



Chadwicks relocated the Clonmel (above) and Kilkenny (right) branches to new custom built high profile facilities during 2002.

Group Finance Review

Results

The Group reported its eleventh year of uninterrupted profit growth in 2002 and a doubling of profit before tax in the last three years.

As stated in the Chairman's report Group turnover in 2002 at a record €1.15 billion increased 16.5% and Group operating profit before goodwill increased by 16.6% to €92.3 million.

Shareholders' funds at 31 December 2002 increased by €57.5 million (22%) to €322.0 million (2001: €264.5 million). Net debt during 2002 increased by €45.7 million to €240.6 million. The Group's net debt to equity ratio only increased marginally from 74 per cent at 31 December 2001 to 75 per cent at 31 December 2002. Interest cover improved to 7.4 times (2001: 6.7).

Cash Generation

Group activities are traditionally cash generative and 2002 was no exception. Adjusting operating profit for the effect of the non-cash depreciation and goodwill amortization expenses and adding asset disposal proceeds, investment income and share issue proceeds, the Group generated total cash inflows of €130 million (significantly up on the €109 million generated in 2001).

Capital Expenditure

The continuation of a strong cash flow together with the increased borrowing during the year enabled the Group to finance capital expenditure of €68 million and acquisitions of €90.1 million. Replacement capital expenditure was €32.8 million (2001: €20.9 million). Development expenditure of €35.2 million (2001: €21.1 million) demonstrates the Group's successful strategy of growing segments of its business organically, in particular the Irish businesses and the UK mortar business, while also investing in the UK merchanting businesses through targeted branch openings and improving the facilities in acquired branches.

Development initiatives in Ireland included the purchase of freehold property on the Naas Road, Dublin for Woodie's, the opening of two new Woodie's stores and the relocation of two Chadwicks branches. In the UK, the Group expanded its merchanting network with the opening of ten branches and also redeveloped a number of branches. Capital expenditure was also incurred to support the rapid expansion of the UK mortar business.



Acquisitions

The Group's active expansion programme continued in 2002 with the completion of 15 small and medium sized acquisitions at an overall cost of €88.8 million. The cash outflow on acquisitions during 2002 was €90.1 million inclusive of consideration deferred from acquisitions made in 2001. (2001: €59.0 million inclusive of investments).

The 15 businesses acquired during 2002 traded from 41 branches and have annualized turnover in excess of €150 million.

The Group plans to continue to actively participate in the UK builders and plumbers merchanting sector consolidation as suitable acquisition opportunities arise which are a good fit with the existing branch network and which meet the Group's strategic and strict financial criteria. In this regard the Group has a healthy pipeline of potential acquisitions under active consideration.

Share Capital and Dividends

Shareholders at the 2002 AGM approved an increase in the authorised share capital of the company by the creation of a new class of Redeemable Shares. In July 2002, the Group proceeded with a bonus issue of ten redeemable shares, credited as fully paid, for every one ordinary share held by each shareholder.

In substitution for the interim dividend the Board redeemed one redeemable share on 20 September 2002 for a cash consideration of 3.75 cent per share. This was followed by the redemption of one redeemable share per Grafton Unit on 14 February 2003 for a cash consideration of 5.25 cent per share which was paid on 6 March 2003. Accordingly, no interim or final dividends have been declared. However, shareholders should note that the total value of the two share redemptions of 9 cent per Grafton Unit is equivalent to an increase of 12.5% on the total dividend of 8 cent per Grafton Unit paid for the year ended 31 December 2001.

Interest Rate Management

The Group's net interest charge of €13.2 million (2001: €12.4 million) benefited from lower interest rates on borrowings and interest cover increased to 7.4 from 6.7 in 2001.

The Group's approach to interest rate management is influenced by current and forecast market conditions. Against the background of prevailing market conditions which have resulted in declining interest rates in recent years, almost all of the Group's debt remained at floating rates of interest until the last quarter of 2002 when almost one third of the Group's gross debt at that time was fixed for five years. Since the year end and following the acquisition of



Woodie's increased its branch network to 14 during 2002 with the opening of new stores in Tralee (left) and Newbridge (middle and right)

Group Finance Review *continued*

Jacksons and further sterling interest rate reductions, the Group has increased its fixed interest rate debt to almost half of total gross debt. The average pre-tax fixed rate of interest secured is 4.6%.

Liquid Resources

The principle sources of funds available to the Group are internal resources and committed bank facilities. In addition, the Group has appropriate bank overdraft facilities in place providing short-term flexibility in funding working capital requirements.

The Group holds significant cash balances invested in short term cash deposits. At 31 December 2002 cash and short term bank deposits, with a maturity profile of six months or less, amounted to €103 million.

The Group had total gross debt of €344 million of which 83% or €286 million matures after more than one year. At the 31 December 2002 the Group had undrawn committed bank facilities of €31 million with an average maturity in excess of five years.

The Group's debt exposure is almost entirely denominated in Sterling to fund the UK acquisition and development programme and to ensure a natural foreign currency hedge against sterling based assets.

Rights Issue

In February 2003, the Group's shareholders approved a one for five Rights Issue to part fund the acquisition of Jackson Building Centres and raise €67.7 million net of expenses.

During the five years to 31 December 2002 the Group's acquisition spend of almost €300 million and capital expenditure of just over €200 million over the same period was funded from internal cash flow and the utilization of the Group's debt capacity and funds derived from a 5 per cent placing in 1999 which raised €15.5 million. The Rights Issue, to supplement the Group's strong cash flow in funding the Jacksons acquisition, will leave the Group well placed to finance attractive acquisition opportunities which will arise, while maintaining acceptable levels of gearing and interest cover.

Group Pensions

The Group operates a number of defined contribution and defined benefit pension schemes. At the year end up to 85 per cent of employees were entitled to be members of the Group's defined contribution scheme and 15 per cent of employees were members of the defined benefit schemes. With the exception of one defined benefit scheme in the Group, all defined



benefit pension schemes were closed to new entrants from 1 January 1995 and post acquisition of new businesses it is Group policy to close all defined benefit schemes to new entrants after the date of acquisition. The pension charge for the year as calculated in accordance with SSAP 24 amounted to €4.5 million (2001: €3.9 million).

Applying the appropriate Financial Reporting Standard 17 – Retirement Benefits (FRS 17), calculation of retirement benefits would have recognized a net pension liability of €20.5 million as at 31 December 2002. The Group's independent qualified actuaries have confirmed that the total pension charge for 2002 under FRS 17 would have been €4.3 million which is lower than the actual charge of €4.5 million computed in accordance with Statement of Standard Accounting Practice 24. The Group continues to provide for pension liabilities in accordance with the recommendations of independent qualified actuaries based on triennial actuarial valuations. The next valuation date for the Group's schemes is January 2004.

Summary

The Group continues to generate good profitable growth and strong cash flows to finance continued expansion both organically and by acquisition. A strong balance sheet, manageable debt levels with high levels of interest cover and a good mix of long term fixed and floating rate debt ensures that Grafton will be able to continue to capitalize on the consolidation opportunities expected to arise over time.

Colm Ó Nualláin
Finance Director