

# Group Finance Review

## Results

The Group's merchanting, DIY and manufacturing business reported excellent profit and cash flow for 2007.

The extent of the Group's development in the five years to the end of 2007 is reflected in an almost trebling of turnover to €3.2 billion from €1.1 billion in 2002. Profit before tax grew at the same rate over this period to €235.8 million in 2007 from €80.2 million in 2002. Turnover and profit increased ten fold over the past decade.

## Components of Operating Profit Growth

Operating profit before property profit and amortisation of intangibles increased by €20.8 million to €265.75 million from €244.94 million in 2006.

Incremental operating profit from 16 bolt-on UK acquisitions completed during 2006 amounted to €5.2 million. The operating profit contribution from 14 bolt-on acquisitions in the UK completed during 2007 amounted to €5.4 million.

Like for like operating profit in the Irish business reduced by €8.3 million due to the weak housing market while operating profit in the like for like UK business increased by €20.0 million reflecting the benefit of good like for like sales growth, purchasing benefits and the effect of cost reduction measures taken in 2006.

The Group opened 16 branches during 2007 in the UK and Ireland. The result for these branches together with the incremental result from the 18 branches which were opened in 2006 was an overall operating loss of €1.3 million.

The results of the UK business are translated at the average euro / sterling exchange rate for the year of Stg68.43p (2006: Stg68.17p). Sterling was marginally weaker during 2007 leading to a translation related reduction in Group operating profit of €0.4 million.

## Cash Flow

The Group's businesses continued to be strongly cash generative in 2007. Cash generated from operations was €303.8 million. (2006: €251.9 million). In addition Group cash flow from the disposal of assets was €22.1 million (2006: €77.7 million).

Free cash flow for the year was €236.0 million (2006: €252.6 million) after providing for replacement capital expenditure of €49.0 million (2006: €51.6 million), the payment of interest and taxation of €61.0 million (2006: €57.8 million) and additional investment in working capital of €14.4 million (2006: €26.1 million)

## Group Financing

Net borrowings at 31 December 2007 of €550.4 million (31 December 2006: €550.9 million) were marginally down despite a total spend of €266.7 million on acquisitions, routine replacement and development capital expenditure and share buybacks. Net debt was reduced by €36 million due to the favourable translation impact of converting sterling debt to the euro at the weaker year end exchange rate of Stg73.34p compared to the rate of Stg67.15p at 31 December 2006.

The Group has historically retained financial flexibility by holding significant short term cash deposits which amounted to €204.5 million at 31 December 2007 (31 December 2006: €231.5 million). Eighty two per cent or €454.0 million of the Group's net debt is repayable after more than two years from the end of 2007. This includes seventy three per cent of net debt or €401.8 million repayable after more than three years.

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The Group had undrawn committed facilities of €49.0 million at the year end and since the year end refinanced loans of €73.9 million repayable in 2008 for a period of three years. The maturity of the Group's gross debt of €335.2 million repayable up to three years from the end of 2007 is covered by committed facilities, debt refinanced since the year end and cash resources.

## Shareholders' Funds

Shareholders' funds at the year end were €1.07 billion (31 December 2006: €1.01 billion). Retained profit after taxation for the year was €205.2 million. Year end shareholders' funds are stated after accounting for the €72.8 million cost of buying back 10.5 million Grafton Units during 2007.

Reserves were reduced by €43.8 million due to exchange rate movements during 2007. Sterling weakness reduced the euro equivalent of the Group's net investment in the UK business on translation at the year end rate of exchange.

The purchase of two 'A' ordinary shares per Grafton Unit resulted in the return of €49.0 million (2006: €39.9 million) to shareholders and this amount was written-off against revenue reserves.

The issue of 782,517 Grafton Units under the Group's executive share schemes increased shareholders' funds by €2.5 million. The issue price of these units was determined by reference to the market value on the date entitlements to acquire Units were originally granted under the rules of the share schemes.

## Acquisitions and Capital Expenditure

The total cash outflow on acquisitions and capital projects was €193.9 million (2006: €211.5 million).

Fourteen bolt-on merchanting acquisitions resulted in a cash outlay of €79.7 million (2006: €75.2 million). Deferred acquisition expenditure of €9.5 million (2006: €11.9 million) was paid during the year in respect of prior year transactions.

Capital expenditure of €104.7 million (2006: €124.4 million) reflected routine replacement expenditure of €49.0 million and an investment of €55.7 million in the branch network across the Group including the opening of 16 new branch locations together with branch expansion and development initiatives designed to improve customer service and broaden the range of products available.

## Pensions

The actuarial gain net of taxation on the Group's defined benefit pension schemes credited to the Group Statement of Recognised Income and Expense amounted to €10.0 million (2006: €4.9 million).

Net assets and actuarial liabilities of the Group's defined benefit pension schemes are included in the balance sheet in accordance with IAS 19. At the end of 2007 the net retirement benefit obligation, after deferred taxation, reduced to €12.6 million (31 December 2006: €27.3 million). The reduction of €14.7 million in the net liability was due to employer contributions, an increase in the discount rates used to value liabilities and investment income which were partially offset by more conservative assumptions concerning life expectancy. The Group's total obligations under defined benefit pension schemes as determined by independent qualified actuaries at 31 December 2007 was €239.0 million (31 December 2006: €257.3 million). The related scheme assets amounted to €223.7 million (31 December 2006: €223.1 million). The net liability of €12.6 million after deferred taxation (31 December 2006: €27.3 million) represented one per cent of the Group's market capitalisation at the year end. The overall assets in the Group's defined benefit pension schemes represent 94 per cent of liabilities (31 December 2006: 87 per cent) as shown in the Group's balance sheet under IFRS.

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## Property

Property profit of €7.3 million was reported for 2007 (2006: €38.0 million). Property profit averaged €10.3 million over the past seven years and is excluded in arriving at adjusted earnings per share.

The book value of the Group's freehold property portfolio at 31 December 2007 was €440.1 million (31 December 2006: €422.1 million). The Group's freehold properties in Ireland were valued in December 1998. Properties owned by Heiton Group plc which was acquired in January 2005 are carried in the balance sheet at fair value at the date of acquisition based on professional valuations undertaken at 30 April 2004. The Group's UK freehold properties have not been revalued since the Group entered the UK merchanting market in 1994 and are reflected in the balance sheet at fair value on the date of acquisition or cost where purchased.

## Measures of Financial Performance

Interest cover, an influential measure of the Group's capacity to service its debt obligations, continued to be very comfortable at 7.8 times (2006: 9.0 times).

Net borrowings at 31 December 2007 were €550.4 million (31 December 2006: €550.9 million) equivalent to a gearing ratio of 52 per cent (31 December 2006: 54 per cent), the lowest level since in 1998.

Return on average capital employed in 2007, a critical measure in the assessment of acquisition and development opportunities, was 16.4 per cent (2006: 16.5 per cent). Return on equity was 19.2 per cent.

Working capital was well controlled with an additional net investment of €14.4 million (2006: €26.1 million) required to finance like for like and new branch turnover growth of €142 million.

## Summary

The Group's very strong financial position at the year end, high interest cover and cash generative operations continue to leave it well placed to finance acquisition and organic development opportunities which are a good fit and have the potential to deliver acceptable long term returns for shareholders.

On behalf of the Board

**Colm Ó Nualláin**  
Finance Director