





Strategy

- Consistent – Focused
- To achieve above average long-term returns for shareholders by:
 - Building on strong market positions in businesses serving the UK and Irish construction markets
 - Developing in other Irish Markets
 - Growing outside Ireland in businesses with which we are familiar



Development History - Summary

- **1987** Grafton Group became an independent Plc.
Turnover €62.8 million, Operating profit €2.2 million,
EPS 0.9 cent (full year)
- **1987** First Woodie's DIY superstore opened
- **1994** Acquired First UK Plumbers Merchant
- **1995** Entered UK Dry Mortar market
- **1996** Acquired first UK Builders Merchant
- **1998** Acquired British Dredging plc
- **2003** Acquired Jackson Building Centres
- **2005** Acquired Heiton Group plc

- **First Half 2005** Turnover €1.3 billion, Operating profit €96.5 million, EPS *29.8 cent

* Before property profit



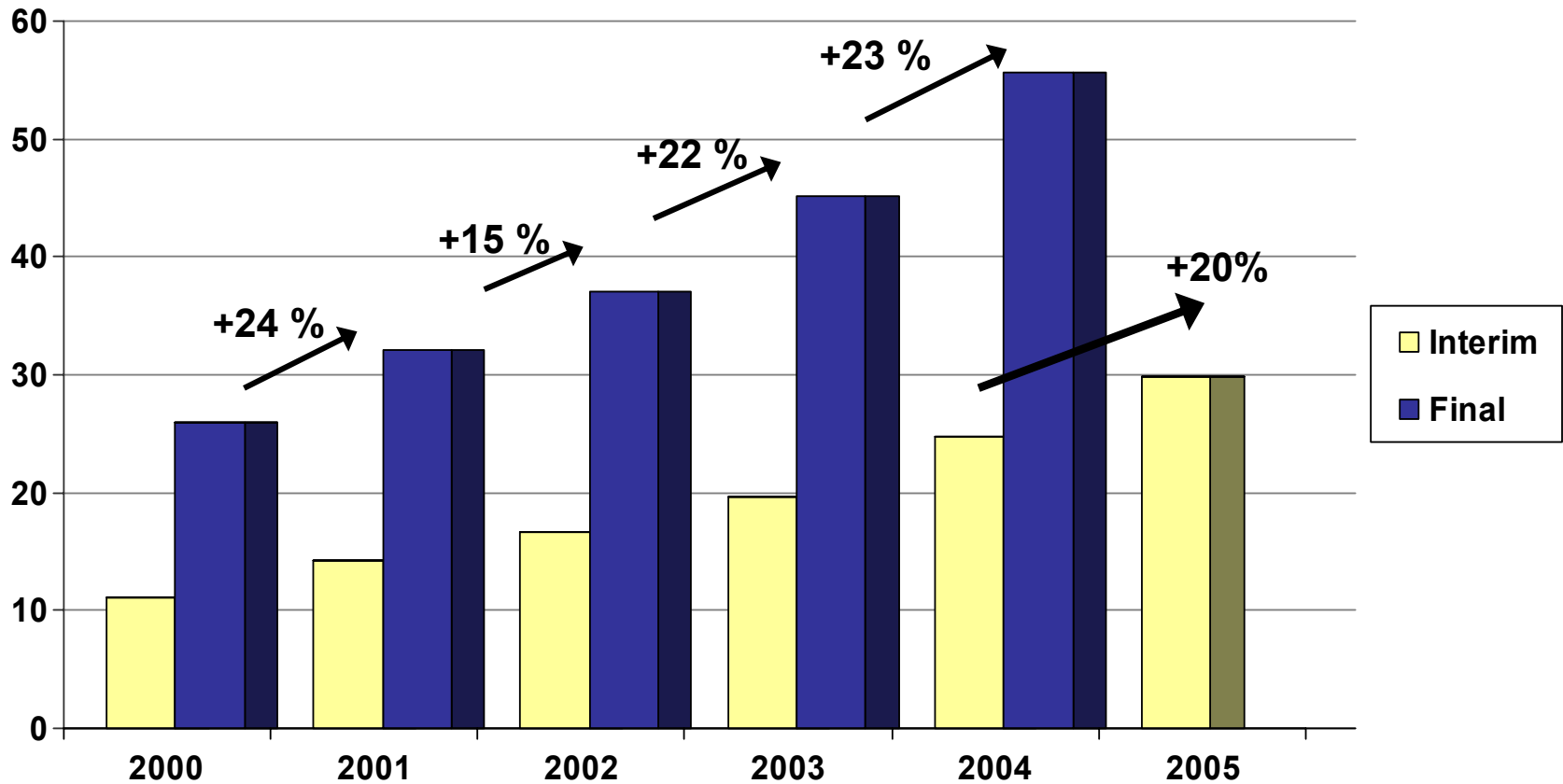
Group Financial Highlights

Year 2004		H1 2005	H1 2004	% Change
€1,872 m	Turnover	€1,293 m	€911 m	+42%
€159.5 m	Operating profit	€96.55 m	€70.7 m	+37%
€145.8 m	Pre-tax profit	€87.4 m	€68.4 m	+28%
€203.2 m	EBITDA	€126.5 m	€96.4 m	+31%
€7.5 m	Property profits	€5.9 m	€7.5 m	
56.11 c	Adjusted E.P.S.*	29.8 c	24.8 c	+20%

* Before property profits

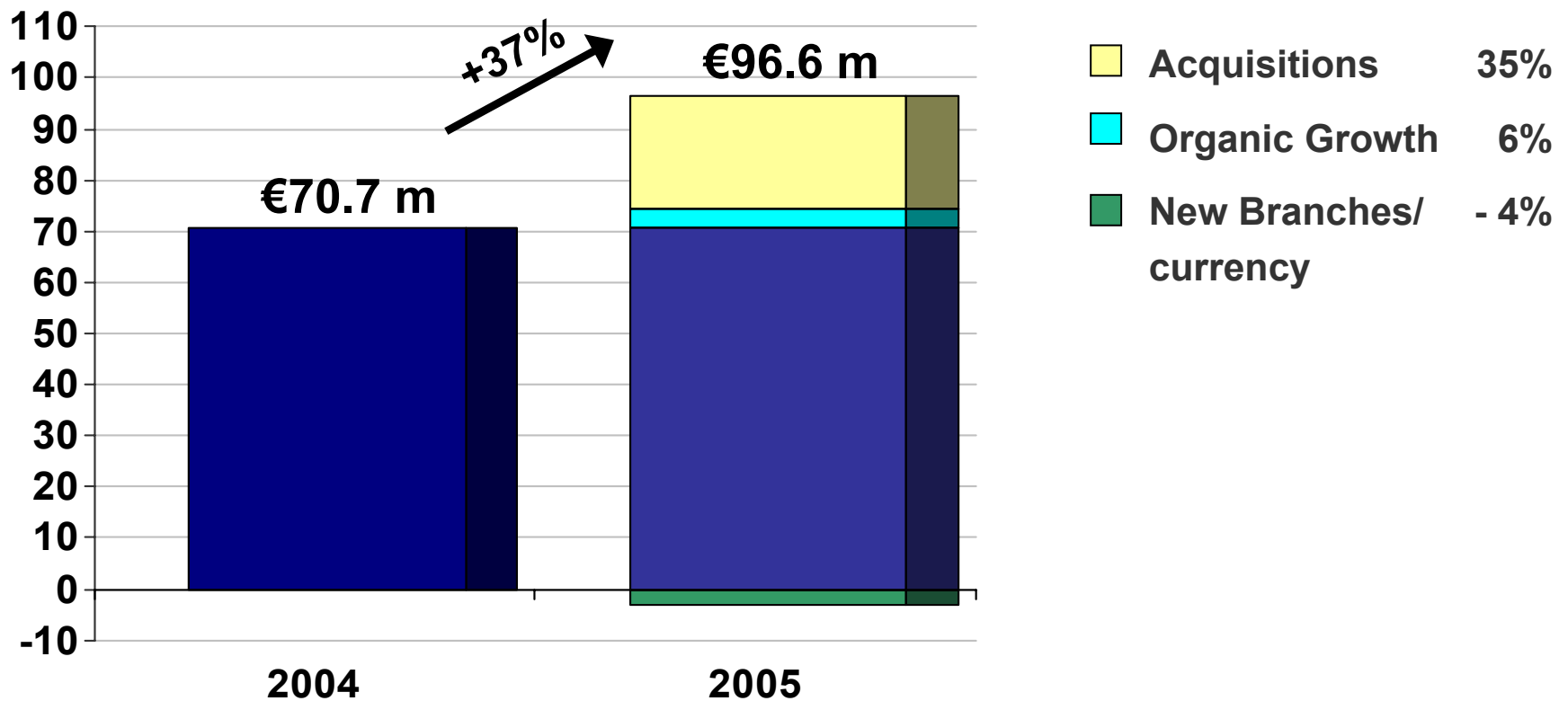


Consistently Strong Growth in Earnings





Components of Profit Growth First Half 2005





Analysis of Increased Activity to June 2005

	Six Months to June 2004	Established Business Increase to June 2005	Heiton Group plc to June 2005	Six months to 30 June 2005	Increase 2005 V 2004	Established Business in First Half 2005
Turnover						
UK	690.0	67.6	35.7	793.3	+15%	+9.8%
ROI	<u>221.4</u>	<u>19.6</u>	<u>259.0</u>	<u>500.0</u>	<u>+126%</u>	<u>+8.9%</u>
Total	<u>911.4</u>	<u>87.2</u>	<u>294.7</u>	<u>1,293.3</u>	<u>+42%</u>	<u>+9.6%</u>
Operating Profit						
UK	50.2	3.1	0.8	54.1	+8%	+6.2%
ROI	<u>20.5</u>	<u>1.7</u>	<u>20.2</u>	<u>42.4</u>	<u>+106%</u>	<u>+8.3%</u>
Total	<u>70.7</u>	<u>4.8</u>	<u>21.0</u>	<u>96.5</u>	<u>+37%</u>	<u>+6.8%</u>



Financial Statistics

	H1 2005	H1 2004
Interest Cover – EBITA	6.9	7.0
Gearing	73%	84%
Tax Rate	13.8%	13.6%
Annualised return avg. cap employed	17.3%	17.6%
Annualised return avg. equity (after tax)	21.6%	23.1%



Cash Generation

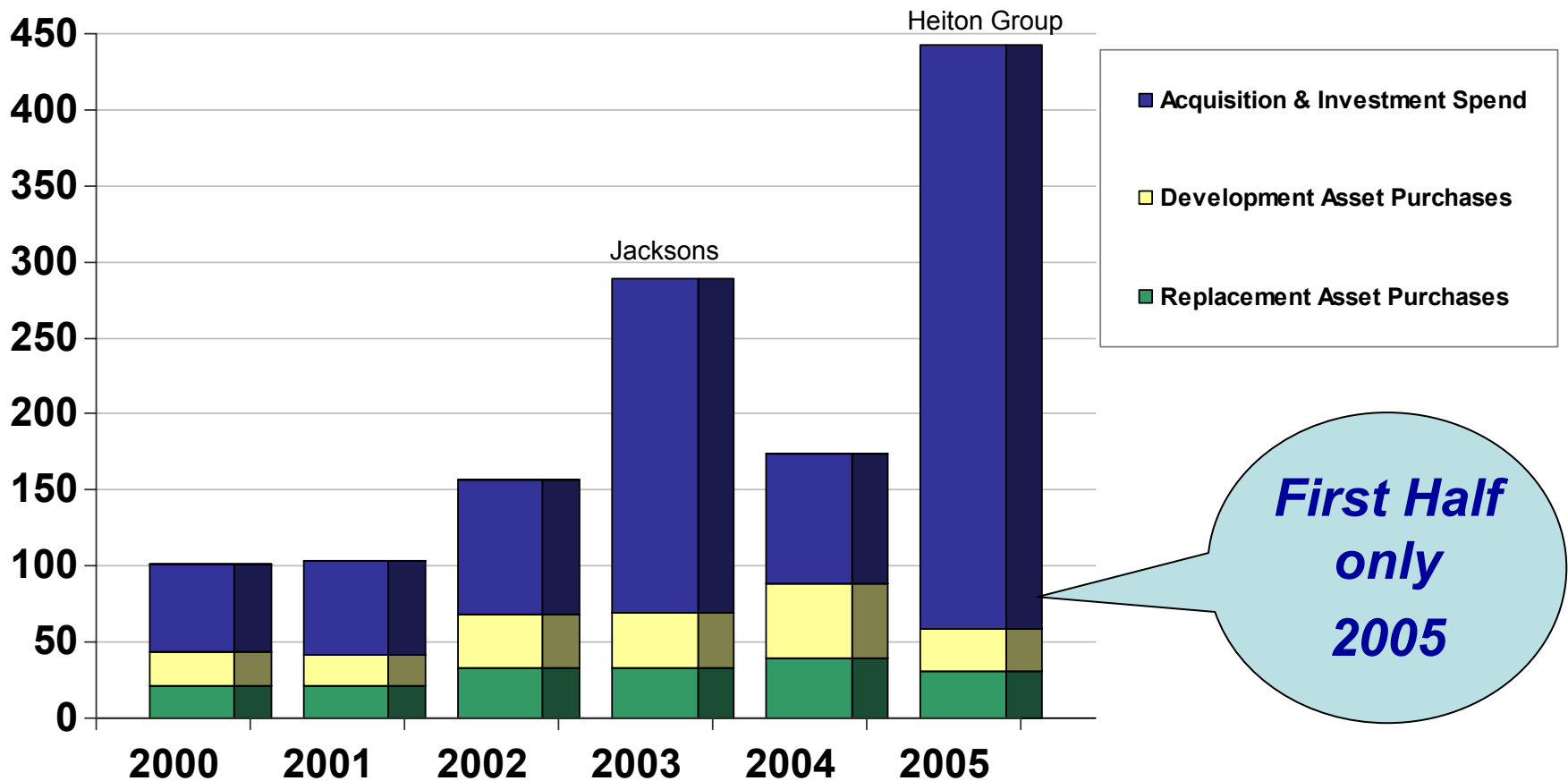
	H1 2005	H1 2004
	€ million	€ million
▪Operating Profit	96.5	70.7
Depreciation, amortisation & other	24.9	17.0
Disposals, property & interest/investment income	18.5	14.6
Shares issued	<u>178.1</u>	<u>0.1</u>
Total cash inflow	318.0	102.4
Working capital movement*	(4.3)	0.2
Capital expenditure**	(58.4)	(45.4)
Acquisitions & investments	(388.5)	(45.8)
Share purchase / redemption, interest & tax	(37.4)	(39.2)
Translation adjustment & other	<u>(21.6)</u>	<u>(22.5)</u>
▪Debt increase	<u>(192.2)</u>	<u>(50.3)</u>

* Working capital intensity 2005: 12.4% (2004: 13.1%)

** Development capex €27.7 million (2004: €28.0 million)



Group Development Spend





Enlarged Group Locations

Trading Locations

- Builders Merchants
- Plumbers Merchants
- Manufacturing
- DIY Retailing
- Heitons Locations





UK Performance 1999/2004



	1999	2000	2001	2002	2003	2004
◆ Turnover	344.4	520.0	657.2	808.5	1,111.5	1,420.6
▲ Operating Profit	16.6	29.2	40.0	53.7	78.6	108.2
Operating Profit Margin	4.8%	5.6%	6.1%	6.6%	7.1%	7.6%

Interim Margin 2005 6.8%	Interim Margin 2004 7.3%
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Heiton Group plc

- **RECOMMENDED OFFER:**
 - Acquisition totally unconditional on 7th January
 - Net investment by Grafton €406 m (Based on January 05 share price)
 - Multiples 2004: Sales 0.80x EBITA 11.6x

- **THE HEITON BUSINESS POST ACQUISITION**
 - Strong like for like sales growth in Ireland in buoyant sector
 - Integration benefits being realised (largely to benefit second half)
 - Only positive surprises since acquisition

- **STRATEGIC RATIONALE:**
 - Excellent strategic fit with Grafton's Irish and UK businesses
 - Opportunities for scale benefits from two geographically complementary businesses



Estimated Integration Benefits of Heitons

- Heiton Group – First half operating profit €21.0 million
- Target areas to extract benefits
 - Purchasing benefits
 - Plc overheads
 - Operational efficiencies
- Total Integration Improvement Anticipated:
 - First Half 2005 €2.6 million
 - Second Half 2005 €6.4 million
 - 2006 €4.0 million
 - 2007 to 2008 €4.0 million

Total Annual Ongoing Benefits €17.0 million

- One off rationalisation costs to absorb (€2 million) included in the first half numbers



Group Strengths

- Highly cash generative and profitable businesses
- Strong balance sheet
- Prominent market positions in the UK and Ireland
- Motivated management teams
- Proven strategic record
- Unique acquisition / integration skills
- Best Practice sharing across the Group

Heiton Buckley
BUILDERS MERCHANTS



CHADWICKS









Irish Merchenting First Half 2005

Overview of the Year:

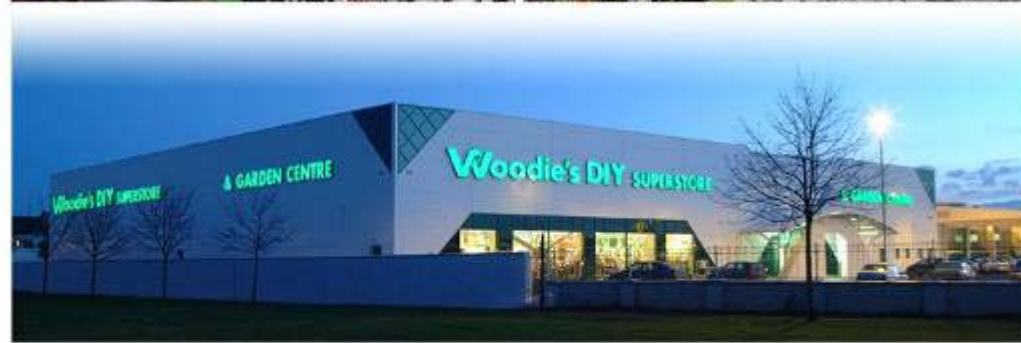
- Strong sales & PBIT growth
- Merchenting sales up 143%
- Like for like sales up 8%
- Growing share of RMI market

The Group continues to build on market Leadership and strong brands

	HY'05	+/- vs'04	% Group
Sales €'m	337	+143%	26%

 Grafton Group plc		+	 Heiton GROUP PLC		
	 23 Locations		 25 Locations		
		 14 Locations		 14 Locations	
		 8 Locations			

Woodie's DIY





Irish Retailing First Half 2005






Overview of the Year:

- Continued PBIT growth
- Sales +97%
- Like for like sales down - 4%
- Strong focus on margins
- Strong product innovation
- More competition from new stores – some cannibalisation

Investments in:

- Regional expansion, stores opened in Naas and Limerick
- Relocation - Cork
- Broadening product range
- Customer focused staff training

	HY'05	+/- vs'04	% Group
Sales €'m	127	+97%	10%

 	
  <p>20 Locations 4 Planned</p>	 <p>16 Locations 2 Planned</p>

Most successful DIY retailer in Ireland

BUILDBASE





PLUMBASE





UK Merchanting First Half 2005

Overview of the Year:

- Continued like for like growth +2.3%
- Slowing plumbers merchanting sales
- Some recent signs of recovery

Investments in:

- 5 Bolt on Acquisitions
- 6 Heiton UK branches
- 10 Organic Branch expansions
- Expanding Product range

Continued Expansion through Acquisition and Greenfield development

	HY'05	+/- vs'04	% Group
Sales €'m	762	+16%	59%

Builders Merchants	<u>BUILDBASE</u> 155 Locations
Builders Merchants	 20 Locations
Plumbers Merchants	<u>PLUMBASE</u> 156 Locations
UK Total	331



Build on our Experience






UK & Irish Manufacturing First Half 2005

Overview of the Year:

- 8th Dry Mortar plant commissioned in Bristol
- Increased competition as expected in UK Mortar market and some price pressure in the market - flat UK like for like sales
- Strong like for like growth in Ireland +13%
- Ready-mix concrete price competition in Ireland continued

	HY'05	+/- vs'04	% Group
Sales €'m	67	+39%	5%

Dry Mortar Plants	  <p>UK: 8 Locations ROI: 1 Location</p>
Plastic Pipe Manufacturer	 <p>1 Location</p>

Roll out of UK Dry Mortar plants continue



Overview of Enlarged Group

- **Sales: UK 61% - Ireland 39%**
- **Annualised Group Turnover > € 2.5 billion.**
- **Market leader in Irish Merchanting and DIY markets**
- **Strong No. 4 in UK Merchanting market – over 330 branches**
- **19% of Irish Merchanting market – over 70 branches**
- **15% of Irish DIY market – 36 stores**
- **9% of UK Merchanting market**



Group Performance to December 2004

Average per annum Compound Growth

	<u>5 Year</u>	<u>10 Year</u>	<u>Since 1987</u>
Turnover	25%	27%	22%
Adjusted EPS	23%	28%	28%
Share Purchase/ dividend per share	24%	29%	23%



Outlook Ireland

- Construction sector peaking
- Residential new build market to moderate in 2006
- RMI sector to continue to show single digit like for like growth
- DIY remains a strong growth market
- Ongoing integration of Heiton businesses with Grafton activities
- More DIY stores in the pipeline:
Dublin, Ennis, Navan, Drogheda, Donegal

“A smooth landing ahead”



Outlook - UK

- Grafton view of the UK economy is positive
- Main UK merchanting exposure to RMI market
- Subdued demand in RMI market
- Full year acquisition benefits flowing through
- EuroMix expansion – 8th UK plant in Bristol opened, 9th plant in planning for 2006
- Greenfield developments to strengthen market position
- Healthy pipeline of potential acquisitions

“Expectation of a market with potential to improve”



UK Merchanting Super League Table

Market Shares 2005*

- Jewson 20%
- Wolseley 19%
- Travis Perkins (Excl. Wickes) 17%
- Grafton Group 9%

*Fastest
Growing
Merchant*

*Based on AMA Research and BMJ estimates, Jan 2005



International Financial Reporting Standards – Principal Policy Changes for Grafton

- Goodwill IFRS 3
- Intangibles IAS 38
- Pensions IAS 19
- Deferred Tax IAS 12
- Financial Instruments IAS 32 & 39
- Share Based Payments IFRS 2



Comparison of IFRS and GAAP

Comparison

Based on 2005 H1 figures

	GAAP	IFRS	% +/-
Operating Profit	€85.8m*	€96.5 m #	+12%
Profit After Tax	€65.3m*	€75.3 m	+15%
Adjusted EPS	30.60 c	29.81 c	-3%
Net Assets	€787 m	€736 m	-6%

* Includes €11.9 million for amortisation of goodwill.

Includes €1.1 million for amortisation of intangible assets



Reconciliation of Operating Profit – Irish GAAP to IFRS

	30 June 2005 €'000	30 June 2004 €'000	31 December 2004 €'000
Operating Profit			
Irish GAAP operating profit	85,814	63,688	144,581
IFRS 3 – Amortisation of intangibles	(1,060)	-	-
IFRS 3 – Amortisation of goodwill	<u>11,868</u>	<u>6,195</u>	<u>12,820</u>
Operating profit before amortisation	<u>96,622</u>	<u>69,883</u>	<u>157,401</u>
IAS 19 – Pension	1,051	882	2,433
IFRS 2 – Share options etc	(839)	(340)	(892)
IAS 17 – Leases	496	351	702
IFRS 3 – Stock profit on acquisitions	<u>(780)</u>	<u>(45)</u>	<u>(100)</u>
Non-goodwill effects of IAS	<u>(72)</u>	<u>848</u>	<u>2,143</u>
IFRS Operating profit	<u>96,550</u>	<u>70,731</u>	<u>159,544</u>



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