# Grafton Group plc

## 2006 Final Results

For further information please contact:



| | |
|---|---|
| **Grafton Group plc + 353 1 216 0600** | **Murray Consultants + 353 1 498 0300** |
| Michael Chadwick, Executive Chairman | Joe Murray |
| Colm Ó Nualláin, Finance Director | **Citigate Dewe Rogerson + 44 207 282 2945** |
| | Ginny Pulbrook |

# 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 2006.

### Financial Highlights

| | 2006 | 2005 | Change |
|---|---|---|---|
| Revenue | €2.93 Bn | €2.63 Bn | UP 12% |
| Operating profit * | €244.9 m | €215.9 m | UP 13% |
| Profit before tax # | €249.4 m | €192.2 m | UP 30% |
| Property profit | €38.0m | €9.6m | - |
| Basic earnings per share | 91.0c | 70.3c | UP 29% |
| Adjusted earnings per share * | 78.0c | 67.8c | UP 15% |
| Share purchase | 18.75c | 15.75c | UP 19% |
| Cash flow per share | 114.3c | 91.6c | UP 25% |
| Gearing | 54% | 72% | - |

** Before property profit and amortisation of intangibles*

*# Includes property profit*

### Operating Highlights

- Irish merchanting performed strongly in a favourable market
- Return to like for like sales and profit growth in UK merchanting market in the second half resulted in growth in full year operating profit
- Heitons continued to out-perform generating investment returns ahead of expectations
- Irish DIY business returned to like for like sales growth despite increased competition in sector.
- Phase one of property disposals completed generating significant profit and cash flow.

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

"The Group's Irish business produced excellent results in a strong economy. In the UK demand improved in the second half resulting in a higher full-year profit contribution. Business development continued with €159.9 million committed to bolt-on acquisitions and capital spend. Strong cash generation and property disposals left the Group in an exceptionally healthy financial position at year-end and well positioned to take advantage of suitable acquisition and organic development opportunities. The Group is confident about its future prospects of achieving above average returns for shareholders."

Grafton Group plc reports further growth in sales, profits and earnings per share for 2006.

## Highlights

- Sales were up 12 per cent to €2.93 billion (2005: €2.63 billion).
- Operating profit* increased by 13 per cent to €244.9 million (2005: €215.9 million).
- Property profit of €38.0 million achieved during the year (2005: €9.6 million).
- Profit before tax up 30 per cent €249.4 million (2005: €192.2 million).
- Adjusted earnings per share increased by 15 per cent to 78.0 cent (2005: 67.8 cent).
- Basic earnings per share increased by 29 per cent to 91.0 cent (2005: 70.3 cent).
- Cash generated from operations and asset disposals was up 28 per cent to €329.5 million (2005: €257.3 million).
- Strong balance sheet with shareholders funds increasing 25 per cent to exceed €1 billion for the first time
- Gearing at eight year low while interest cover increased from 7.2 to 9 times
- Twentieth consecutive year of increased share purchase/dividend payments

** Before property profit and amortisation of intangibles*

The Group's Irish business delivered excellent results against a background of a strongly performing economy. The UK business traded in a softer market in the first half reporting lower profit but experienced improved demand in the second half leading to an increase in full year profit.

This is an excellent outcome for the year in view of the less favourable merchanting market in the UK in the first half. The strength of the overall performance is a reflection of the Group's successful strategy of broadening its earnings base and developing strong market positions and brands in the Irish merchanting and DIY markets and in the UK merchanting and mortar markets.

The acquisition of Heiton Group plc, the Group's largest acquisition to date, in January 2005 provided the Irish merchanting and DIY businesses with a much broader trading and geographic platform in a growth market in Ireland. The results of the business for the past two years have exceeded expectations and the Group achieved its hurdle rate of return on its original investment.

In the Republic of Ireland, continued high economic growth rates, record levels of house construction and RMI activity together with increased consumer spending were the key drivers of demand in the merchanting and DIY businesses. Strong like for like sales and profit growth in the established Irish business combined with contributions from acquisitions and new stores resulted in a substantial advance in profit. Irish turnover increased by 16 per cent to €1.20 billion (2005: €1.03 billion) and operating profit increased by 21 per cent to €130.4 million

(2005: €107.7 million). The Irish business accounted for 41 per cent (2005: 39 per cent) of Group sales and 53 per cent (2005: 50 per cent) of Group operating profit.

The UK RMI market progressively weakened during 2005 and this trend continued into the first half of 2006 before the market staged a gradual recovery in the second half. The results of the UK business moved generally in line with market conditions with operating profit increasing strongly in the second half as trading in the RMI market gathered momentum. UK turnover increased by 9 per cent to €1.73 billion (2005: €1.60 billion) and UK operating profit increased by 6 per cent to €114.6 million (2005: €108.2 million).

## Development

The Group continued to actively pursue its long term development strategy based on growth through acquisitions and branch development. The spend on acquisitions was €87.1 million including deferred acquisition consideration relating to prior year transactions of €11.9 million. This was lower than the record expenditure of €477.7 million in 2005 which included €359 million to acquire the remaining 71 per cent of the shares in Heiton Group plc. Capital expenditure on development projects increased to €72.8 million (2005: €56.3 million) and the total spend on acquisitions and development capital expenditure was €159.9 million.

Sixteen bolt-on merchanting acquisitions were completed in the UK continuing the steady flow of transactions which has over time enabled the Group to build a strong position in the merchanting market. These businesses trade from 27 locations with annual sales of over €120 million. The businesses acquired were well established operations trading from locations which expand and compliment coverage of the UK merchanting market.

Organic growth initiatives have traditionally been an important element of the Group's development strategy and the pace of activity in 2006 was similar to 2005 with the completion of 18 projects. In the UK, twelve merchanting branches were opened and one new dry mortar plant. In Ireland, three Woodie's DIY stores, one builders merchanting branch and one In House at the Panelling store were opened.

The addition of the 45 locations, referred to above, to the existing branch network increases the scale and market presence of the Group as well as providing a good basis for further sales and profit improvement in 2007 and beyond.

Once again in 2006, the trading operations were highly cash generative and the Group ended the year in an exceptionally strong financial position with shareholders funds exceeding €1 billion for the first time. Group gearing of 54 per cent at the year end was at its lowest level since 1998. This leaves the Group with the financial strength to take advantage of suitable acquisition and organic development opportunities which present a good strategic fit and are based on the achievement of acceptable long term returns for shareholders.

## Share Purchase

The Company purchased one A ordinary share per Grafton Unit for a cash consideration of 8.25 cent which was paid on 18 October 2006. The board approved the purchase of a further A ordinary share per Grafton Unit for a cash consideration of 10.50 cent (2006: 8.50 cent) payable on 28 March 2007.

The total share purchase payments to shareholders for 2006 amount to 18.75 cent per Grafton Unit. This is an increase of 19 per cent on total share purchase payments for 2005 of 15.75 cent per Grafton Unit. This is the twentieth consecutive year for the Group to increase its share purchase / dividend payment to shareholders and is achieved while maintaining a high level of cover. The increase over last year reflects the strong financial position of the Group and the Board's confidence in its future prospects.

## Board

As previously announced, the Board appointed Mr. Leo Martin as Chief Operating Officer with overall responsibility for the Group's Irish and UK builders and plumbers merchanting operations with effect from 12 September 2006. The Board also appointed Mr. Roderick Ryan and Mr. Peter Wood as Non-Executive Directors with effect from 15 March 2006 and 1 July 2006 respectively.

## Operations Review – Republic of Ireland

Irish turnover increased by 16 per cent to €1.20 billion (2005: €1.03 billion). Operating profit increased by 21 per cent to €130.4 million (2005: €107.7 million). The operating profit margin increased to 10.9 per cent (2005: 10.4 per cent).

The Irish businesses traded at record levels of activity against a positive economic background. The economy grew broadly in line with its long run potential growth rate continuing a period of expansion dating back to the mid 1990's which has been exceptional by European standards. Consumer spending was a key contributor to growth sustained by rising real incomes, lower taxes, employment growth and significant immigration.

Activity in the construction sector was strong throughout 2006. Investment in the housing market continued at a high level with completions reaching 88,200 units. The rate of growth in house prices eased in the second half in response to rising interest rates and increased supply.

Non-residential construction also enjoyed very good demand during 2006. In particular, the housing repair, maintenance and improvement sector was very busy. Private and public sector non-residential construction including civil and infrastructural engineering projects also delivered strong volume growth.

## Irish Merchanting

Sales increased by 18 per cent to €816.6 million (2005: €690.5). The Irish merchanting business delivered another year of good growth in sales and operating profit with the benefit of a strongly performing economy driving demand in the residential, new build and RMI markets. These conditions supported continued high levels of demand in the merchanting sector.

The performance of Heitons since acquisition in January 2005 has exceeded expectations and the Group achieved its hurdle rate of return on this investment in 2006.

The overall increase in sales and profitability of the division resulted from good organic growth, acquisition contributions and improved underlying operating profit due to purchasing benefits and tight control of overheads.

The sixty branch national merchanting chain trading primarily under the Chadwicks and Heiton Buckley brands had healthy volume growth in the housing, RMI and civils sectors. Like for like merchanting sales increased by 8 per cent although the pricing and trading environment remained competitive.

Chadwicks had an excellent year creating new records for sales and profits. The business benefited from an increased focus on sales growth in the plumbing and heating product category in its specialist Plumb Centre and general merchanting branches. Trading in the Naas, Co. Kildare branch benefited from a major refurbishment and expansion programme.

The Heiton Buckley business out-performed expectations due to positive market conditions and increased profitability derived from purchasing synergies, a rigorous focus on cost efficiencies, changes in product mix and greater focus on growth in attractive product segments. The business also made progress on the development front relocating the Tralee branch to an out of town purpose built facility and opening a new branch in Mullingar. Trading indications to date have been very encouraging at both locations.

Cork Builders Providers had a very good year of sales and profit growth with the benefit of a buoyant new build and RMI market in Cork City and also due to expansion of its civils and drainage division. Telfords increased sales and profits in a favourable Midlands market supported by significant investment in the Portlaoise branch.

The Davies and Garveys businesses, acquired in December 2005, traded ahead of pre-acquisition expectations. Davies, a specialist plumbing, heating and drainage merchant benefited from its exposure to growth in the non-residential and infrastructure markets. The Garvey's general merchanting business reported solid sales growth in its Midlands based RMI market and also benefited from Group purchasing synergies.

The Heiton Steel stockholding business performed satisfactorily despite a difficult pricing environment. The benefit of good volume growth in a positive market was offset by lower prices and greater competition in the cutting and bending market.

Sam Hire, the leading player in the small plant and tool hire market, improved market coverage with the opening of branches in Dublin and Mullingar.

## Irish Retailing

Sales increased by 14 per cent to €311.7 million (2005: €272.6 million). The Irish retailing business, trading under the Woodie's DIY, Atlantic Homecare and In House at the Panelling Centre brands, had a very good year reporting increased sales and operating profit and an improvement in the operating margin. This very positive outcome was achieved despite tougher competition due to a doubling of capacity in the sector over the past three years and higher property costs.

The business traded against a background of strong volume growth in consumer spending continuing the trend established in 2005. This was sustained by growth in employment and earnings and the impact of maturing SSIA accounts. Consumer spending in the DIY sector was also supported by an increase in the housing stock, rising house prices and equity releases.

Increased profitability came from a good performance in the established stores and contributions from Woodie's store openings in 2005 and 2006. Like for like sales in the DIY stores were on an improving trend as the year developed and showed low single digit gains for the year. Like for like sales compared even more favourably with the 2005 performance when account is taken of the movement of some business to new Woodie's stores where catchment areas overlap.

The Woodie's DIY brand has a clear leadership position in the Irish DIY market where it currently trades from 25 stores. The store network was expanded further during 2006 with the opening of new stores in Castlebar, Co. Mayo and Navan, Co. Meath in the first half and in Nenagh, Co. Tipperary in the second half. Store openings in 2005 in Naas, Co. Kildare, Carrickmines, South Dublin and Drogheda, Co. Louth together with the relocated Cork City and Bray, Co. Wicklow stores contributed increased profitability in 2006. The 2005 and 2006 store openings and relocations exceeded trading expectations.

The sixteen store Atlantic Homecare DIY business successfully increased profit through improved trading from its enhanced ranges and targeted promotions.

The five store In House at the Panelling Centre business which markets a range of high quality kitchen and bedroom panelling products to trade and retail customers, achieved excellent sales and profit growth due to good market demand in its four established stores boosted by strong consumer spending, significant top up and house mover mortgage activity and the impact of maturing SSIA accounts. A fifth branch was successfully opened in Galway and further expansion of the format is planned.

## Irish Manufacturing

CPI's EuroMix division increased mortar volumes supplied into a strong residential and commercial construction market in the greater Dublin area and also expanded sales volumes of its value added product range.

Wrights, a manufacturer of windows and external doors, commissioned a new timber window manufacturing plant prior to the year end to meet a significant increase in demand.

## Operations Review United Kingdom

UK sales increased by 9 per cent to €1.73 billion (2005: €1.60 billion) and operating profit increased by 6 per cent to €114.6 million (2005: €108.2 million). The UK operating margin declined to 6.6 per cent from the 6.8 per cent recorded in 2005.

The UK economy continued to provide a favourable background for development of the Group's merchanting and mortar businesses. Growth slowed to below trend in 2005 against the backdrop of interest rate increases. The economy strengthened in 2006 and growth returned to its long term trend rate. UK GDP has now expanded in 58 consecutive quarters, the longest ongoing expansion amongst all OECD countries. So far this decade, the UK has successfully achieved lower inflation and higher growth than most of its major competitors.

The UK housing market showed a sustained recovery during 2006 with rising property transactions and mortgage approvals and strong growth in house price inflation. The weaker housing market and slow down in consumer spending that occurred in 2005 caused the RMI market to progressively weaken. This weakness continued into the first half of 2006, although market conditions improved in the second quarter and the pickup in activity was sustained over the second half. Against this background, like for like sales were down 1.7 per cent in the first half but grew at a similar rate in the second and were marginally ahead for the year.

Operating profit declined by 8 per cent in the first half due to the combined effect of a weaker market and a demanding comparative result but increased by 20 per cent in the second half in a recovering market. The stronger trading performance in the second half enabled the business to achieve operating profit growth of 6 per cent for the year. The operating profit margin was 7.2 per cent in the second half, up from 6.7 per cent in the comparative half year.

## UK Builders Merchanting

Buildbase had a satisfactory year reporting similar profits. Sales increased due to acquisitions and new branch openings in 2005 and 2006.

Heitons UK business and the Group's heavyside merchanting branches were successfully integrated into a newly formed Buildbase Civils and Lintels division which was established to more effectively focus on the civil engineering and ground works contracting market. Five bolt-on acquisitions completed in 2005 were integrated into the Buildbase branch network. Four branches at Erith, Greater London; Gloucester, Gloucestershire; Stevenage, Hertfordshire and Haverhill, Suffolk were relocated to modern purpose built facilities and major refurbishment was undertaken at the Rotherham, South Yorkshire and Sandy, Bedfordshire branches. A number of smaller branch redevelopment projects were also completed.

Buildbase acquired four businesses trading from eleven branches including Fleming Holdings, the leading independent builders and timber merchant trading from eight branches in Scotland. A second Buildbase branch was opened in Oxford and since the year end two new branches were opened at Melksham, Wiltshire and Stowmarket, Suffolk.

Jacksons, a long established regional merchanting business with a leadership position in the East Midlands market, grew profits despite subdued trading conditions in an increasingly competitive market. Profit growth was attributed to improved sourcing arrangements and tight control of costs in all areas. The business also expanded its position in the East Midlands market completing three bolt-on acquisitions trading from five locations.

Macnaughton Blair, Northern Ireland's leading merchanting business, achieved another year of strong sales and profit growth due to an improvement in the underlying business and the impact of acquisitions. The business was well placed to benefit from an improving local economy and exposure to a housing market which outperformed all other regions of the UK in 2006. The Houtman and MFBP acquisitions completed in 2005 achieved early success reporting profits well ahead of pre-acquisition levels. Two small acquisitions undertaken in the second half had a very limited impact on the results but give the business an initial presence and platform for future growth in Larne and Lisburn, Co. Antrim. Macnaughton Blair traded from sixteen branches at the year end.

Selco, a trade-only warehouse formula combining traditional merchanting with a modern self-service environment, is focused on supplying trades people involved in small RMI projects. Five new stores were opened in 2006 increasing the network to seventeen. The new stores are located in London, Manchester and Reading.

## UK Plumbers Merchanting

Plumbase is the UK's fourth largest plumbers merchanting chain with a network of 179 branches concentrated in the South East, West Country, Midlands, East Anglia and Scotland.

Good sales and operating profit growth was achieved through a significant contribution from the seven businesses acquired during 2005 and organic growth. Underlying profit increased against an improving trading background as the year developed and due to measures taken to reduce overheads.

Market coverage by Plumbase improved with the acquisition of four businesses trading from six branches and the opening of six new branches.

## UK Mortar

EuroMix manufactures a range of mortars for use in block and brick laying. The business supplies key residential, commercial and public sector construction projects from its network of nine plants in England and Scotland. EuroMix has a clear leadership position in the UK dry mortar market and has established a significant reputation as a preferred supplier due to the quality of its range of mortars and customer support.

EuroMix strengthened its market position with good sales and volume growth. Operating profit was lower as the business was unable to recover energy related raw materials and distribution price increases due to more intense competition in the sector. Significant capacity has come on stream since Grafton pioneered the use of on-site dry mortar technology in the late 1990's and the market is now moving towards a more mature stage in its development. The Bristol plant which opened in mid 2005 traded in line with expectations and full coverage of the market in England was achieved in July with the opening of the ninth plant near Leeds.

## Finance

The merchanting, DIY and manufacturing businesses yet again produced strong profits and cash flow and the Group ended the year in a very healthy financial position. The Group operating profit margin increased to 8.3 per cent (2005: 8.2 per cent). Cash flow generated from operations and asset disposals amounted to €329.5 million (2005: €257.3 million) substantially outperforming the previous year.

Control of working capital continued to be a high priority across the Group and the related investment moved in line with the increasing scale of the Group's operations.

Shareholders' funds increased by €200.5 million (25 per cent), exceeding €1 billion for the first time. The increase arose from the retention of after tax profit net of the €39.9 million returned to shareholders through the purchase of two A ordinary shares per Grafton Unit.

The total cash outflow on acquisitions and capital projects was €199.6 million (2005: €571.5 million). Sixteen bolt on acquisitions involved an investment of €75.2 million (2005: €470.9 million) in the UK merchanting business. Capital expenditure increased to €124.4 million (2005: €100.6 million) reflecting routine replacement expenditure of €51.6 million and investment of €72.8 million in the branch network across the Group including the opening of 17 new branch locations and a mortar plant together with initiatives intended to meet customer demand and support the continued profitable development of Group locations in the UK and Ireland.

Net borrowings at 31 December 2006 were €550.9 million (31 December 2005: €584.2 million) equivalent to a gearing ratio of 54 per cent (31 December 2005: 72 per cent). Interest cover was 9.0 times (2005: 7.2 times)

Pension administration was streamlined with the merger of eight defined benefit schemes in both Ireland and the UK. In association with these mergers, a special contribution of €17.5 million (€14.1 net of tax) was made to the Group's defined benefit schemes. The deficit (after deferred tax) on the Group's defined benefit pension schemes reduced to €27.3 million (31 December 2005: €48.4 million). On an ongoing IFRS basis, the overall assets in the Group's defined benefit pension schemes represent 87 per cent of accrued liabilities (31 December 2005: 75 per cent). This improvement is a result of the special contribution, good investment returns achieved during the year and an increase in the discount rates used to value liabilities which are based on very volatile AA Corporate Bond Rates. The positive impact of these factors was partially offset by an allowance for increased life expectancy.

This was the Group's sixth consecutive year to report property profits. Significant value and cash flow was realised from the disposal of four properties in Ireland and four in the UK. These included three properties acquired with the Heiton Group including the Atlantic Homecare property in Stillorgan, Co. Dublin. The Group also realised part of its joint venture development of Blackwater Retail Park in Navan, Co. Meath where Woodie's DIY is anchor tenant. The profit on disposal of properties was €38.0 million. Total proceeds receivable from all asset disposals amounted to €77.7 million.

## Outlook

Trading since the start of the year in the seasonally quieter winter months has been satisfactory

In Ireland, growth in the economy is forecast to remain strong in 2007. Expansion should be underpinned by increased consumer spending supported by continued growth in employment and earnings. Disposable incomes will also be boosted by the impact of maturing SSIA accounts and lower taxes.

Some softening from current record levels of house building is generally expected in 2007 as activity in the sector moderates over time to more sustainable long term levels. A healthy economy, favourable demographics and a more modest pace of growth in house prices should continue to support good underlying demand.

The repair, maintenance and home improvement market in Ireland is expected to remain buoyant against a background of strong consumer spending. The strong economy has boosted activity in the commercial and industrial new build sector where investment is expected to remain robust. The National Development Plan should continue to underpin a high level of capital investment in infrastructure and other public sector projects.

Against this very positive economic background, the Heiton Buckley and Chadwicks merchanting businesses should continue to benefit from anticipated stable demand in the residential construction market and growth in the RMI market. High levels of consumer spending and a slowdown in new capacity in the Irish DIY market should enable the Woodie's DIY and Atlantic Homecare businesses to make further progress and also to benefit from last years store openings in Castlebar, Navan and Nenagh.

In the UK, the economy is forecast to grow at around trend rate in 2007. The improvement in the RMI market over the second half of 2006 is expected to continue with the benefit of a strong housing market. The level of mortgage approvals and housing transactions, lead indicators of RMI demand, is also encouraging. The fundamentals of the RMI market are firm, supported by a stable economy, solid underlying demand, consumer confidence and employment growth. These factors should sustain good levels of RMI activity although the recent round of interest rate increases may lead to some moderation in demand.

The focus of the UK merchanting business will be on the continued integration of acquisitions made in 2006 and on achieving scale related synergies in the overall business. The Group also expects to benefit from its relatively healthy pipeline of potential acquisition and organic growth opportunities. Competitive conditions in the UK mortar market are expected to continue in a growing market as new mortar plants mature.

The Group is confident about its future prospects and continues to pursue a consistent strategy, based on the achievement of above average long-term returns, which has rewarded shareholders over the past two decades.

## Analysts' Conference Call

Grafton will host an analyst call today 1 March 2007 at 08.30 (GMT). A dial-in facility will be available for the call as follows:

| | | |
|---|---|---|
| Ireland: | +353 | 1 439 0432 |
| UK: | +44 | 207 769 6432 |
| International: | +353 | 1 439 0432 |

A replay facility will be available on our website www.graftonplc.com.

A copy of this statement is also available on our website www.graftonplc.com

## Grafton Group plc

## Group Income Statement

For the year ended 31 December 2006

| | **Twelve months to 31 Dec 2006 (Audited)** | Twelve months to 31 Dec 2005 (Audited) |
|---|---|---|
| | **€'000** | €'000 |
| **Revenue** | **2,933,937** | 2,629,464 |
| Operating costs | **(2,691,206)** | (2,415,694) |
| **Operating profit before property profit** | **242,731** | 213,770 |
| Property profit | **37,989** | 9,640 |
| **Operating profit** | **280,720** | 223,410 |
| Finance expense | **(52,886)** | (48,803) |
| Finance income | **21,522** | 17,574 |
| **Profit before tax** | **249,356** | 192,181 |
| Income tax expense | **(32,418)** | (26,102) |
| **Profit after tax for the financial year** | **216,938** | 166,079 |
| Profit attributable to: | | |
| Equity holders of the Company | **216,938** | 166,079 |
| **Basic earnings per share** | **91.03c** | 70.26c |
| **Adjusted earnings per share** | **77.97c** | 67.80c |
| **Diluted earnings per share** | **89.34c** | 68.80c |

## Group Statement of Recognised Income and Expense
## For the year ended 31 December 2006

| | 2006 €'000 | 2005 €'000 |
|---|---|---|
| **Items of income and expense recognised directly within equity:** | | |
| Currency translation effects - on foreign currency net investments | **8,584** | 7,999 |
| - on foreign currency borrowings | **(396)** | (811) |
| Actuarial gain / (loss) on Group defined benefit pension schemes | **4,939** | (8,946) |
| Deferred tax (liability) / asset on Group defined benefit pension schemes | **(44)** | 1,944 |
| Fair value movement on cash flow hedges: | | |
| - Fair value gains/(losses) | **1,875** | (761) |
| - Included in finance costs | **(353)** | (571) |
| Deferred tax on cash flow hedge | **(191)** | 167 |
| **Net income / (expense) recognised directly in equity** | **14,414** | (979) |
| Profit after tax for the financial year | **216,938** | 166,079 |
| **Total recognised income and expense for the financial year** | **231,352** | 165,100 |
| **Attributable to:** | | |
| Equity holders of the Company | **231,352** | 165,100 |

## Movement on Group Retained Earnings

| | 2006 €'000 | 2005 €'000 |
|---|---|---|
| At 1 January | **475,380** | 347,044 |
| Retained profit for the financial year | **216,938** | 166,079 |
| Purchase of A ordinary shares | **(39,920)** | (33,751) |
| Actuarial gain / (loss) on pensions (net of tax) | **4,895** | (7,002) |
| Deferred tax on share based payments | **1,832** | 157 |
| Transfer from revaluation reserve | **3,601** | 2,853 |
| **At 31 December** | **662,726** | 475,380 |

## Group Statement of Changes in Equity

| | 2006 €'000 | 2005 €'000 |
|---|---|---|
| At beginning of period | **813,811** | 550,962 |
| Elimination of fair value reserve arising on acquisition of Heiton Group plc | **-** | (49,535) |
| Issue of Grafton Units (net of issue expenses) | **4,000** | 178,658 |
| Adjustment for share based payments expense | **3,264** | 2,220 |
| Deferred tax on share based payments | **1,832** | 157 |
| Purchase of A ordinary shares | **(39,920)** | (33,751) |
| Total recognised income and expense for the financial year | **231,352** | 165,100 |
| **Closing shareholders' funds - equity** | **1,014,339** | 813,811 |

## Grafton Group plc
## Group Balance Sheet As At 31 December 2006

| | 2006 (Audited) €'000 | 2005 (Audited) €'000 |
|---|---|---|
| **ASSETS** | | |
| **Non-current assets** | | |
| Goodwill | **582,861** | 532,323 |
| Intangible assets | **13,307** | 15,519 |
| Property, plant and equipment | **686,165** | 623,228 |
| Deferred tax assets | **34,865** | 25,980 |
| Financial assets | **414** | 256 |
| **Total non-current assets** | **1,317,612** | 1,197,306 |
| **Current assets** | | |
| Inventories | **390,400** | 356,647 |
| Trade and other receivables | **542,110** | 499,308 |
| Derivative and other financial instruments | **1,847** | 5,708 |
| Cash and cash equivalents | **231,519** | 334,023 |
| **Total current assets** | **1,165,876** | 1,195,686 |
| **Total assets** | **2,483,488** | 2,392,992 |
| **EQUITY** | | |
| **Capital and reserves attributable to the Company's equity holders** | | |
| Equity share capital | **12,082** | 12,037 |
| Share premium account | **284,945** | 281,038 |
| Capital redemption reserve | **322** | 274 |
| Revaluation reserve | **32,973** | 36,574 |
| Other reserve – shares to be issued | **6,455** | 3,191 |
| Cash flow hedge reserve | **1,616** | 285 |
| Foreign currency translation reserve | **13,220** | 5,032 |
| Retained earnings | **662,726** | 475,380 |
| **Total equity** | **1,014,339** | 813,811 |
| **LIABILITIES** | | |
| **Non-current liabilities** | | |
| Interest-bearing loans and borrowings | **671,617** | 713,712 |
| Provisions | **4,468** | 500 |
| Retirement benefit obligations | **34,163** | 59,032 |
| Derivative financial instruments | **22,126** | - |
| Deferred tax liabilities | **49,408** | 42,932 |
| **Total non-current liabilities** | **781,782** | 816,176 |
| **Current liabilities** | | |
| Interest-bearing loans and borrowings | **88,585** | 209,278 |
| Trade and other payables | **521,265** | 487,027 |
| Current income tax liabilities | **52,393** | 50,610 |
| Derivative financial instruments | **1,898** | 923 |
| Provisions | **23,226** | 15,167 |
| **Total current liabilities** | **687,367** | 763,005 |
| **Total liabilities** | **1,469,149** | 1,579,181 |
| **Total equity and liabilities** | **2,483,488** | 2,392,992 |

## Grafton Group plc
## Group Cash Flow Statement For the year ended 31 December 2006

| | **2006** | 2005 |
|---|---|---|
| | **€'000** | €'000 |
| **Profit before taxation** | **249,356** | 192,181 |
| Finance income | **(21,522)** | (17,574) |
| Finance expense | **52,886** | 48,803 |
| **Operating profit** | **280,720** | 223,410 |
| Depreciation | **53,163** | 48,248 |
| Intangible amortisation and goodwill write - off | **2,455** | 2,176 |
| Share based payments charge | **3,264** | 2,220 |
| Property profit | **(37,989)** | (9,640) |
| Profit on sale of plant and equipment | **(3,401)** | (2,564) |
| Contributions to pension schemes in excess of IAS 19 charge | **(20,249)** | (10,888) |
| Increase in working capital | **(26,111)** | (28,485) |
| **Cash generated from operations** | **251,852** | 224,477 |
| Interest paid | **(43,224)** | (39,233) |
| Income taxes paid | **(14,594)** | (15,226) |
| **Cash flows from operating activities** | **194,034** | 170,018 |
| **Investing activities** | | |
| *Inflows* | | |
| Proceeds from sale of property, plant and equipment | **77,664** | 32,793 |
| Interest received | **12,216** | 7,738 |
| | **89,880** | 40,531 |
| *Outflows* | | |
| Acquisition of subsidiary undertakings and businesses | **(70,621)** | (395,451) |
| Net cash acquired with subsidiary undertakings | **777** | 22,897 |
| Deferred acquisition consideration | **(11,958)** | (6,844) |
| Purchase of property, plant and equipment | **(124,401)** | (100,559) |
| Purchase of financial assets | **(90)** | - |
| | **(206,293)** | (479,957) |
| **Cash flows from investing activities** | **(116,413)** | (439,426) |
| **Financing activities** | | |
| *Inflows* | | |
| Proceeds from the issue of share capital | **4,000** | 178,658 |
| Proceeds from long term borrowings | **-** | 373,078 |
| | **4,000** | 551,736 |
| *Outflows* | | |
| Repayment of long term borrowings | **(117,170)** | (35,673) |
| Purchase of A ordinary shares | **(39,920)** | (33,751) |
| Payment of finance lease liabilities | **(1,850)** | (2,061) |
| Redemption of loan notes payable | **(18,087)** | (25,237) |
| | **(177,027)** | (96,722) |
| **Cash flows from financing activities** | **(173,027)** | 455,014 |
| Net (decrease)/increase in cash and cash equivalents | **(95,406)** | 185,606 |
| Cash and cash equivalents at 1 January | **291,844** | 105,822 |
| Effect of exchange rate fluctuations on cash held | **5,326** | 416 |
| **Cash and cash equivalents at 31 December** | **201,764** | 291,844 |

## 1. Revenue and Operating Profit by Geographic Segment

The amount of revenue by geographic segment is as follows:

| | **Twelve months to 31 Dec 2006 €'000** | Twelve months to 31 Dec 2005 €'000 |
|---|---|---|
| **Revenue** | | |
| Republic of Ireland | **1,200,639** | 1,032,899 |
| United Kingdom | **1,733,298** | 1,596,565 |
| | **2,933,937** | 2,629,464 |
| **Operating profit before property profit and intangible amortisation** | | |
| Ireland | **130,371** | 107,702 |
| United Kingdom | **114,572** | 108,244 |
| | **244,943** | 215,946 |
| Intangible amortisation – Republic of Ireland | **(2,212)** | (2,176) |
| | **242,731** | 213,770 |
| **Operating profit before property profit** | | |
| Ireland | **128,159** | 105,526 |
| United Kingdom | **114,572** | 108,244 |
| | **242,731** | 213,770 |
| **Property profit** | | |
| Ireland | **30,056** | 7,963 |
| United Kingdom | **7,933** | 1,677 |
| | **37,989** | 9,640 |
| **Operating profit** | | |
| Ireland | **158,215** | 113,489 |
| United Kingdom | **122,505** | 109,921 |
| | **280,720** | 223,410 |
| Finance costs (net) | **(31,364)** | (31,229) |
| **Profit before tax** | **249,356** | 192,181 |

## 2. Analysis of Revenue by Business Segment

| | **Twelve months to 31 Dec 2006 €'000** | Twelve months to 31 Dec 2005 €'000 |
|---|---|---|
| **Revenue** | | |
| UK merchanting | **1,664,856** | 1,533,700 |
| Irish merchanting | **816,602** | 690,549 |
| Irish DIY | **311,680** | 272,589 |
| Irish and UK manufacturing | **140,799** | 132,626 |
| | **2,933,937** | 2,629,464 |

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

| For the year ended 31 December | **2006 €'000** | 2005 €'000 |
|---|---|---|
| Net (decrease)/increase in cash and cash equivalents | **(95,406)** | 185,606 |
| Cashflow from decrease/(increase) in debt and lease financing | **141,317** | (310,107) |
| **Change in net debt resulting from cash flows** | **45,911** | (124,501) |
| Loan notes issued on acquisition of subsidiary undertakings | **(1,653)** | (867) |
| Finance leases acquired with subsidiary undertakings | **(95)** | (7,934) |
| Bank loans and loan notes acquired with subsidiary undertakings | **(3,579)** | (89,519) |
| Translation adjustment | **(8,784)** | (12,457) |
| Net movement in derivative financial instruments | **1,522** | (1,332) |
| **Movement in net debt in the year** | **33,322** | (236,610) |
| Net debt at 1 January | **(584,182)** | (347,572) |
| **Net debt at 31 December** | **(550,860)** | (584,182) |

## 4. Earnings per Share

| The computation of basic and diluted earnings per share is set out below: | **2006 €'000** | 2005 €'000 |
|---|---|---|
| Profit after tax for the financial year | **216,938** | 166,079 |
| **Numerator for basic and diluted earnings per share** | **216,938** | 166,079 |
| Property profit after tax | **(33,051)** | (7,731) |
| Intangible amortisation after tax | **1,935** | 1,904 |
| **Numerator for adjusted earnings per share** | **185,822** | 160,252 |
| **Denominator for basic and adjusted earnings per share:** | | |
| Weighted average number of Grafton Units in issue | **238,324,290** | 236,371,547 |
| Effect of potential dilutive Grafton Units | **4,505,408** | 5,023,349 |
| **Denominator for diluted earnings per share** | **242,829,698** | 241,394,896 |
| **Adjusted earnings per share (cent)** | | |
| - Basic | **77.97** | 67.80 |
| **Earnings per share (cent)** | | |
| - Basic | **91.03** | 70.26 |
| - Diluted | **89.34** | 68.80 |

## 5. Share Purchase

The Board has approved the purchase of one A ordinary share per Grafton Unit for a cash consideration of 10.50 cent. The purchase of the A ordinary share will take effect in respect of Grafton Units on the register at close of business 9 March 2007 (record date) and the cash consideration will be paid on 28 March 2007.

## 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 for the year. The related balance sheets of the Group's United Kingdom subsidiaries at 31 December 2006 and 31 December 2005 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 2006 was Stg68.17p (year ended 31 December 2005: Stg68.38p). The Euro / Sterling exchange rate at 31 December 2006 was Stg67.15 (31 December 2005: Stg68.53p).

# Grafton Group plc

## FINANCIAL OVERVIEW 2006

| | **2006** | 2005 | Change |
|---|---|---|---|
| Revenue (€ million) | **2,933.9** | 2,629.5 | 12% |
| EBITDA (€ million) | **336.3** | 273.8 | 23% |
| Operating profit before amortisation of intangibles and property profit (€ million) | **244.9** | 215.9 | 13% |
| Profit before taxation (€ million) | **249.4** | 192.2 | 30% |
| EPS - basic (cent) | **91.0** | 70.3 | 29% |
| EPS before amortisation of intangibles and property profit (cent) | **78.0** | 67.8 | 15% |
| Share purchase (cent) | **18.75** | 15.75 | 19% |
| Share purchase (times) | **4.2** | 4.3 | - |
| Interest cover (times) | **9.0** | 7.2 | - |
| Cash flow per share | **114.3** | 91.6c | 25% |
| Net assets per share (cent) | **424.0** | 342.8 | 24% |
| Net debt to shareholders' funds | **54%** | 72% | |
| Depreciation charge (€ million) | **53.2** | 48.2 | |
| Intangible amortisation (€ million) | **2.2** | 2.2 | |
| Acquisition and investment expenditure (€ million) | **87.1** | 477.7 | |
| Capital expenditure (€ million) | **124.4** | 100.6 | |