

Group Finance Review

Results

This was the Group's twelfth year of uninterrupted profit growth.

Turnover increased by 30 per cent to €1.5 billion having exceeded €1 billion for the first time in 2002. Operating profit before goodwill amortisation was up 34 per cent to €123.3 million (2002: €92.3 million) and profit before taxation increased by 27 per cent to €102.0 million (2002: €80.2 million)

Shareholders' funds increased by €127.9 million to €449.8 million (2002: €322.0 million) including €67.3 million raised in the one for five rights issue completed in March 2003 to part fund the acquisition of Jacksons.

The Group's net debt at 31 December 2003 was €311.7 million (2002: €240.6 million) and the net debt to equity ratio was 69 per cent (2002: 75 per cent). Interest was covered 7.5 times (2002: 7.4 times). The Group's average working capital intensity has remained consistent at 13.4 per cent (2002: 13.6 per cent).

Cash Flow

Cash flow from operating activities amounted to €129.8 million (2002: €109.3 million). In addition the Group generated €31.0 million (2002: €14.7 million) from asset disposals and €69.2 million (2002: €0.9 million) from the issue of shares. The total cash flow from operating activities, asset disposals and shares issued amounted to €229.9 million (2002: €124.8 million).

Acquisitions

The Group acquired ten businesses during 2003 at a cost of €220.1 million including Jacksons acquired at a cost of €138.8 million, Plumblin in Scotland and Telfords in Ireland. The ten acquired businesses traded from 50 branches and turned over in excess of €350 million.

The Group entered 2004 with a healthy pipeline of potential acquisitions under active consideration. It is planned to continue the Group's successful formula of acquisition led growth in the UK builders merchanting and plumbers merchanting market as opportunities arise which represent a good strategic fit and add value for our shareholders.

Capital Expenditure and Asset Disposals

Capital expenditure during 2003 amounted to €69.3 million (2002: €68.0 million). This included expenditure of €36.3 million (2002: €35.2 million) on projects of a development nature. These projects included the greenfield development of twelve merchanting outlets, two Woodie's DIY stores and a dry mortar plant. The Group also developed and re-located a number of branches. Further capital was invested to support the continued successful development of the Group's UK mortar business including the addition of increased capacity at the Glasgow plant.

The Group realised a profit of €3.4 million on disposal of surplus land principally at Stanford-le-Hope, Essex, a site that originated as surplus property on the acquisition of British Dredging in 1998. The Group has already announced that the sale of freehold property on the Naas Road, Dublin acquired during 2002 has been completed. A new flagship Woodie's DIY store will be developed on the site and is scheduled for completion during the third quarter of 2004. It is anticipated that a profit in excess of €6 million will be realised and accounted for in 2004 on successful completion of this development.

Interest Rate Management

The Group took advantage of a prolonged period of declining interest rates by leaving its debt, which is denominated in sterling, at floating rates. In the last quarter of 2002 one third of the Group's debt was fixed for five years. During the first quarter of 2003 the Group increased its fixed rate debt to almost half of the total debt. The average pre-tax fixed rate of interest secured is 4.6 per cent.

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Cash Resources

The Group funds its ongoing development mainly from the strong cash flows generated by its businesses and leveraging its balance sheet strength through the use of committed bank facilities. The Group also holds significant short term cash deposits on an ongoing basis.

At 31 December 2003 cash and short term bank deposits with a maturity profile of six months or less amounted to €139 million.

The Group had gross debt of €451 million at 31 December 2003. More than half of gross debt is repayable after more than three years from the balance sheet date.

The Group's debt is denominated in sterling and arose in the context of the Group's active UK acquisition and development programme undertaken in recent years. The sterling debt proceeds provide a natural currency hedge against sterling assets acquired and purchased.

The Group had undrawn committed bank facilities of €68.2 million at 31 December 2003.

Rights Issue

The Group raised €67.3 million net of expenses in a one for five rights issue completed in March 2003 to part fund the acquisition of Jacksons and to enable the Group to continue to finance its acquisition and development programme. The Group's spend on acquisitions and capital expenditure was €289 million during 2003.

In the previous five years to the end of 2002 the Group spent almost €500 million on acquisitions and capital expenditure. This acquisition and investment programme was funded from internal cash flow and the utilisation of the Group's debt capacity except for a small share placing in 1999 which raised €15.5 million.

Summary

The Group's healthy cash flows, strong balance sheet, high level of interest cover and healthy debt profile leave it well placed to fund acquisition led development projects and greenfield initiatives which should provide a strong platform for continued growth in profitability.

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