

Grafton Group plc

Final Results 2006





Profile

- UK and Ireland based Building Materials Group
- Principal activities
 - Builders and Plumbers Merchanting
 - DIY Retailing
 - Dry Mortar Manufacturing
- 2006 Turnover exceeded €2.9 billion, up 12% on 2005
- Market leader or strong market positions
- Trading from over 520 locations in the UK and Ireland
- 11,100 employees
- Market capitalisation circa €3 billion



Principal Brands - UK and Northern Ireland

BUILDBASE

PLUMBASE



EuroMix





Principal Brands - Irish Merchanding and Manufacturing





Irish Retail Brands



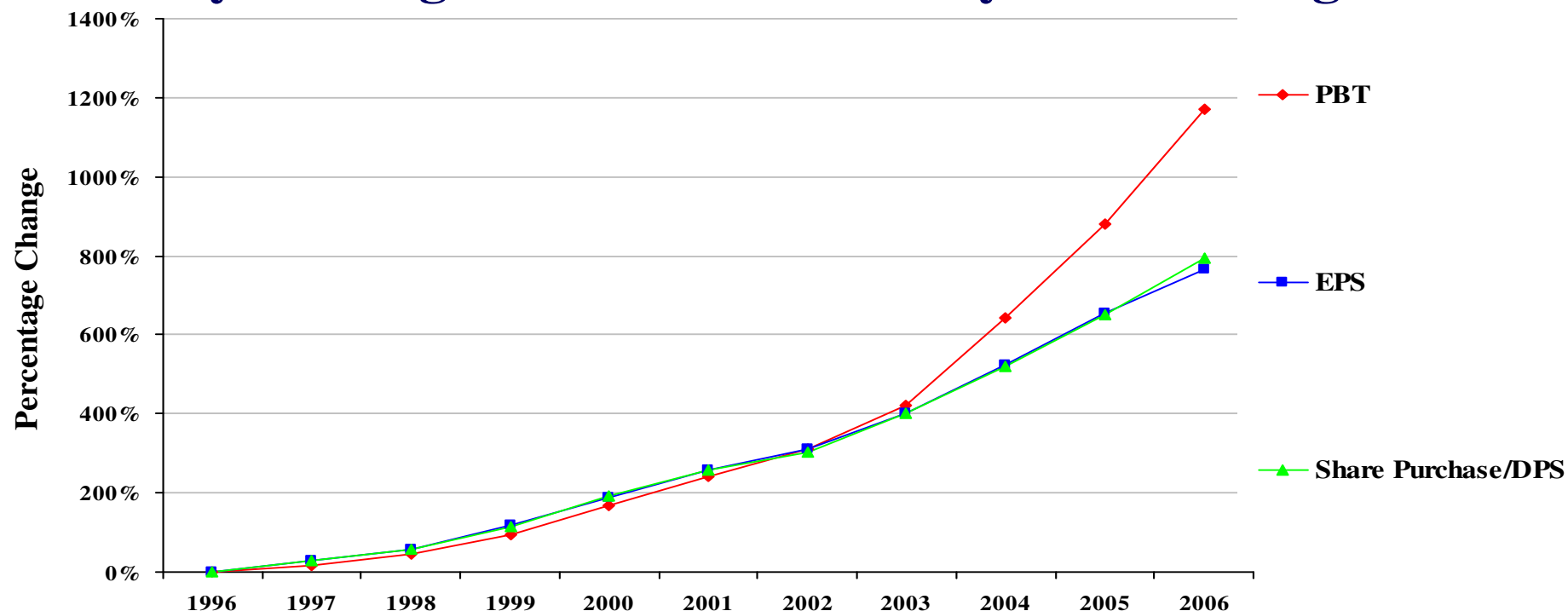


Strategy

- Consistent – Focused
- To continue 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



Consistently Moving Forward Profitability and Earnings



Irish GAAP

IFRS

PBT	19.6	23.2	28.2	38.2	52.8	67.2	80.2	102	145.8	192.2	249.4
EPS	9	11.6	14.2	19.5	25.9	32.1	37.0	45.1	56.1	67.8	78.0
Share Purchase/DPS	2.1	2.7	3.3	4.5	6.1	7.5	8.5	10.5	13.0	15.75	18.75

Consistently yielding superior shareholder value



2006 Highlights

- Good results ahead of market expectations
- Recovery to like for like sales and profit growth re-emerged in the UK in the second half
- Buoyant trading conditions continue in Ireland
- A significant €38 million in property profits realised during the period
- Sixteen additional bolt-on acquisitions completed adding 27 branches to the Group
- A continuation of organic development - 18 new trading locations opened
 - 3 new DIY stores opened in Ireland (Navan, Castlebar and Nenagh)
 - 6 new builders merchants branches opened in the UK
 - 6 new plumbers merchants branches opened in the UK
 - Ninth dry mortar plant opened in Leeds
 - 1 new In House at the Panelling Centre in Galway
 - 1 new builders merchant branch opened in Mullingar
- A very positive contribution made by Heiton Group plc trading well ahead of pre-acquisition expectations – achieved a return on investment of 16%
- 13% increase in operating profit and a 15% increase in adjusted EPS

Now trading from over 520 locations



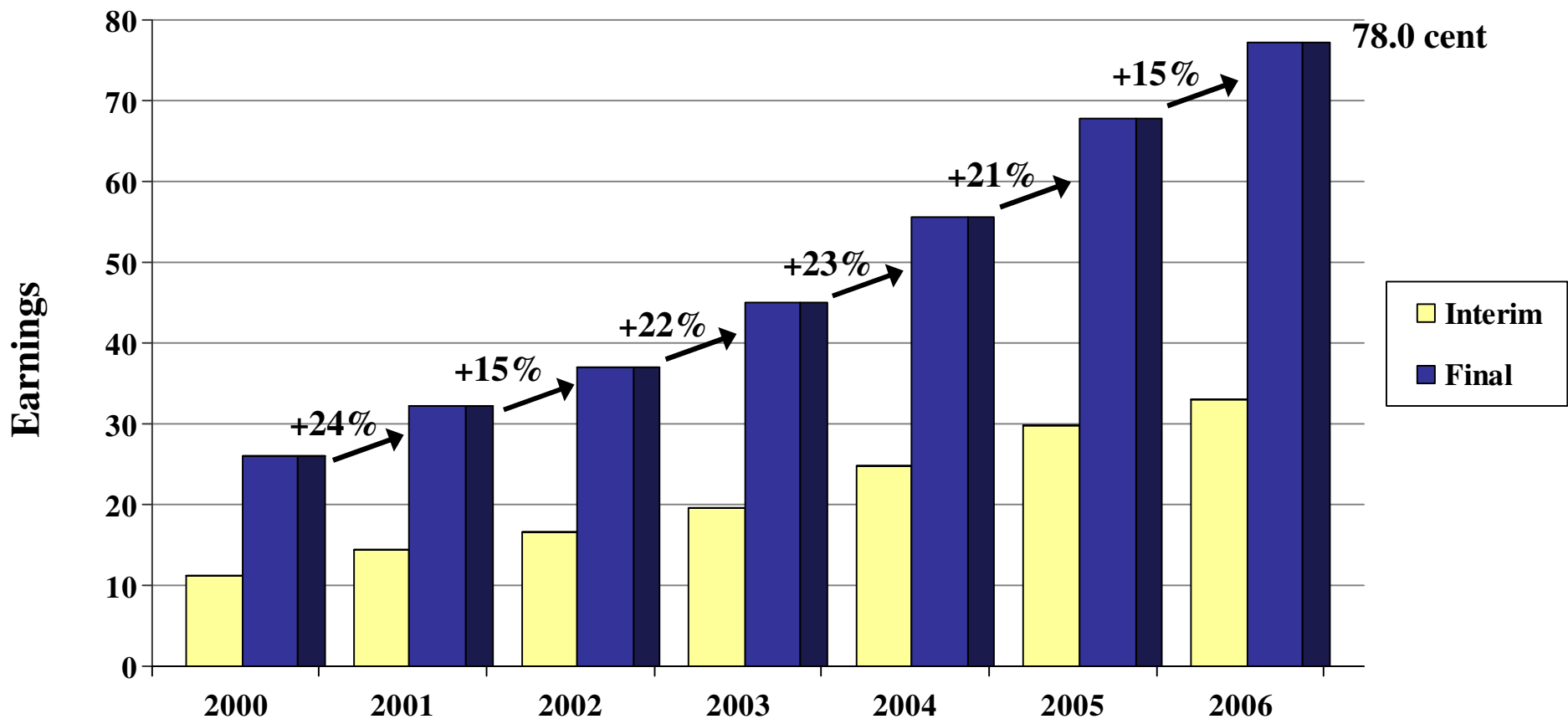
Group Financial Highlights

	2006	2005	% Change
Turnover	€2,934 m	€2,630 m	+12%
Operating profit*	€244.9 m	€215.9 m	+13%
Pre-tax profit	€249.4 m	€192.2 m	+30%
EBITDA	€336.1 m	€273.8 m	+23%
Property profits	€38.0 m	€9.6 m	
Adjusted E.P.S.*	78.0 c	67.8 c	+15%
Share Purchase	18.75 c	15.75 c	+19%

* Before property profits and intangible amortisation



Continuation of Strong Double Digit Growth in Earnings

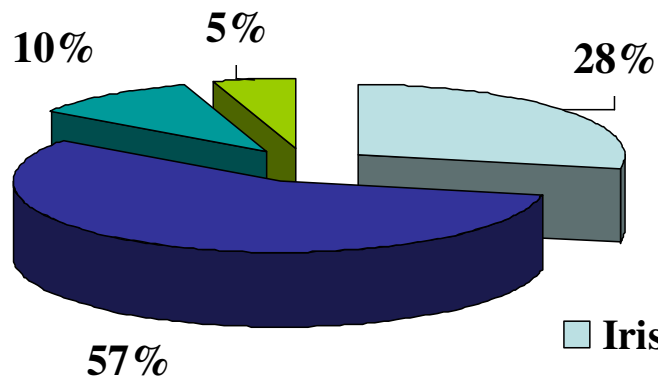




Segmental Turnover Analysis

2006

Group €2.93 billion



Irish Merchanding

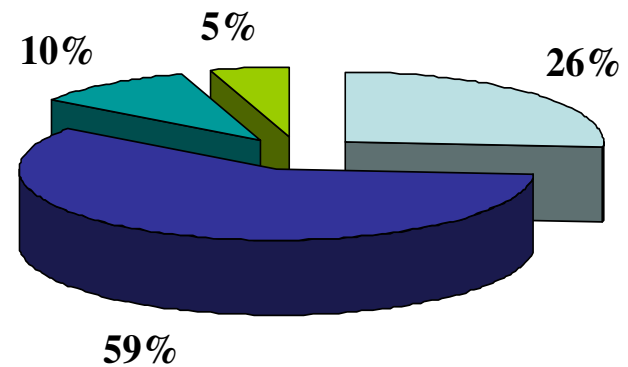
UK Merchanding

DIY Retail

Irish & UK Manufacturing

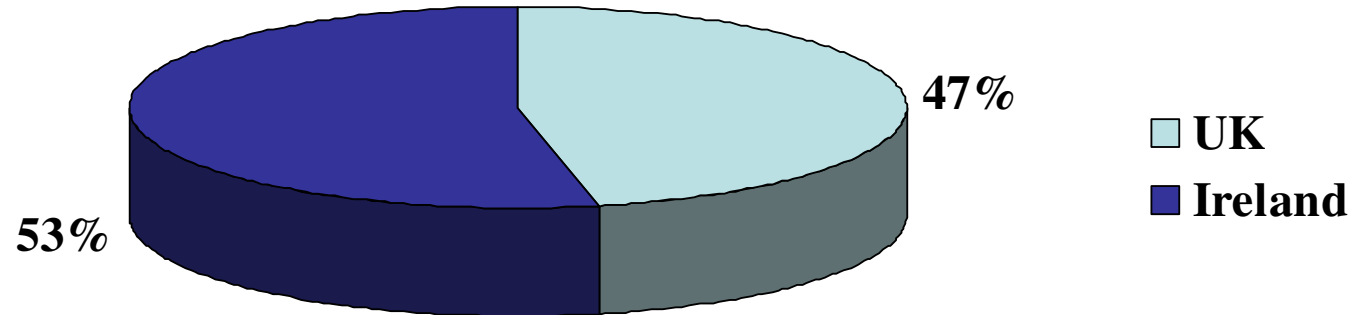
2005

Group €2.63 billion





UK & Irish Operating Margins



	2006	2005
UK operating margin	6.6%	6.8%
ROI operating margin	10.9%	10.4%
Group operating margin	8.3%	8.2%

(2006 second half UK margin 7.2%, 2005 second half UK margin 6.7%)



Components of Growth

	Turnover	Operating Profit*
	€'million	€'million
2005	2,630	215.9
Organic growth - Ireland	61	15.0
Organic growth - UK	2	1.0
2005 acquisitions - UK	49	5.2
- Ireland	72	6.2
2006 acquisitions - UK	50	2.7
New branches 2005 & 2006 and discontinued	65	(1.4)
Exchange	<u>5</u>	<u>0.3</u>
2006	<u>2,934</u>	<u>244.9</u>

* Before property profit and intangible amortisation



Very Positive Financial Statistics

	2006	2005
EBITDA margin*	10.2%	10.0%
Operating profit margin #	8.3%	8.2%
Total equity	€1,014 m	€814 m
Net debt	€551 m	€584 m
Gearing	54%	72%
Debt to market capitalisation	18%	27%
Interest cover - EBITA	9.0	7.2
Tax Rate	13%	13.6%
Annualised return avg. cap employed	16.5%	16.5%
Annualised return avg. equity (after tax)	21%	21%

* *Before property profit*

Before property profit & amortisation

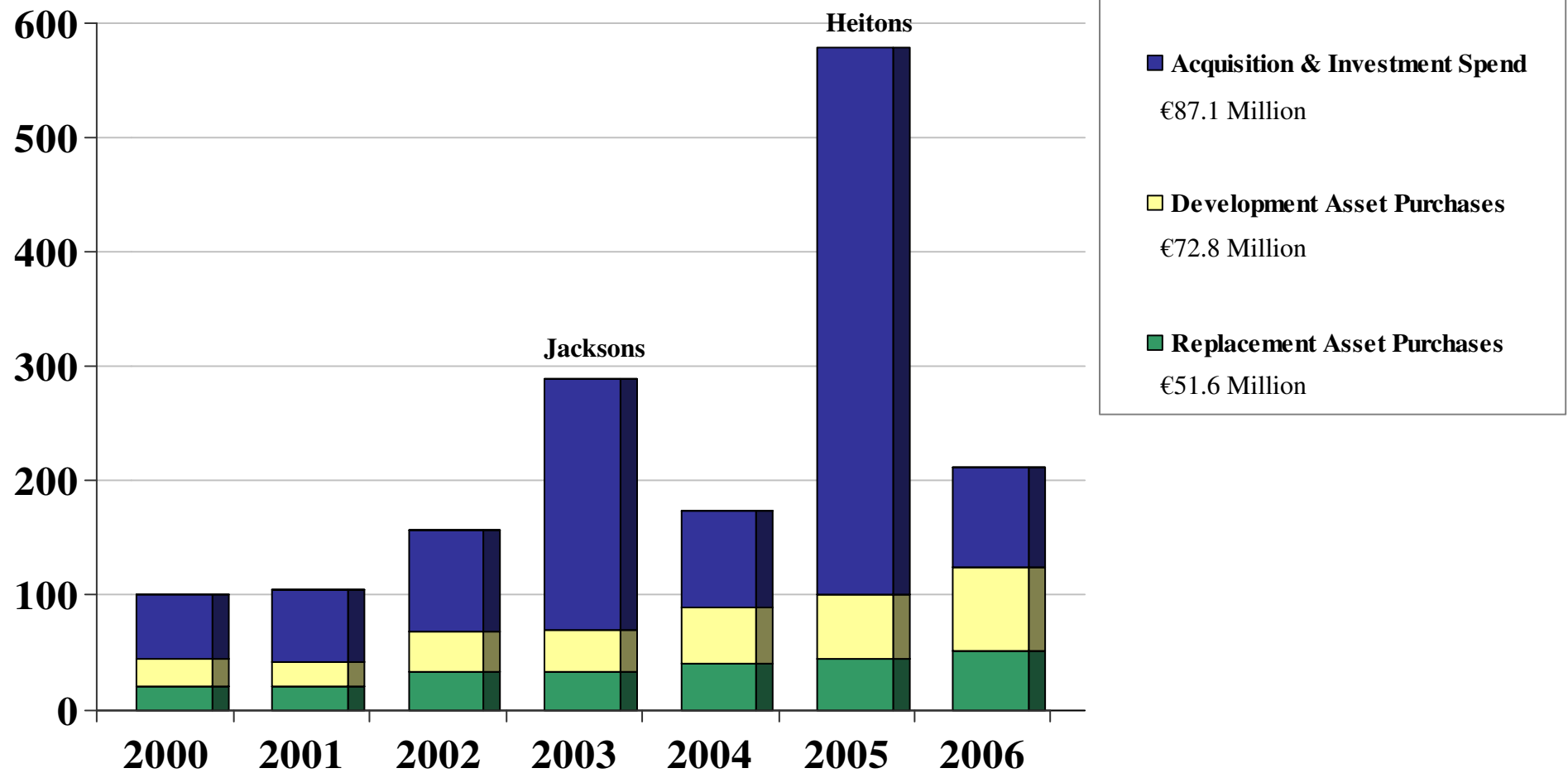


Cash Generation

	2006 € million	2005 € million
Operating profit	242.7	213.8
Depreciation, amortisation & other	58.9	52.6
Property disposals, interest/investment income	<u>86.5</u>	<u>38.0</u>
Total cash inflow	388.1	304.4
Replacement capital expenditure	(51.6)	(44.3)
Interest & tax	(57.8)	(54.4)
Working capital movement	<u>(26.1)</u>	<u>(28.5)</u>
Free cash flow	<u>252.6</u>	<u>177.2</u>
Market capitalisation	<u>3,000</u>	<u>2,185</u>
Free cash flow yield	8.4%	8.1%
Net debt	€551 m	€584 m
Gearing	54%	72%



Group Development Spend





Analysis of UK and Ireland Turnover & Operating Profit

	2006	2005	Change
	€ 'million	€ 'million	%
<u>Turnover</u>			
Ireland	1,201	1,033	+16%
UK*	<u>1,733</u>	<u>1,597</u>	<u>+9%</u>
	<u>2,934</u>	<u>2,630</u>	<u>+12%</u>
<u>Operating profit #</u>			
Ireland	130.3	107.7	+21%
UK*	<u>114.6</u>	<u>108.2</u>	<u>+6%</u>
	<u>244.9</u>	<u>215.9</u>	<u>+13%</u>
<u>Operating margin</u>			
Ireland	10.9%	10.4%	
UK	<u>6.6%</u>	<u>6.8%</u>	
Group	<u>8.3%</u>	<u>8.2%</u>	

* Recovery to like for like sales and profit growth in the second half

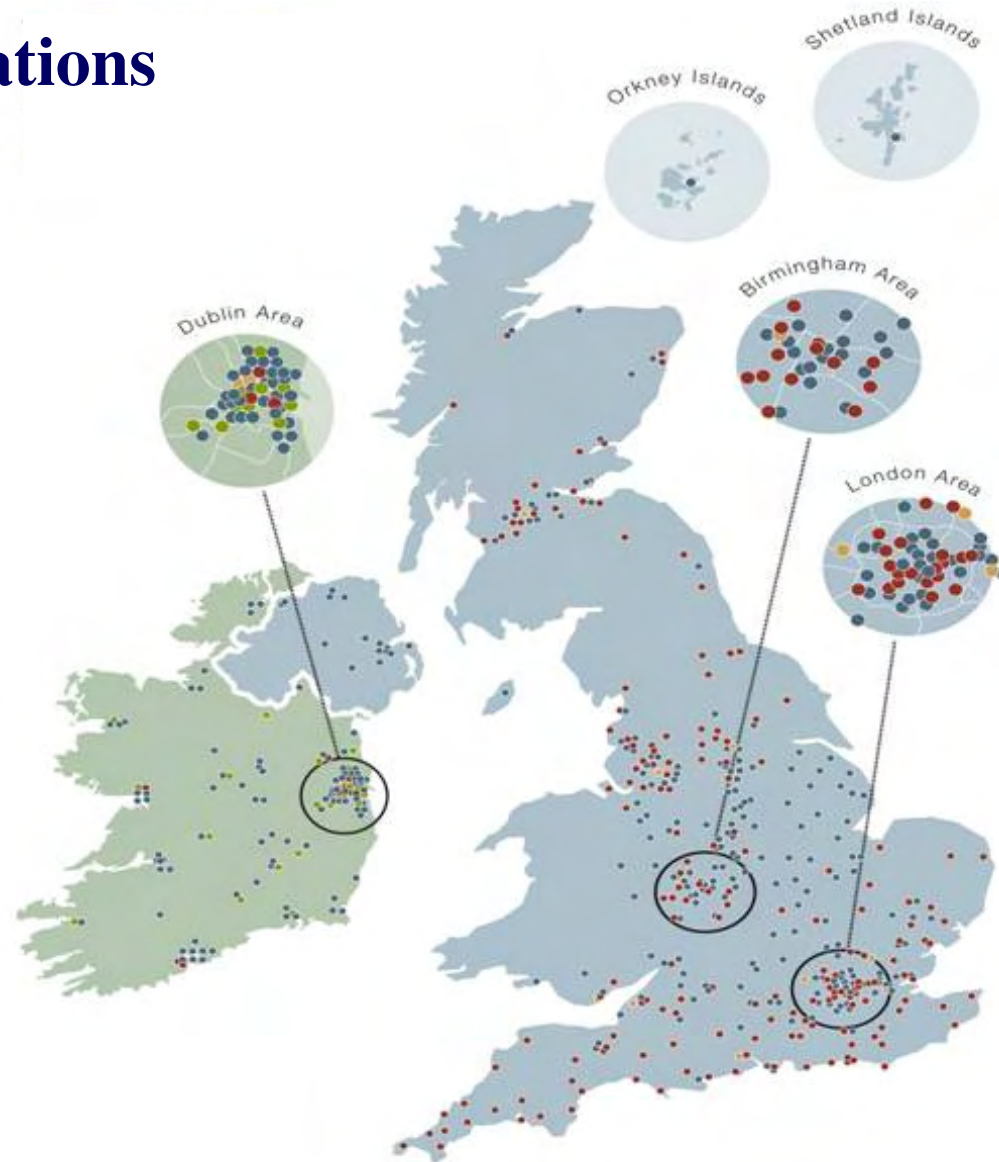
Before intangible amortisation



Enlarged Group Locations

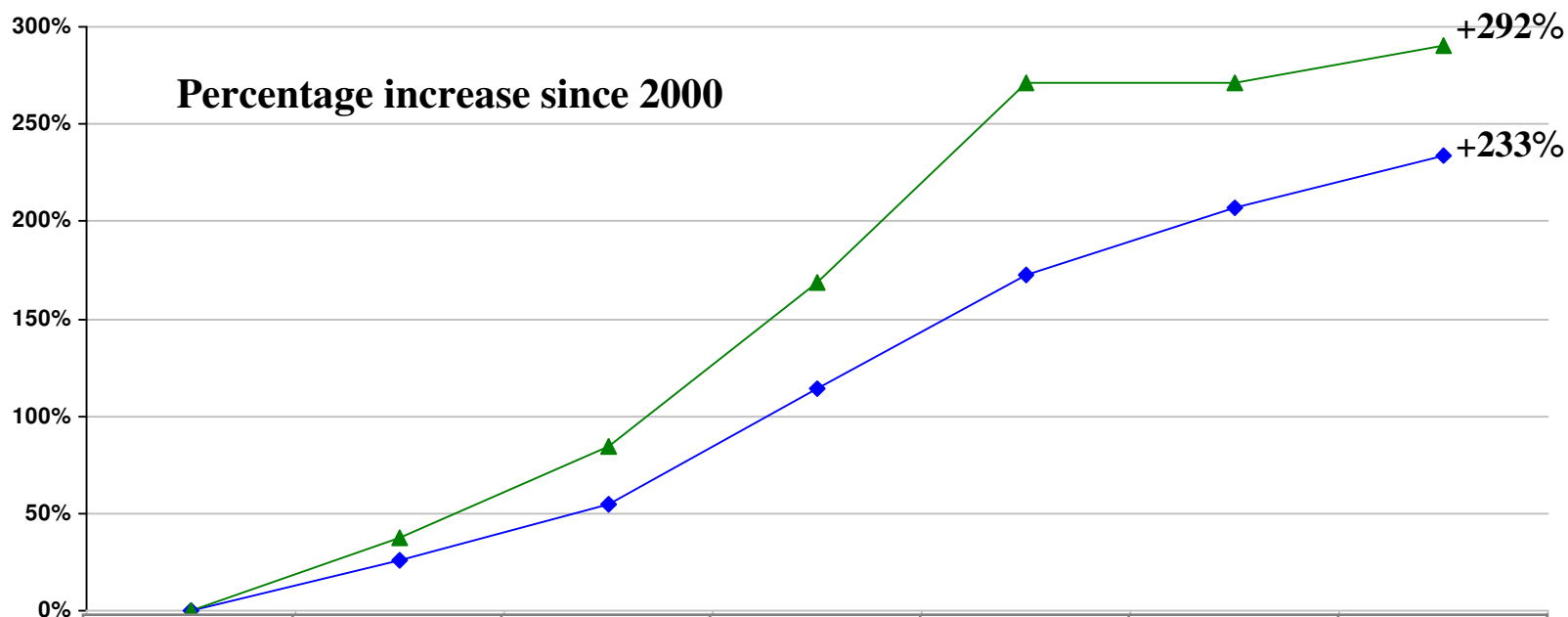
520 Trading Locations

- Builders Merchants
- Plumbers Merchants
- Manufacturing
- DIY Retailing





UK Performance 2000 to 2006

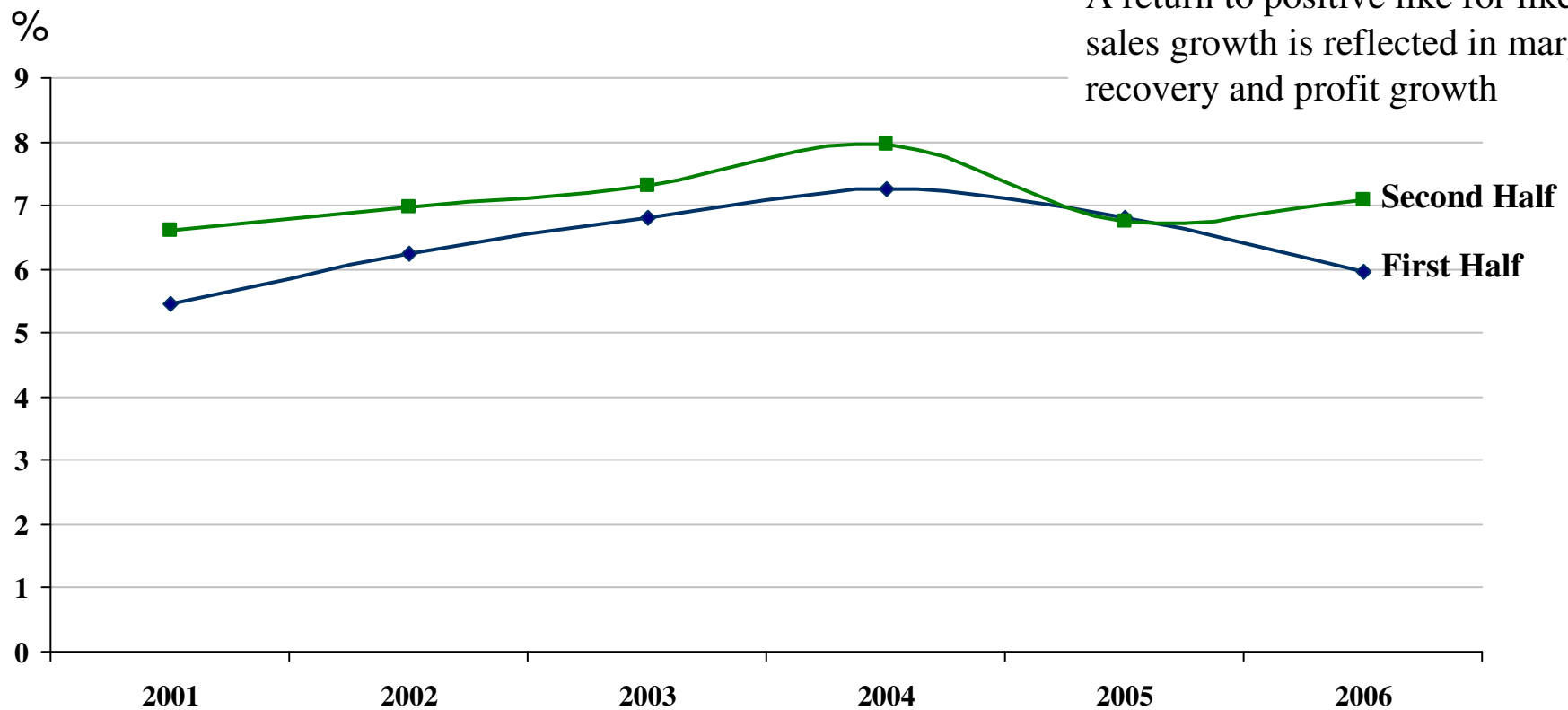


	2000	2001	2002	2003	2004	2005	2006
Turnover ◆	520.0	657.2	808.5	1,111.5	1,420.6	1,596.6	1,733.3
Operating Profit ▲	29.2	40	53.7	78.6	108.2	108.2	114.6
Operating Profit Margin	5.6%	6.1%	6.6%	7.1%	7.6%	6.8%	6.6%



Recovery in UK Operating Profit Margin

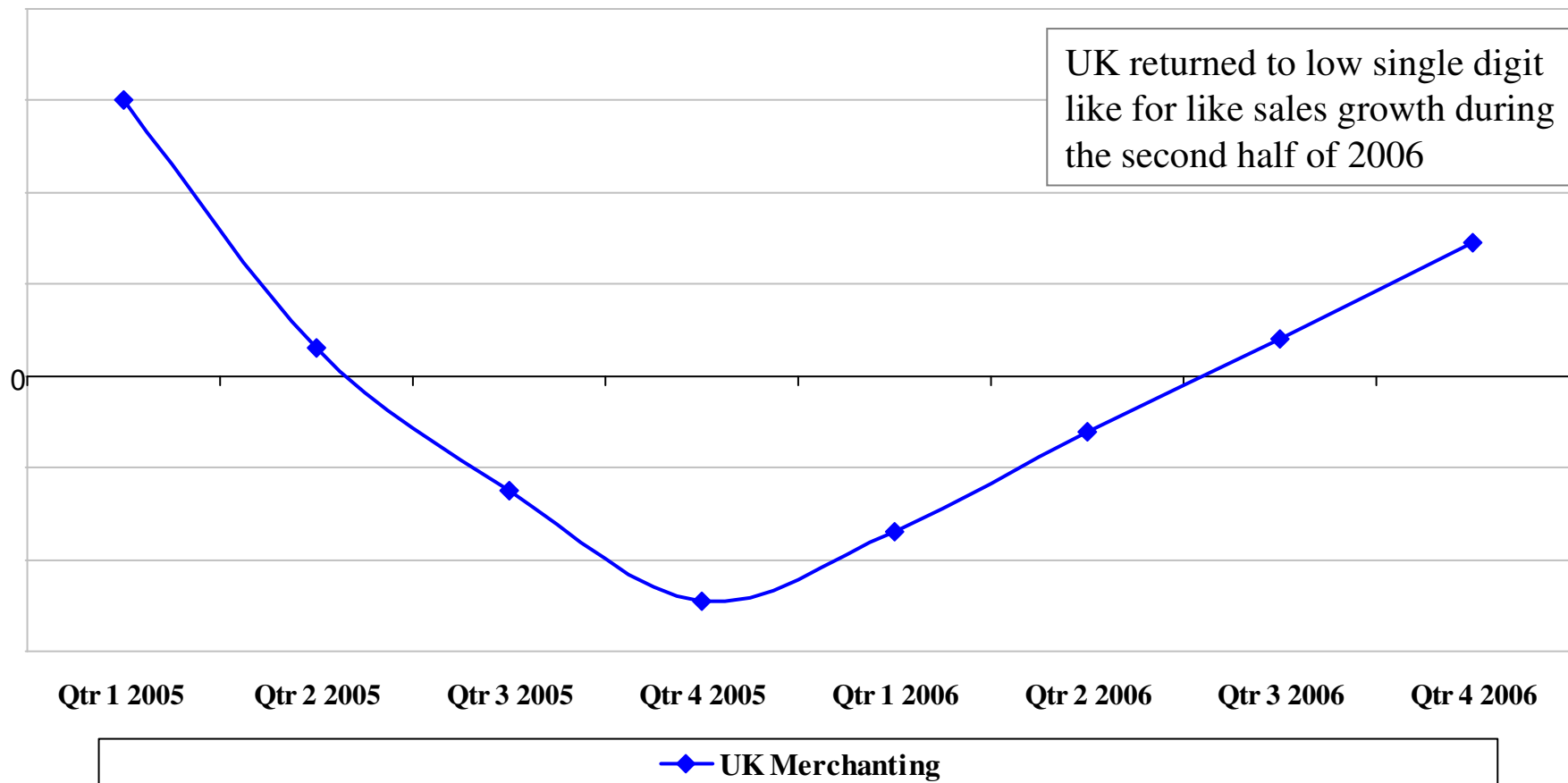
A return to positive like for like sales growth is reflected in margin recovery and profit growth



First Half Margin 2005	Second Half Margin 2005	First Half Margin 2006	Second Half Margin 2006
6.8%	6.7%	6.0%	7.2%



Quarterly Percentage UK Like for Like Merchating Sales Changes Adjusted for Trading Days – Well out of the trough!





Heiton Group plc

- **THE HEITON BUSINESS POST ACQUISITION**
 - Another record year for Heiton
 - Stillorgan and other properties sold realising €43 million cash since acquisition
 - Net investment by Grafton now reduced to €363 million (before free cash flow effect)
 - 16% return achieved on investment in 2006 ahead of plan
 - Strong like for like sales, profit and margin growth in Ireland in buoyant sector
 - Additional integration benefits to be realised during 2007/8
 - Only positive surprises since acquisition
 - Further significant property disposals in the pipeline



Group Strengths

- Highly cash generative and profitable businesses - free cash flow €253 million
- Strong balance sheet - gearing 54%
- Prominent market positions in the UK and Ireland – market share circa 10% and 20% respectively
- Motivated management teams
- Proven strategic record
- Unique acquisition / integration skills – 75 acquisitions in the last five years
- Buoyant trading conditions in Irish market forecast to continue through 2007 – sales growth in high single digits
- Sustainable recovery to low single digit like for like sales volumes and, more importantly, profit growth in the UK



Irish Economic Background

Housing, RMI and DIY drivers

- €16 billion maturing from SSIA accounts to be complete by May 07 (almost €10 billion flowing back to investors in 2nd quarter 2007)
- €2.5 billion per annum invested in these accounts now available as disposable income
- Population is growing by over 2% per annum and employment growth continues
- Large increase in net inward migration from new EU states continues
- 25-29 age groups have increased by over 21% in the last five years and household formation group still growing
- House completions 88,200 in 2006 and a modest decline on this number expected in 2007
- Ireland still has the lowest housing stock per thousand of population, less than 400 v European average of circa 450 – still in catch up phase
- Circa 20% of new homes being acquired by non-nationals sustaining housing activity
- Some evidence of market coming into balance as house price inflation moderates and new housing starts to show signs of moderating
- RMI demand continues to be buoyant



Outlook Ireland

- Residential new build market continues strongly with a softening expected in the second half
- RMI sector will show single digit like for like growth
- DIY remains a competitive market but like for like sales and profits are improving consistently
- Continued employment growth, net immigration and the final release of SSIA funds to fuel consumer demand in our sector
- Continuing integration of Heiton businesses with Grafton activities – further integration benefits
- Growing market with few DIY store openings in the pipeline
- Property disposals and relocations in train to release value over the next few years

**“A pick up in RMI and trading levels to offset
a moderating new build sector”**



Outlook - UK

- Back into sustainable like for like sales and profit growth since July 2006
- Grafton view of the UK economy is positive
- Strong demographics and mortgage approvals
- Population growth exceeding 300,000 per annum
- Grafton's UK merchanting exposure is to RMI market
- Demand in RMI market anticipated to sustain recovery throughout 2007 – positive macro economic data continues to be released
- Full year acquisition benefits flowing through
- Mortar market remains competitive – continuing volume growth
- Further greenfield developments planned to strengthen market position
- A continuing relatively healthy pipeline of potential acquisitions to consolidate

“Capitalising on volume growth to grow margins”



Group Performance to December 2006

Average Per Annum Compound Growth

	<u>5 Year</u>	<u>10 Year</u>	<u>Since 1987</u>
Turnover	24%	28%	22%
Adjusted EPS	19%	24%	26%
Share purchase/ dividend per share	20%	25%	23%



Group Properties

History of realised capital profits from relocations and sale of surplus properties

2001	2002	2003	2004	2005	2006
€2.3 m	€3.7 m	€3.4 m	€7.5 m	€9.6 m	€38.0 m

520 locations

185 freehold

335 leasehold

Last valuation December 1998 (Grafton Irish properties) and April 2004 for Heiton properties

Current projects in progress:

- Joint development of retail park in Navan with Woodie's DIY as anchor tenant – over 60% let and occupied. Woodie's trading ahead of expectations.

Projects with potential:

- Development / sale of 20 acre prime site in Cork City
- 16 acre Naas Road site with development potential
- Orchard Wharf in London – prime docklands site
- Other planned branch relocations and property disposals

Heiton Buckley
BUILDERS MERCHANTS



CHADWICKS





Irish Merchanding 2006

Overview of the Period:

- Strong sales & PBIT growth
 - Buoyant construction sector
 - Over 88,000 new homes built in 2006
- Merchanding sales up 18%
- Like for like sales up 8%
 - Positive outlook for 2007
- Growing share of RMI market
- Realising integration benefits

	2006	+/- vs'05	% Group
Sales €'m	816	+18%	28%

 23 Locations		 29 Locations
 14 Locations		 15 Locations
 8 Locations		 

**The Group continues
to build on market leadership
and strong brands**

Woodie's DIY AND GARDEN CENTRES

There's no better buy in DIY





Irish Retailing

Overview of the Period:

- Continued PBIT growth despite increased competition
- More competition from new stores
 - Sq. ft. occupied by DIY superstores increased by 9% in 2006
 - less cannibalisation – returning to growth
- Sales +14%
- Return to like for like growth achieved in second half of 2006
- Strong focus on margins
- Strong product innovation
- Strong cash generation
- Positive outlook for 2007

Investments in:

- Regional expansion, three stores opened in Navan, Nenagh and Castlebar
- Opened Galway Panelling Centre
- 9% increase in store footprint
- Broadening product range
- Customer focused staff training

	2006	+/- vs'05	% Group
Sales €'m	312	+14%	10%

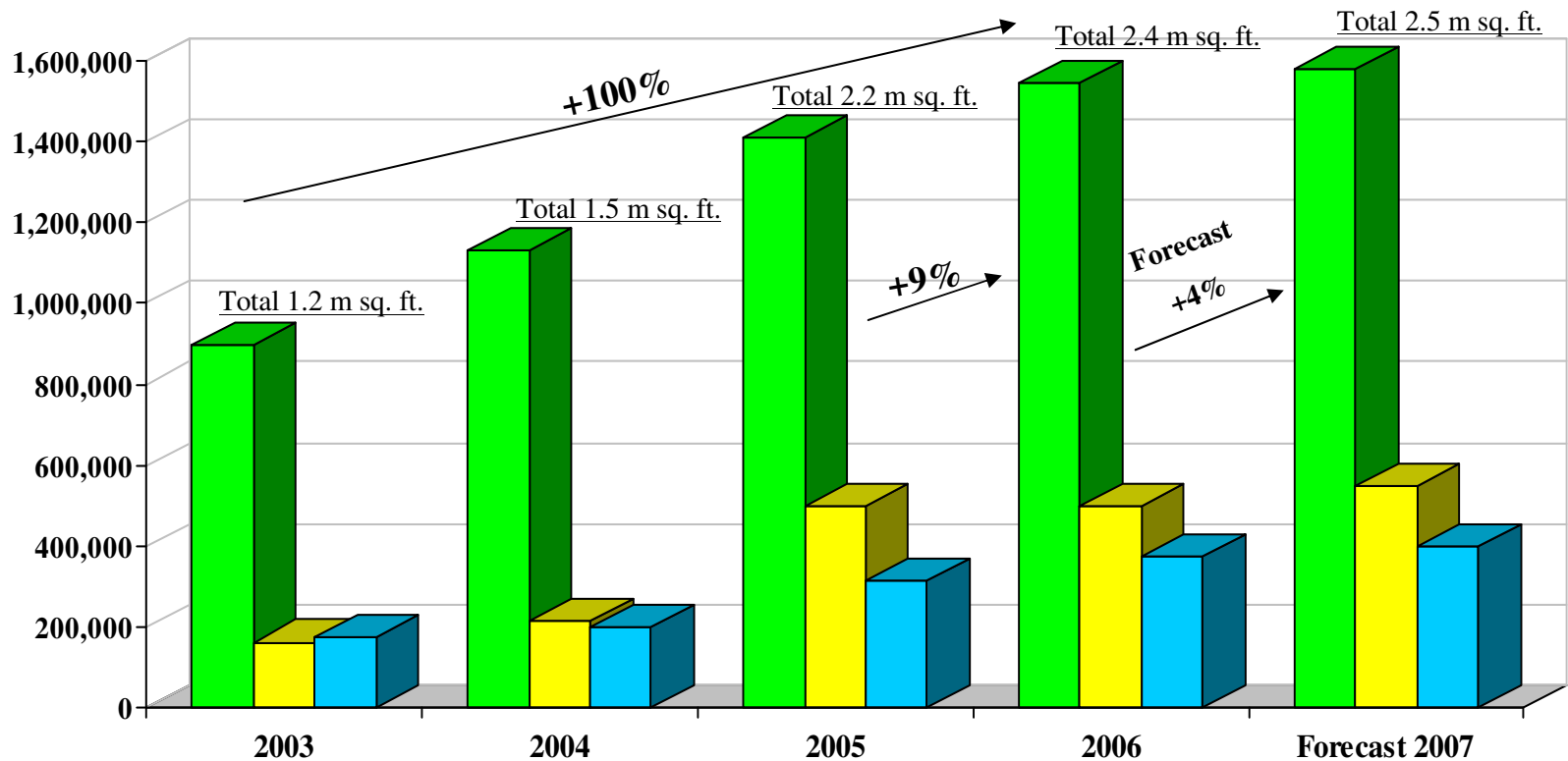
Total Retailing Locations 46	
	25 Locations
	16 Locations
	5 Locations



Most successful DIY retailer in Ireland

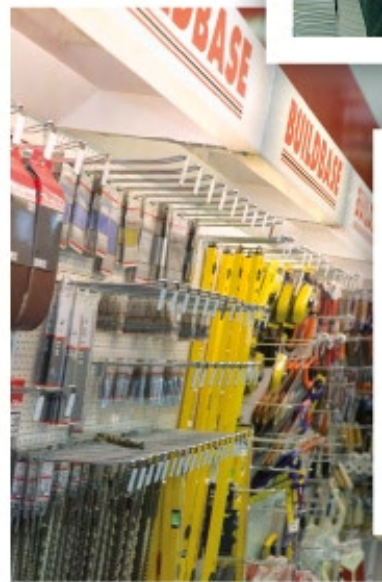
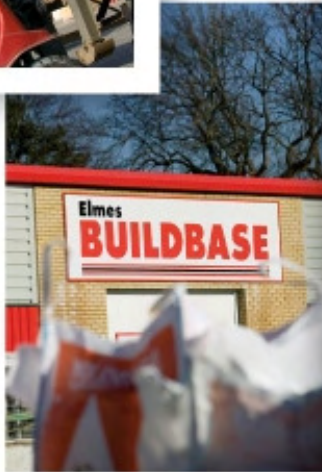


Comparison of DIY Store Sizes in the Republic of Ireland



	2003	2004	2005	2006	Forecast 2007
Woodie's & Atlantic	73%	73%	64%	64%	62%
B & Q	13%	14%	22%	21%	22%
Homebase	14%	13%	14%	15%	16%

BUILDBASE



PLUMBASE





UK Merchanting 2006

Overview of the Period:



- Increased sales through acquisition
- Like for like sales flat for the year but return to growth in second half circa 2%
- Cost cutting contributed
- Further signs of improved trading
- Expanding product range
- Positive macro economic indicators continually being converted into sales growth

Investments in:

- 16 bolt on acquisitions
- 12 branch openings
- Adding 39 branches to the Group

Continued Expansion through Acquisition and Greenfield development

	2006	+/- vs'05	% Group
Sales €'m	1,665	+9%	57%

Total UK Merchanting Locations: 384	
Builders Merchants	 181 Locations
Builders Merchants	 24 Locations
Plumbers Merchants	 179 Locations



Build on our Experience





UK & Irish Manufacturing 2006

Overview of the Period:

- 9th dry mortar plant commissioned in Leeds in July 2006
- Increased competition and price pressure as expected in UK Mortar market - UK like for like sales returned to modest growth in second half, although margin pressure continues
- Continued like for like sales growth in Ireland
- Overall a superior ROC maintained but at a lower level as expected

	2006	+/- vs'05	% Group
Sales €'m	141	+6%	5%

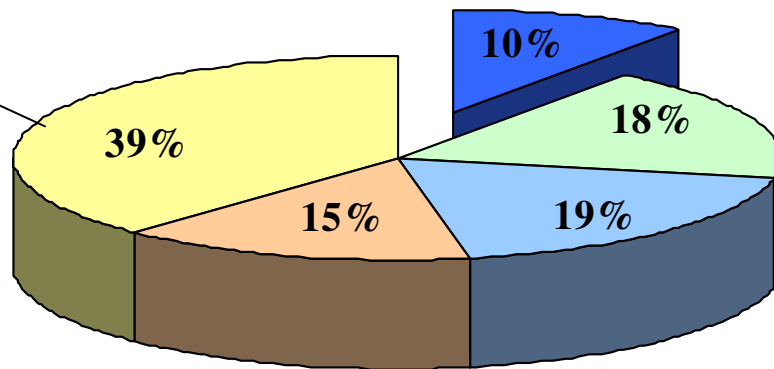
Dry Mortar	  UK: 9 Locations ROI: 1 Location
Plastic Pipe and Fittings	 1 Location

Roll out of UK Dry Mortar plants continue



UK Merchanting League Table

Circa 2,000
Independents to
be consolidated



■ Grafton

■ Jewson

■ Wolseley

■ Travis Perkins
(excluding Wickes)

Sector Turnover £12 billion plus
Unconsolidated £4.6 billion plus



Principal Developments

- **1987** Grafton Group became an independent plc.
Turnover €62.8 million, operating profit €2.2 million,
EPS 0.9 cent (full year)
- **1994** Acquired first UK Merchanting business
- **1995** Entered UK Dry Mortar market
- **1998** Acquired British Dredging plc (chain of builders and plumbers
merchants in the Greater Birmingham area)
- **2003** Acquired Jackson Building Centres in Lincolnshire
- **2005** Acquired Heiton Group plc in Ireland
- **2006** Turnover €2.9 billion, operating profit €244.9* million, EPS 78* cent

* Before property profit and intangible amortisation



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