



# Grafton Group plc

2005 Final Results

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## Record Sales, Profits and Earnings

Grafton Group plc, the builders merchants and DIY Group with operations in the UK and Ireland, announces its final results for the year ended 31 December 2005.

### Financial Highlights

	2005	2004	Change
Revenue	€2.63 Bn	€1.87 Bn	UP 40%
Operating profit *	€215.9 m	€159.5 m	UP 35%
Profit before tax	€192.2 m	€145.8 m	UP 32%
Basic earnings per share	70.3	59.1	UP 19%
Earnings per share before amortisation of intangibles and property profit	67.8c	56.1c	UP 21%
Share purchase / redemption	15.75c	13.0c	UP 21%
Cash flow per share	91.6c	75.4c	UP 21%

*\*Before property profit and amortisation of intangibles*

### Operating Highlights

Irish merchanting traded strongly aided by positive market conditions

Heitons performed comfortably ahead of pre-acquisition expectations

UK profitability maintained in a challenging market

Store openings increase competition in Irish DIY market

Record acquisition and development activity in 2005

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

“Profits advanced significantly in Ireland with out-performance by Heitons and strong organic growth in merchanting. Trading conditions in the UK weakened during the second half and the overall UK profit outcome was in line with the previous year. In Ireland the market outlook continues to be strong, although conditions remain very competitive especially in the DIY sector. Recent economic data in the UK is encouraging with improving consumer confidence and a gradual recovery in the RMI market is forecast for the second half of 2006. The Group expects to benefit from a healthy pipeline of acquisition and organic growth opportunities.”



Grafton Group plc reports strong growth in sales, profits and earnings for 2005. This was the Group's fourteenth consecutive year of record results and also marked completion of the Heitons acquisition, a significant strategic move and the Group's largest acquisition to date.

## Highlights

- Sales were up 40 per cent to €2.63 billion (2004: €1.87 billion).
- Operating profit increased by 35 per cent to €215.9 million (2004: €159.5 million).
- Adjusted earnings per share increased by 21 per cent to 67.8 cent (2004: 56.1 cent).
- Basic earnings per share increased by 19 per cent to 70.3 cent (2004: 59.1 cent).
- Cash generated from operations was up 26 per cent to €224 million (2004: €178 million).
- Heiton Group plc, acquired in January 2005, contributed €48.8 million to Group operating profit for 2005.

There was a significant advance in Irish profit for 2005 due to the Heiton acquisition and strong organic growth in the Group's established Irish merchandising operations. Trading conditions in the UK weakened as the second half developed and overall UK profit for the year was in line with 2004.

The results for 2005 demonstrate the benefit to our shareholders of rebalancing of the Group's operations between the UK and Ireland with stronger profits in Ireland compensating for the slow down in the UK market. The Group's consistent strategy of broadening its earnings base and developing strong market positions and brands in the UK and Ireland enabled the achievement of new record levels of sales, profits and earnings in 2005.

Completion of the acquisition of Heiton Group plc on 7 January 2005 substantially increased the scale of the Group's operations with Irish turnover more than doubling to exceed €1 billion. The acquisition consolidated the Group's market leadership position in the Irish builders merchandising and DIY markets. Heitons performed strongly in 2005 comfortably outperforming pre-acquisition expectations. The Group absorbed the Heiton businesses with a smooth transition on change of ownership to Grafton.

In the Republic of Ireland, the economy grew strongly and provided a very positive backdrop for record levels of residential construction and RMI activity. Irish turnover increased by 129 per cent to €1,033 million (2004: €452 million) and operating profit increased by 110 per cent to €107.7 million (2004: €51.4 million). An almost full year contribution from Heitons, strong like for like sales growth in the established merchandising business and new store openings in the DIY business resulted in a significant increase in Irish sales and operating profit compared to 2004. The Irish businesses accounted for 39 per cent (2004: 24 per cent) of Group turnover and half (2004: 32 per cent) of Group operating profit for the year.



After a good start to the year, the performance of our UK business was influenced by a slowing UK economy. Despite a more difficult economic background, which led to more subdued demand in the repair, maintenance and improvement market, sales increased by 12 per cent to €1.60 billion (2004: €1.42 billion) and operating profit of €108.2 million matched the record level achieved in 2004.

## **Development**

To date the Group's successful acquisition strategy has been primarily based on the completion of small and medium sized bolt-on transactions. The successful acquisition of Heitons, a business turning over €608 million from 67 branches, demonstrated the Group's ability to undertake large transactions which are a good strategic fit and deliver shareholder value. The Group continued to benefit from a steady flow of bolt-on acquisitions in recent years completing sixteen transactions in 2005. In the UK, the Group acquired fourteen builders and plumbers merchanting businesses trading from nineteen branches with annual sales of €85 million. These transactions primarily improve our market coverage in the North West and South East. In Ireland, in addition to the Heiton transaction, the Group acquired two businesses, trading from three branches with annual sales of €47 million, which provided the Group with a significant opportunity to expand its product portfolio and geographic coverage in the builders and plumbers merchanting market.

The Group continued its strategy of developing organically completing nineteen projects with the opening of fourteen merchanting branches and a new dry mortar plant in the UK and four DIY stores in Ireland.

The 2005 acquisition program together with organic developments substantially increased the scale of the Group's operations, improved our market positions and provided a sound platform for the continued long term development of the Group. In January 2006 the Group acquired the remaining shares in Heiton's Polish business.

The Group used its healthy cashflow from operations and strong balance sheet to fund its record spend of €571.4 million (2004: €173.80 million) on acquisitions and capital projects while retaining financial strength and balance sheet flexibility to continue to implement the Group's ongoing development strategy.

## **Share Purchase**

The Company purchased one A ordinary share per Grafton unit for a cash consideration of 7.25 cent paid on 7 October 2005. The Board has decided to purchase a further A ordinary share per Grafton unit for a cash consideration of 8.5 cent payable on 31 March 2006.

The total share purchase payments to shareholders for 2005 amount to 15.75 cent per Grafton Unit, an increase of 21 per cent on total share purchase / redemption payments for 2004 of 13 cent per Grafton Unit.



## **Board**

The Board is pleased to announce the appointment of Roderick Ryan (49) as a non-executive Director. Mr. Ryan is a Chartered Accountant by profession and Group Executive Director of Glen Dimplex. He was formerly Managing Partner of Arthur Andersen in Ireland and, as a member of the European Executive Committee, he directed the industry section of Andersen's practice in the European Area. The Board is at an advanced stage in the appointment of a further non-executive Director.

## **International Financial Reporting Standards**

The results for 2005 have been prepared in accordance with the Group's policies under International Financial Reporting Standards (IFRS). The transition date for implementation of IFRS by the Group was 1 January 2004. The financial statements for the year ended 31 December 2004, which were prepared in accordance with accounting practices generally accepted in the Republic of Ireland, have been restated under IFRS with effect from the transition date.

Full details of the accounting policies adopted by the Group on implementation of IFRS were published on 6 July 2005 and are available on the Group's website [www.graftonplc.com](http://www.graftonplc.com).

## **Operations Review – United Kingdom**

UK sales increased by 12 per cent to €1.60 billion (2004: €1.42 billion) and operating profit was in line with last year's record level of €108.2 million. The operating margin declined to 6.8 per cent (2004: 7.6 per cent).

The UK has been a very favourable trading and operating environment since the mid 1990s enabling the Group to develop leading positions in the merchanting and mortar markets. The performance of the UK economy has been impressive over this period. Growth slowed however to 1.7 per cent in 2005 which, although below trend in the toughest year for the economy since the mid 1990's, was higher than growth in both the Euro area and European Union.

A series of interest rate rises, at a time of historically high household debt, and a slow down in the housing market weakened consumer confidence and the pace of consumer spending slowed. There was also a fall in the volume of property transactions and a drop in mortgage equity withdrawal. The combined effect of these factors reduced activity in the RMI market particularly during the second half of the year. This is the principal end-use market for the Group's merchanting sales.

The Group's like for like UK merchanting sales were flat in 2005 compared to an increase of 6.5 per cent in 2004. The increase in first half like for like sales was reversed in the second half in a weaker market. The increase in overall UK sales in 2005 was derived from acquisitions and branch openings in 2004 and 2005. In a more difficult trading environment the Group successfully maintained UK operating profit in line with the previous year.

Consolidation in the UK merchanting market continued in 2005 and the Group actively participated in that process acquiring fourteen builders and plumbers merchanting businesses trading from nineteen branches. Our presence in the UK merchanting market was further strengthened by Heiton's UK business, a six branch specialist drainage and ground engineering



business, and the opening of fourteen greenfield branches. The UK merchanting network ended the year trading from 349 locations.

### **UK Builders Merchanting**

The UK Builders merchanting division had a satisfactory year increasing sales and operating profit with the benefit of acquisitions. Sales in the second half of the year trended lower in line with weakening conditions in the RMI market

Seven single branch merchants were acquired and a further six branches were added from the Heiton deal. Six greenfield branches were opened increasing the divisions trading locations to 182 by the year end.

Buildbase increased sales and profit in a less buoyant and more competitive market place. The impact of lower volumes was partly mitigated by successfully implementing cost reduction and efficiency measures. At the end of its tenth year of trading Buildbase is now a key player in the UK merchanting market having successfully developed primarily through acquisition. More recently Buildbase has in addition grown its network by greenfield developments including four branch openings in 2005. Tool and equipment hire centres, trading as Hirebase, were added to eight branches.

Jacksons, one of the UK's leading regional merchanting brands with a major presence in the East Midlands market, had a successful second full year as part of the Group.

In Northern Ireland, Macnaughton Blair, the leading merchant in the province where it trades from thirteen branches, increased sales and operating profit. Market conditions in the province continued to be favourable. The builders merchanting branch in Coleraine, acquired in 2004, was relocated to a new purpose built facility in the town. Macnaughton Blair acquired MFBP, a leading builders merchanting business on the Isle of Man and Houtman, a long established scaffolding business based in Belfast.

### **UK Plumbers Merchanting**

Plumbase is the fourth largest plumbers merchanting chain in the UK with a strong branch presence in the South East, West Country, Midlands, East Anglia and Scotland. Market conditions were demanding for the business in 2005. Like for like sales were down for the year but our confidence in the longer term prospects for the business was demonstrated with the acquisition of seven plumbers merchanting businesses trading from twelve locations and the opening of eight greenfield branches increasing the network to 167 locations by the year end. Cost saving measures and margin improvement partially offset the impact on profit of lower volumes in the established branch network. Plumbase bathroom showrooms and the non-trade element of the business were more exposed to the slowdown in retail sales as consumer demand for housing and RMI related products weakened.

### **UK Mortar**

EuroMix, the market leader in the supply of dry mortar trades from a network of eight dry mortar manufacturing plants, produces a range of quality mortars for use in block and brick-laying. EuroMix supplies the major national and regional building and construction companies involved in residential and commercial construction projects across England and Scotland. During the year the business expanded its range of value added products including bagged products and sprayed renders.



The business had to contend with lower activity in the new housing market, higher raw materials and transport costs and a more competitive trading environment. EuroMix increased sales due to a strong performance in the Harlow and Southampton plants, both of which continue to develop their market position, and the opening of a plant near Bristol in July to service demand in the West Country. The business reported a small decline in operating profit due to a more competitive market and higher input costs.

### **Operations Review – Republic of Ireland**

Irish turnover increased by 129 per cent to €1,033 million (2004: €452 million). Operating profit increased by 110 per cent to €107.7 million (2004: €51.4 million). The operating profit margin was 10.4 per cent (2004: 11.4 per cent). The overall reduction in margin reflected an increased margin in the established merchanting business and margin dilution arising from integration of the lower margin, heavy end market emphasis of the Heiton business.

The Irish economy has been one of the fastest growing economies in the developed world for well over a decade. In recent years the rate of growth has moderated in line with the economy's long term growth potential estimated at 4/5 per cent but is still significantly ahead of the average growth rate in the Euro area and EU. The growth profile of the economy changed in 2005 with strong growth in exports, a pick up in consumer spending and greater infrastructure and business investment. Consumer spending is believed to have been the principal source of economic growth in the year increasing by more than 5 per cent and supported by solid growth in incomes and employment. Job creation was at record levels with total employment reaching 2 million due to strong immigration from the new EU member states.

The construction sector in Ireland continued to be very buoyant in 2005. The rate of growth in residential construction slowed, as widely anticipated, to around 5 per cent with house completions for the year at a record 81,000 units (2004: 77,000 units). The strong increase in employment and the population has created a new stream of demand in the residential property market.

### **Irish Merchanting**

2005 was an excellent year for the Group's Irish builders merchanting division with sales up 141 per cent to €690.5 million (2004: €286.1 million). The acquisition of Heiton's in January 2005 substantially strengthened the Group's builders merchanting interests in Ireland and consolidated Chadwicks and Heitons position as the largest builders merchanting business in the Irish market.

The Heiton Buckley network of 25 branches is a unique fit with Chadwicks 31 branches with limited overlap and provides the Group with a presence in towns and cities across the country where Chadwicks was not previously represented including Cork City and along the Western Seaboard. Heitons Irish merchanting operations also incorporate Heiton Steel, Ireland's largest steel stockholding business, and Sam Hire, the leading player in the small plant and tool hire business trading from 14 branches.



The Irish residential construction and repair and maintenance markets performed strongly throughout 2005 aided by low interest rates, high levels of job creation and strong growth in real disposable incomes. This very positive macro economic background was strongly supportive of sales and profit growth in the Irish merchanting business.

Heitons merchanting business performed strongly making an operating profit contribution well ahead of pre-acquisition expectations. Chadwicks the Group's core merchanting business also had an exceptional year. Like for like sales in the Heiton Buckley and Chadwicks merchanting branches were up 7 per cent for the year. While both merchants enjoyed good volume growth, there was vigorous competition in the market from the national chains and independents.

Cork Builders Providers and Telfords, two strong regional merchants, produced excellent results for the year increasing sales and operating profit strongly.

The performance of Heiton Steel in 2005 was influenced by a fall in steel prices internationally. The business successfully managed its response to the fall in prices achieving very solid profitability in line with its long term trend performance.

Heitons Sam Hire business achieved significant profit improvement due primarily to operating cost reductions. The business opened its fourteenth branch at Santry, Dublin and relocated its Naas Road, Dublin branch to Tallaght during 2005. Three further branch openings in Dublin, Mullingar and Tullamore are planned for 2006.

The Heiton and Chadwicks management teams worked closely and successfully to realise substantial purchasing and overhead efficiencies in 2005 which will benefit the Group on an ongoing basis.

The Group acquired Davies plumbing, heating and drainage business and Garvey's builders merchants on 1 December 2005. The acquisition of Davies, which trades from 2 branches in the greater Dublin area, enables the division to broaden its product portfolio into an area which offers strong growth opportunities while Garvey's provides the Group with a strong merchanting presence in Roscommon, an important Midlands town.

## **Irish Retailing**

The scale of the Group's Irish retailing operations increased substantially during 2005 due principally to the acquisition of Heitons retailing business which trades under the Atlantic Homecare and In House at the Panelling Centre brands. At the time of acquisition the Atlantic Homecare DIY chain traded from 15 stores and In-house at the Panelling Centre, which markets a range of high quality kitchen and bedroom panelling products to trade and retail customers, traded from four stores.

Sales in the division were up 110 per cent to €272.6 million (2004:€129.8 million). The division's operating profit increased strongly, particularly during the second half, with contributions from the Atlantic Homecare, and In House at the Panelling Centre businesses and a good performance from Woodie's 2004 and 2005 store openings. Like for like sales in the Atlantic Homecare and Woodie's stores were down 2 per cent for the year reflecting an improvement in trading in the second half.





Growth in consumer spending picked up in 2004. This trend continued throughout 2005 with the benefit of income tax reductions, income growth and an increase in employment and the population and record levels of new house building. While this was an ideal economic background for retailing, there was also a significant increase in retail capacity across the country with the opening of new retail centres. There has been a particularly marked increase in the retail area devoted to DIY superstores with an increase in capacity of 83 per cent over the past two years.

Woodie's had its most active year ever on the development front with the opening of three stores in Naas, County Kildare in the first half and Carrickmines, South Dublin and Drogheda, County Louth in the second half. The Cork and Bray, County Wicklow stores were relocated in order to substantially expand the capacity of both stores to support a wider product offering and to provide greater choice for customers. The Woodie's stores opened in 2004 and 2005 and the two relocated stores performed strongly. Sales in a number of Woodie's established branches were lower due to the more competitive market place.

Atlantic Homecare increased its store network to sixteen with the opening of a new store in Limerick and prior to the year end extended the Mullingar store.

Woodie's Castlebar will officially open on 16<sup>th</sup> March 2006. Construction of stores in Navan and Nenagh is well advanced with openings expected from Spring 2006.

In House at the Panelling Centre increased sales and profits strongly. Plans are well advanced to continue the growth of this business with the opening of a fifth store in Galway and relocation of the Dun Laoghaire store to a larger facility in Spring 2006.

## **Irish Manufacturing**

CPI's EuroMix division benefited from a buoyant residential construction market growing dry mortar volumes in the greater Dublin area.

Wright, a business engaged in the manufacture and installation of uPVC, aluminium and timber, windows and external doors, was also a beneficiary of the strong housing market increasing sales and profit for the year.

## **Finance**

Cashflow from operating activities increased to €224.5 from €178.2 million principally due to higher operating profit.

The cost of acquisitions completed during the year including acquired debt was €470.9 million (2004: €84.9 million). This included expenditure of €359.0 million to acquire the remaining 71 per cent of the shares in Heiton's not already owned by the Group and €111.9 million on sixteen bolt-on acquisitions. Deferred consideration paid in the year on prior year acquisitions amounted to €6.8 million (2004: €3.7million). The total consideration paid for Heiton's of €359.0 million comprised the issue of 21.4 million Grafton Units valued at €173.6 million to shareholders in Heiton's, the payment of €100.2 million in cash under the cash element of the offer, debt acquired at completion of €75.2 million and expenses of €10 million associated with the offer.



The Group issued a total of 24 million Grafton Units during the year comprising the Units issued in connection with the Heiton offer, 1.2 million Units issued to UK employees under the Grafton Group (UK) plc Savings Related Share Option Scheme and 1.4 million Units issued under the Group's executive share schemes.

Capital expenditure increased to €100.6 million from €88.9 million in 2004 reflecting routine replacement expenditure of €44.3 million and expenditure of €56.3 million on continued investment in the enlarged business including the opening of 19 new branches and various development initiatives supporting the continued profitable growth of the Group.

The Group realised a profit of €9.6 million mainly on the sale of surplus Irish and UK properties. The proceeds on disposal of these properties amounted to €23.2 million.

Net interest payable of €31.2 million (2004: €22.8 million) includes the cost of servicing increased debt associated with the acquisition of Heiton's. Interest cover was 7.2 times (2004: 7.4 times).

Net borrowings at 31 December 2005 were €584.2 million compared to €349.2 million at 31 December 2004 giving gearing of 72 per cent compared to 70 per cent at 31 December 2004.

In June 2005, the Group raised \$325 million through a private placement of seven year and ten year Senior Notes with a group of US investors. The proceeds were converted into Sterling and used partly to re-finance existing borrowings with the remainder held for general corporate purposes. This competitively priced source of funds has strengthened the Group's balance sheet and improved the maturity profile of Group debt.

## **Outlook**

In Ireland, the fundamental factors which have driven strong growth in recent years remain favourable with the economy expected to perform strongly in 2006. The positive medium term outlook is based on subdued inflation pressure, a modest increase in the Euro interest rate, continued job growth and impressive growth in domestic demand helped by maturing SSIA accounts.

The prospects of the Irish housing market are also positive. The trend in housing registrations and planning permissions, leading indicators of housing completions, are supportive of a continuation of strong residential construction activity supported by both increased employment and immigration.

We expect that the favourable macro economic background in Ireland should lead to positive trading conditions for the Heiton Buckley and Chadwicks businesses and that both merchants should be beneficiaries of strong levels of activity anticipated in both the residential construction and RMI markets throughout 2006.

Consumer spending is expected to be a key driver of economic growth in 2006 and should be supportive of good demand in the Irish DIY market. We expect the sector to continue to be very competitive as the impact of additional capacity added in recent years unfolds and development of the market moves towards maturity.



In the UK, the economy grew below trend in 2005 due to weaker consumer spending, a key component of growth in recent years. Recent economic data is encouraging with a strong recovery in housing transactions and mortgage approvals. Improving consumer confidence should support a gradual recovery in the RMI market but we continue to expect lower first half like for like sales in our merchandising business compared to the strong performance in the first half of 2005. The UK dry mortar market is expected to remain competitive due to the increased capacity in the sector. In a more difficult market, the UK business continues to focus on cost control and scale related synergies throughout the merchandising network. The Group also expects to benefit from its healthy pipeline of potential acquisition and organic growth opportunities.

The Group's strong financial position and substantial cashflows leave it well placed to continue to pursue its successful strategy.

### **Analyst Meeting**

There will be an analyst meeting today at 08.45 (BST) in Dublin. A dial-in facility will be available for this meeting:

Ireland:	+353	1 439 0433
UK:	+44	207 769 6433
Other:	+353	1 439 0433

**A copy of this statement is also available on our website [www.graftonplc.com](http://www.graftonplc.com)**



## Grafton Group plc

### Group Income Statement

For the year ended 31 December 2005

	Twelve months to 31 Dec 2005 (Audited)	Twelve months to 31 Dec 2004 (Audited)
	€000	€000
<b>Revenue</b>	<b>2,629,464</b>	1,872,346
Operating costs	<b>(2,415,694)</b>	(1,712,802)
<b>Operating profit before property profit</b>	<b>213,770</b>	159,544
Property profit	<u>9,640</u>	<u>7,521</u>
<b>Operating profit</b>	<b>223,410</b>	167,065
Income from financial assets	-	1,541
Interest expense	<b>(48,803)</b>	(33,339)
Interest income	<u>17,574</u>	<u>10,559</u>
<b>Profit before tax</b>	<b>192,181</b>	145,826
Income tax expense	<b>(26,102)</b>	(19,936)
<b>Profit after tax for the financial year</b>	<b><u>166,079</u></b>	<u>125,890</u>
Profit attributable to: Equity holders of the Company	<b><u>166,079</u></b>	<u>125,890</u>
Basic earnings per share	<b>70.26c</b>	59.14c
Adjusted earnings per share	<b>67.80c</b>	56.11c
Diluted earnings per share	<b>68.80c</b>	57.69c



## Group Statement of Recognised Income and Expense For the year ended 31 December 2005

	2005 €000	2004 €000
Items of income and expense recognised directly within equity:		
Currency translation effects - on foreign currency net investments	7,999	(2,176)
- on foreign currency borrowings	(811)	20
Actuarial loss on Group defined benefit pension schemes	(8,946)	(11,760)
Deferred tax asset on Group defined benefit pension schemes	1,944	1,186
Fair value movement on cash flow hedges	(1,332)	-
Deferred tax on cash flow hedge	167	-
<b>Net expense recognised directly in equity</b>	<b>(979)</b>	<b>(12,730)</b>
Profit after tax for the financial year	<u>166,079</u>	<u>125,890</u>
<b>Total recognised income and expense for the financial year</b>	<b>165,100</b>	<b>113,160</b>
<b>Attributable to:</b>		
Equity holders of the Company	<u>165,100</u>	<u>113,160</u>
 <b>Effect of Change in accounting policy</b>		
Effect of adoption of IAS 32 and IAS 39 on 1 January 2005 (with 2004 not restated) on:		
Fair value reserve	53,974	-
Cash flow hedge reserve	1,450	-
Deferred tax on cash flow hedge reserve	(207)	-
	<u>55,424</u>	=
 <b>Movement on Group Profit and Loss Account</b>		
	2005 €000	2004 €000
At 1 January	347,044	257,155
Retained profit for the financial year	166,079	125,890
Redemption of redeemable shares	-	(23,392)
Purchase of A ordinary shares	(33,751)	(2,131)
Actuarial loss on pensions (net of tax)	(7,002)	(10,574)
Dividends	-	(266)
Deferred tax on share based payments	157	123
Transfer from revaluation reserve	2,853	239
<b>At 31 December</b>	<b><u>475,380</u></b>	<b><u>347,044</u></b>
 <b>Group Statement of Changes in Equity</b>		
	2005 €000	2004 €000
At beginning of period	495,538	405,651
Impact of adoption of IAS 32 & IAS 39	55,424	-
At beginning of period as adjusted	<u>550,962</u>	<u>405,651</u>
Elimination of fair value reserve arising on acquisition of Heiton Group plc	(49,535)	-
Issue of Grafton Units (net of issue expenses)	178,658	1,501
Adjustment for share based payments expense	2,220	892
Deferred tax on share based payments	157	123
Dividends	-	(266)
Redemption of redeemable shares	-	(23,392)
Purchase of A ordinary shares	(33,751)	(2,131)
Total recognised gains and losses for the year	<u>165,100</u>	<u>113,160</u>
<b>Closing shareholders' funds - equity</b>	<b><u>813,811</u></b>	<b><u>495,538</u></b>



**Grafton Group plc**  
**Group Balance Sheet As At 31 December 2005**

	2005 (Audited) €000	2004 (Audited) €000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	623,228	406,207
Goodwill	532,323	247,155
Intangible assets	15,519	-
Financial assets	256	47,019
Deferred tax assets	25,980	14,313
<b>Total non-current assets</b>	<b><u>1,197,306</u></b>	<b><u>714,694</u></b>
<b>Current assets</b>		
Inventories	356,647	237,680
Trade and other receivables	499,308	318,165
Derivative and other financial instruments	5,708	-
Cash and cash equivalents	334,023	135,868
<b>Total current assets</b>	<b><u>1,195,686</u></b>	<b><u>691,713</u></b>
<b>Total assets</b>	<b><u>2,392,992</u></b>	<b><u>1,406,407</u></b>
<b>EQUITY</b>		
<b>Capital and reserves attributable to the Company's equity holders</b>		
Equity share capital	12,037	10,864
Share premium account	281,038	103,600
Capital redemption reserve	274	227
Revaluation reserve	36,574	34,988
Other reserve – shares to be issued	3,191	971
Cash flow hedge reserve	285	-
Foreign currency translation reserve	5,032	(2,156)
Retained earnings	475,380	347,044
<b>Total equity</b>	<b><u>813,811</u></b>	<b><u>495,538</u></b>
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Interest-bearing loans and borrowings	713,712	378,401
Deferred tax liabilities	42,932	27,968
Retirement benefit obligations	59,032	35,597
Provisions	500	1,552
<b>Total non-current liabilities</b>	<b><u>816,176</u></b>	<b><u>443,518</u></b>
<b>Current liabilities</b>		
Interest-bearing loans and borrowings	209,278	106,696
Trade and other payables	498,717	310,786
Current income tax liabilities	50,610	45,436
Derivative financial instruments	923	-
Provisions	3,477	4,433
<b>Total current liabilities</b>	<b><u>763,005</u></b>	<b><u>467,351</u></b>
<b>Total liabilities</b>	<b><u>1,579,181</u></b>	<b><u>910,869</u></b>
<b>Total equity and liabilities</b>	<b><u>2,392,992</u></b>	<b><u>1,406,407</u></b>



## Grafton Group plc Group Cash Flow Statement For the year ended 31 December 2005

	2005 €000	2004 €000
<b>Operating profit</b>	<b>213,770</b>	159,544
Property development profit	-	6,729
Depreciation	48,248	34,626
Intangible amortisation	2,176	-
Share based payments charge	2,220	892
Profit on sale of plant and equipment	(2,564)	(2,179)
Contributions to pension schemes in excess of IAS 19 charge	(10,888)	(1,791)
Increase in working capital	(28,485)	(19,641)
<b>Cash generated from operations</b>	<b>224,477</b>	178,180
Interest paid	(39,233)	(27,111)
Income taxes paid	(15,227)	(7,301)
<b>Cash flows from operating activities</b>	<b>170,017</b>	143,768
<b>Investing activities</b>		
<i>Inflows</i>		
Proceeds from sale of property, plant and equipment	32,793	25,437
Interest received	7,738	4,849
Dividends received	-	2,364
	<u>40,531</u>	32,650
<i>Outflows</i>		
Acquisition of subsidiary undertakings and businesses	(395,451)	(61,805)
Net cash/(debt) acquired with subsidiary undertakings	22,897	718
Deferred acquisition consideration	(6,844)	(3,750)
Purchase of property, plant and equipment	(100,559)	(88,917)
Purchase of financial assets	-	(13,351)
	<u>(479,957)</u>	(167,105)
<b>Cash flows from investing activities</b>	<b>(439,426)</b>	(134,455)
<b>Financing activities</b>		
<i>Inflows</i>		
Proceeds from the issue of share capital	178,659	1,288
Proceeds from long term borrowings	373,078	69,843
	<u>551,737</u>	71,131
<i>Outflows</i>		
Repayments of long term borrowings	(35,673)	(5,673)
Redemption of redeemable shares	-	(23,392)
Purchase of A ordinary shares	(33,751)	(2,131)
Payment of finance lease liabilities	(2,061)	(23,834)
Redemption of loan notes payable	(25,237)	(24,758)
Dividend paid	-	(53)
	<u>(96,722)</u>	(79,841)
<b>Cash flows from financing activities</b>	<b>455,015</b>	(8,710)
Net increase in cash and cash equivalents	185,606	603
Cash and cash equivalents at 1 January	105,822	106,557
Effect of exchange rate fluctuations on cash held	416	(1,338)
<b>Cash and cash equivalents at 31 December</b>	<b>291,844</b>	105,822



## 1. Revenue and Operating Profit by Geographic Segment

The amount of revenue by geographic segment is as follows:

	Twelve months to 31 Dec 2005 €000	Twelve months to 31 Dec 2004 €000
<b>Revenue</b>		
Republic of Ireland	1,032,899	451,742
United Kingdom	1,596,565	1,420,604
	<u>2,629,464</u>	<u>1,872,346</u>
<b>Operating profit before property profit and intangible amortisation</b>		
Ireland	107,702	51,360
United Kingdom	<u>108,244</u>	<u>108,184</u>
<b>Operating profit before property profit and intangible amortisation</b>	215,946	159,544
Intangible amortisation – Republic of Ireland	2,176	-
	<u>213,770</u>	<u>159,544</u>
<b>Operating profit before property profit</b>		
Ireland	105,526	51,360
United Kingdom	<u>108,244</u>	<u>108,184</u>
	<u>213,770</u>	<u>159,544</u>
<b>Property profit</b>		
Ireland	7,963	6,729
United Kingdom	1,677	792
	<u>9,640</u>	<u>7,521</u>
<b>Operating Profit</b>		
Ireland	113,489	58,089
United Kingdom	<u>109,921</u>	<u>108,976</u>
	<u>223,410</u>	<u>167,065</u>
Income from financial assets	-	1,541
Finance costs (net)	(31,229)	(22,780)
<b>Profit before tax</b>	<u>192,181</u>	<u>145,826</u>

## 2. Analysis of Revenue by Business Segment

	Twelve months 31 Dec 2005 €000	Twelve months to 31 Dec 2004 €000
<b>Revenue</b>		
UK merchanting	1,533,700	1,359,923
Irish merchanting	690,549	286,126
Irish DIY	272,589	129,783
Irish and UK manufacturing	132,626	96,514
	<u>2,629,464</u>	<u>1,872,346</u>





### 3. Reconciliation of Net Cash Flow to Movement in Net Debt

	2005 €000	2004 €000
For the year ended 31 December 2005		
Net increase in cash and cash equivalents	185,606	603
Cashflow from increase in debt and lease financing	<u>(310,107)</u>	<u>(15,578)</u>
<b>Change in net debt resulting from cash flows</b>	<b>(124,501)</b>	<b>(14,975)</b>
Loan notes issued on acquisition of subsidiary undertakings	(867)	(9,085)
Finance leases acquired with subsidiary undertakings	(7,934)	(1,388)
Bank loans and loan notes acquired with subsidiary undertakings	(89,519)	-
Translation adjustment	(12,457)	(578)
Net movement in derivative financial instruments	<u>(1,332)</u>	<u>-</u>
<b>Movement in net debt in the year</b>	<b><u>(236,610)</u></b>	<b><u>(26,026)</u></b>
Net debt at 1 January 2005	(349,229)	(323,203)
IAS 32/39 adjustment at 1 January 2005	1,657	-
Net debt restated at 1 January 2005	<u>(347,572)</u>	<u>(323,203)</u>
Net debt at 31 December 2005	<u>(584,182)</u>	<u>(349,229)</u>

### 4. Earnings per Share

The computation of basic and diluted earnings per share is set out below:	2005 €000	2004 €000
<b>Numerator for basic, adjusted and diluted earnings per share</b>		
Profit on ordinary activities after taxation	166,079	125,890
<b>Numerator for basic and diluted earnings per share</b>	166,079	125,890
Property profit after tax	(7,731)	(6,442)
Intangible amortisation after tax	1,904	-
<b>Numerator for adjusted earnings per share</b>	<b><u>160,252</u></b>	<b><u>119,448</u></b>
<b>Denominator for basic and adjusted earnings per share:</b>		
Weighted average number of Grafton Units in issue	236,371,547	212,875,181
Effect of potential dilutive Grafton Units	<u>5,023,349</u>	<u>5,329,373</u>
<b>Denominator for diluted earnings per share</b>	<b><u>241,394,896</u></b>	<b><u>218,204,554</u></b>
<b>Adjusted earnings per share (cent)</b>		
- Basic	67.80	56.11
<b>Earnings per share (cent)</b>		
- Basic	70.26	59.14
- Diluted	68.80	57.69

### 5. Share Purchase

The Board has approved the purchase of one A ordinary share per Grafton Unit for a cash consideration of 8.5 cent. The purchase of the A ordinary share will take effect in respect of Grafton Units on the register at close of business 24 March 2006 (record date) and the cash consideration will be paid on 31 March 2006.



## 6. Exchange Rates

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 2005 and 31 December 2004 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 2005 was Stg68.38p (year ended 31 December 2004: 67.86p). The Euro / Sterling exchange rate at 31 December 2005 was Stg68.53 (31 December 2004: Stg70.51p).



## Grafton Group plc

### FINANCIAL OVERVIEW 2005

	2005	2004	Change
Revenue (€ million)	<b>2,629.5</b>	1,872.3	+40%
EBITDA (€ million)	<b>273.8</b>	203.2	+35%
Operating profit before amortisation of intangibles and property profit (€ million)	<b>215.9</b>	159.5	+35%
Profit before taxation (€ million)	<b>192.2</b>	145.8	+32%
EPS - Basic	<b>70.3c</b>	59.1c	+19%
EPS before amortisation of intangibles and property profit	<b>67.8c</b>	56.1c	+21%
Share purchase / redemption	<b>15.75c</b>	13.0c	+21%
Share purchase / redemption cover (times)	<b>4.3</b>	4.3	
Interest cover (times)	<b>7.2</b>	7.4	
Cash flow per share	<b>91.6c</b>	75.4c	+21%
Net assets per share	<b>342.8c</b>	232.2c	+48%
Net debt to shareholders' funds	<b>72%</b>	70%	
Depreciation charge (€ million)	<b>48.2</b>	34.6	
Intangible amortisation (€ million)	<b>2.2</b>	-	
Acquisition and investment expenditure (€ million)	<b>470.9</b>	84.9	
Capital expenditure (€ million)	<b>100.6</b>	88.9	