Independent & International

Company report

CRH

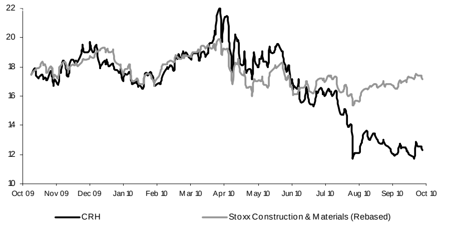
Ireland/Construction & Materials
Investment Research

Buy	
Recommendation unchanged	
Share price: EUR	12.30
closing price as of 27/10/2010	
Target price: EUR	14.60
Target Price unchanged	
Reuters/Bloomberg	CRH.I/CRH ID

Daily avg. no. trad. sh. 12 mth	1,650,725
Daily avg. trad. vol. 12 mth (m)	27.87
Price high 12 mth (EUR)	21.95
Price low 12 mth (EUR)	11.70
Abs. perf. 1 mth	-1.2%
Abs. perf. 3 mth	-25.5%
Abs. perf. 12 mth	-32.8%

Market capitalisation (EURm)	8,610
Current N° of shares (m)	700
Free float	99%

Key financials (EUR)	12/09	12/10e	12/11e
Sales (m)	17,373	16,966	16,636
EBITDA (m)	1,803	1,632	1,694
EBITDA margin	*10.4%*	*9.6%*	*10.2%*
EBIT (m)	955	792	854
EBIT margin	*5.5%*	*4.7%*	*5.1%*
Net Profit (adj.)(m)	592	472	554
ROCE	4.7%	3.8%	4.2%
Net debt/(cash) (m)	3,723	3,376	2,985
Net Debt Equity	*0.4*	*0.3*	*0.3*
Net Debt/EBITDA	2.1	2.1	1.8
Int. cover(EBITDA/Fin.int)	6.1	6.3	7.3
EV/Sales	1.0	0.7	0.7
EV/EBITDA	9.2	7.4	6.9
EV/EBITDA (adj.)	9.2	7.4	6.9
EV/EBIT	17.3	15.2	13.7
P/E (adj.)	21.5	18.2	15.5
P/BV	1.2	0.8	0.8
OpFCF yield	*16.6%*	*16.0%*	*15.2%*
Dividend yield	*5.1%*	*5.1%*	*5.1%*
EPS (adj.)	0.88	0.67	0.79
BVPS	15.39	14.93	15.13
DPS	0.63	0.63	0.63



Source: Factset

For company description please see summary table footnote

28 October 2010

Bumpy Road Ahead, Resilient Cash Flow

- ✓ ***Despite challenging conditions and limited visibility, we expect the dividend to be maintained at the current level in 2010 and 2011, equating to a dividend yield of 5.1%,*** the highest in the sector. We forecast free cash flow to remain strong in 2010 (€905m) and 2011 (€809m), resulting in the dividend being covered circa 2.0x by free cash flow in both years.
- ✓ ***Cautious approach to acquisitions.*** We estimate CRH can spend circa €500m on acquisitions per annum (and maintain the dividend) without materially increasing debt levels. We anticipate a cautious approach to acquisitions going forward given the uncertain economic conditions and do not believe that a large acquisition is likely to provide a catalyst in the short to medium term. We expect further disposals with the European insulation business the most likely in the short-term.
- ✓ ***Delayed recovery in US materials due to weak state and local spending.*** We expect state and local spending on highways to lag any economic recovery by up to two years. Furthermore, the implementation of a new six year highway bill looks unlikely in the short term and the bulk of recovery funds will be spent by the end of 2011.
- ✓ ***Pricing in US materials likely to remain challenging.*** We do not expect pricing in aggregates to change materially in 2010 and 2011 and expect flat to +1% as the most likely outcome. Key to maintaining margins in asphalt in 2011 with be CRH's ability to increase prices to offset rising raw material costs, this may be difficult given the challenging construction market in the US.
- ✓ ***Strong exposure to improving European markets.*** Exposure to the likes of Poland, Switzerland and Finland will support European activity in H2 2010 and a return to growth in 2011. However the Netherlands and southern Europe remain weak.
- ✓ ***Cutting forecasts due to dollar / euro exchange rate.*** Our new rate is 1.32 and 1.39 for 2010 and 2011 respectively versus our previous rates of 1.29 and 1.32 respectively. This reduces our 2010 EPS by 1.5% to 67.4c and our 2011 EPS by 5.8% to 79.1c. The change in the dollar / euro rate has a positive effect on translated net debt.
- ✓ **We rate CRH a Buy.** While visibility in the short term is limited particularly in the US, we expect CRH to continue to generate good cash flow (2010 free cash flow yield of 11%), maintain the dividend and make bolt on acquisitions, taking advantage of its strong balance sheet. We maintain our target price of €14.60, equivalent to a 2010 P/BV of 1.0x and an EV/Sales of 0.8x.

Analyst(s): Murray McCarter +353 1 611 5853 murray.mccarter@ncb.ie
Conor Harnett +353 1 611 5917 conor.harnett@ncb.ie

Investment Case

Dividend V Acquisitions

We expect CRH to maintain the dividend at the current level in 2010 and 2011, equating to a dividend yield of 5.1%. We expect free cash flow to remain strong in 2010 and 2011 despite the difficult operating environment. While our expected dividend payout for 2010 is only covered 1.1x by net income it is covered 2.1x by free cash flow. CRH has a well invested asset base meaning it can keep capital expenditure at the current low levels for the next 18/24 months. **This would leave CRH circa €500m per annum to spend on acquisitions without materially increasing debt ratios. CRH has one of the strongest balance sheets in the sector with net debt / EBITDA in 2010 and 2011 of 2.1x and 1.8x respectively.**

US Materials – Infrastructure Spend

We expect continuing pressure on highway spending as local and state budgets remain stretched. In previous downturns it has taken 2 years from a decline in US GDP for state and local spending on highways to recover. That said, the Recovery Funds will offset most of the weakness in state and local budgets in 2010 and 2011. From 2012 the outlook is less certain although a new highway bill with increased levels of funding may have been introduced by then.

US Materials – Pricing Trends

We expect a challenging pricing environment for aggregates and asphalt in 2011. We do not expect pricing in aggregates to change materially over the next 12/18 months and expect flat to +1% as the most likely outcome in 2010 and 2011. Pricing discipline in aggregates has been strong over the last five years despite declining volumes. Key to maintaining margins in asphalt in 2011 will be CRH's ability to increase prices to offset rising raw material costs, this may be challenging given the difficult construction market in the US.

Strong exposure to improving European markets – return to growth in 2011

Exposure to ***Poland***, ***Switzerland***, ***Finland*** are likely to benefit CRH in 2010 and a return to growth in Europe in 2011 but the ***Netherlands*** and exposure to ***southern Europe*** is likely to remain a drag. We forecast a 4.1% decline in sales in Europe for CRH in 2010 and a 1.5% increase in 2011.

Sector returned to sales growth in Q2 but underlying conditions remain difficult

While results in the short term across the sector are likely to be volatile given the severity of the economic downturn, underlying conditions are, slowly, improving. Second quarter results on average showed a return to sales growth across the sector, although CRH did lag this recovery. This marked a significant improvement from a dismal first quarter, impacted by poor weather and weak economic conditions.

Further cost cutting and disposals to come

CRH has taken €1.7bn in annual costs savings out of the business since 2007. Given that the environment remains difficult, we expect it to outline **further cost cutting in its November IMS.**

As part of its effort to streamline its operating asset base, CRH is currently looking to sell its climate control and insulation business in Europe. In its interim results conference call it announced it had stepped up the ongoing disposal of surplus assts and underutilised equipment across the Group. **We expect a continuing flow of proceeds from disposals over the next 12/18 months** (2007-2009 average annual proceeds equalled €142m). We do not include unannounced disposals in our forecasts.

Revising Forecasts Lower

We are cutting our forecasts for two reasons:

1. **Slower recovery in US Materials.** As a result of the factors outlined above in relation to local and state spending and pricing we now forecast 2012 US Materials sales to increase 1% (versus our previous forecast of 4% growth) and 2012 EBIT margin of 7.7%, versus 7.2% in 2010 and 2011 and compared to our previous forecast for a recovery to 8.0%. This results in a cut of 5% to our 2012 US operating profit to USD638m. We are not making any changes to our 2010 or 2011 estimates which we revised following the August profit warning.
2. **The dollar / euro exchange rate.** Our new rate is 1.32 and 1.39 for 2010 and 2011 respectively versus our previous rates of 1.29 and 1.32 respectively. This reduces our 2010 EPS by 1.5% and our 2011 EPS by 5.8%. The change in the dollar / euro rate has a positive impact on CRH's dollar denominated debt. As a result of the stronger dollar in the first half CRH had a negative foreign exchange translation impact of €452m. Given current exchange rates much of this will be reversed in the second half 2010 (we estimate by circa €375m) resulting in year-end net debt of €3.4bn, versus our previous forecast of €3.7bn.

Our new assumptions equate to 2010, 2011 and 2012 sales of €17.0bn (-2% year-on-year), €16.6bn (-2% year-on-year) and €17.2bn (+3% year-on-year) respectively. Our new EPS forecasts for 2010, 2011 and 2012 are 67.4c (previous forecast 68.4c), 79.1c (previous forecast 83.9c) and 107.9c (previous forecast 116.6c) respectively.

The worst performer in the sector YTD

CRH's share price has declined 35% year to date making it the worst performer in the US and European materials sector. A relatively high exposure to US infrastructure and a lack of sales in emerging markets impacted results and led to two profit warnings, in June and August.

Valuation

Despite our downward revisions and our caution on US Materials we maintain our price target of €14.60. This is within the range of our sum-of-the-parts analysis which implies a value per share of €16.76 to €13.47 based on 2010 and 2011 multiples respectively. At our price target CRH would trade on a 2010 P/BV of 1.0x and an EV/Sales of 0.8x, the dividend yield would be 4.3%. Our DCF points to a higher fair value (€17.10) but given the lack of visibility and uncertain pace of recovery it is difficult to see the catalyst to drive the share price to this level in the short term. We rate CRH a Buy.

CONTENTS

Dividend V Acquisitions

- **Well invested asset base reduces capital expenditure requirements.**
- **Dividend covered 2.1x by free cash flow in 2010.**
- **Ability to spend €500m per annum on acquisitions and maintain dividend & debt ratios.**

Well invested asset base to support free cash flow

We forecast CRH to generate €905m in free cash flow in 2010 and €811m in 2011 as continued tight control on capital expenditure and working capital management offsets a further deterioration in profitability. This is similar to the level of free cash flow generated in 2006 despite a significant deterioration in profitability over the period.

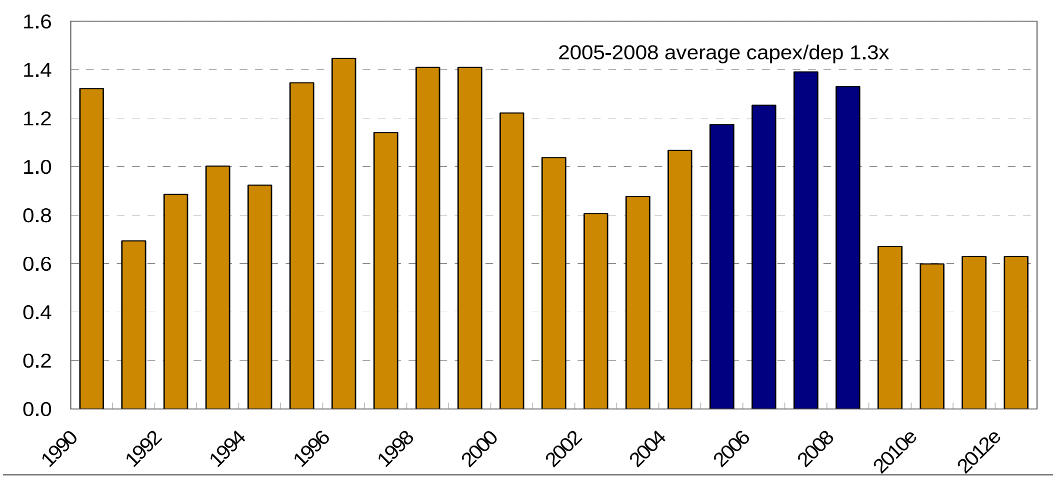
Table 1: CRH Free Cash Flow

€m	2006	2007	2008	2009	2010f	2011f	2012f
Free Cash Flow	938	1564	991	1591	905	809	1010
Operating Profit	1767	2086	1841	955	792	854	1077

Source: Company Reports, NCB estimates

Between 2005 and 2008, CRH invested heavily in capital expenditure, particularly on the heavy side, spending an average of 130% of depreciation. As a result we expect capex to be maintained at the current low level to the end of 2012 if the current difficult trading conditions continue, equating to circa €500m capex spend per annum, or 0.6x depreciation.

Chart 1: CRH Capex/Depreciation multiple



Source: Company Reports, NCB estimates

We expect further tight control of working capital in 2010 with an inflow of €150m forecast driven by further improvement in inventories. The €661m inflow in 2009 was generated by strong management of receivables and payables. We have forecast no working capital change in 2011 and 2012 as we view the squeeze on inventories to have run its course but neither do we forecast any material improvement in sales that might consume working capital.

Table 2: CRH Working Capital

Working Capital €m	2006	2007	2008	2009	2010f	2011f	2012f
Working Capital Inflow (outflow)	-75	+227	-62	+661	+150	0	0

Source: Company Reports, NCB estimates

Dividend supported by free cash flow

We expect the 2010 dividend to be maintained at the same level as 2009. CRH has grown the dividend every year for the last twenty six years. At the interim results 2010 CRH maintained the dividend at the 2009 level of 18.5c despite reporting EPS of only 2.6c. In the early nineties CRH continued to increase its dividend per share despite two years of falling earnings.

Table 3: Dividend track record

	Trading Profit	Dividend per share
	% change	% change
1991	-22%	7%
1992	-14%	5%
1993	31%	11%
1994	29%	12%
2008	-11%	1.9%
2009	-49%	0.4%
2010e	-16%	0.0%
2011e	13%	0.0%

Source: Company Reports, NCB estimates

The current year dividend is covered 2.1x by free cash flow. While EPS cover of the dividend in 2010 is only 1.1x, CRH continues to generate strong cash flow and we forecast free cash flow of €905m and €809m in 2010 and 2011 respectively. This compares to forecast dividend payments in 2010 and 2011 of €438m and €438m respectively.

Table 4: Dividend Cover

Dividend Cover	2006	2007	2008	2009	2010f	2011f	2012f
Dividend (€m)	253	333	371	419	438	438	459
Net Income (€m)	1210	1430	1248	592	472	554	755
Net Income Cover (x)	*4.8*	*4.3*	*3.3*	*1.6*	*1.1*	*1.3*	*1.6*
Free Cash Flow (€m)	938	1564	991	1591	905	809	1010
Free Cash Flow Cover (x)	*3.7*	*4.7*	*2.7*	*4.3*	*2.1*	*1.8*	*2.2*

Source: Company Reports, NCB estimates

Given the long track record of dividend progression, we expect acquisition spend to give way first and dividend to be maintained unless another leg down in trading occurs or is in prospect for 2011.

Modest Acquisition budget if dividend takes precedent

CRH has circa €500m per annum to spend on acquisitions without materially increasing debt ratios, based on our current cash flow forecasts and maintaining the dividend at the current level. Disposal proceeds may provide an additional source of cash for bolt on acquisitions. We estimate if CRH spent €500m on acquisitions it would add 5% to EPS in 2011 and 2011 net debt / EBITDA would increase to 2.0x (from 1.8x). Given our cautious outlook on acquisition spend and the expectation that acquisitions are unlikely to add more than low single digit growth to annual earnings over the next couple of years it is unlikely to be a significant catalyst for the share price. We do not include acquisitions in our forecasts other than those already announced.

Table 5: Acquisition Spend

Acquisition Spend (€m)	0	500	1,000	1,500
% Change 2011 EPS	0%	5%	10%	15%
Covenants				
Net Debt/EBITDA (< 3.5x)	1.8	2.0	2.2	2.4
Interest Cover (EBITDA/net interest > 4.5x)	7.8	7.1	6.6	6.2

Assumptions: no synergies generated, average EBITDA multiple paid = 6.9x, cost of debt = 6.3%
Source: NCB estimates

In the last downturn CRH significantly cut back on acquisition spend. There has been some concern that the lack of acquisition activity may represent a change in focus for the Company however we do not believe this to be the case but reflects the cautious view the Board takes to putting stress on the balance sheet during uncertain trading periods. In the last significant downturn in the early 1990's CRH cut back significantly on acquisition spend over the period 1991 to 1993 (and continued to grow the dividend) and returned to spending over 10% of sales on acquisitions from 1994 onwards.

Table 6: Historical acquisition spend

Year	1990	1991	1992	1993	1994-2007*	2008	2009	YTD 2010
Acquisition Spend / Sales	8.6%	2.9%	6.0%	5.4%	11.6%	5.2%	2.6%	0.8%

average spend per annum.
Source: CRH, NCB estimates

Disposals are likely in the short term. CRH announced in early 2010 its decision to exit the European insulation/climate control businesses. Between 2007 and 2009, inclusive, CRH generated proceeds from disposals of €142m per annum on average and it is likely that CRH continues to dispose of non-core assets across the portfolio, providing a further source of cash flow. We do not include future disposals in our forecasts unless they have been confirmed.

Balance sheet relatively strong

CRH has one of the strongest balance sheets in the sector with 2010 net debt/EBITDA of 2.1x, versus the sector average of 3.8x. As economic conditions are likely to remain difficult, CRH is relatively well positioned to make bolt on acquisitions. We regard CRH's balance sheet strength, its liquidity and its debt maturity profile as attributes that have been overlooked in the past year.

Table 7: Net Debt/EBITDA

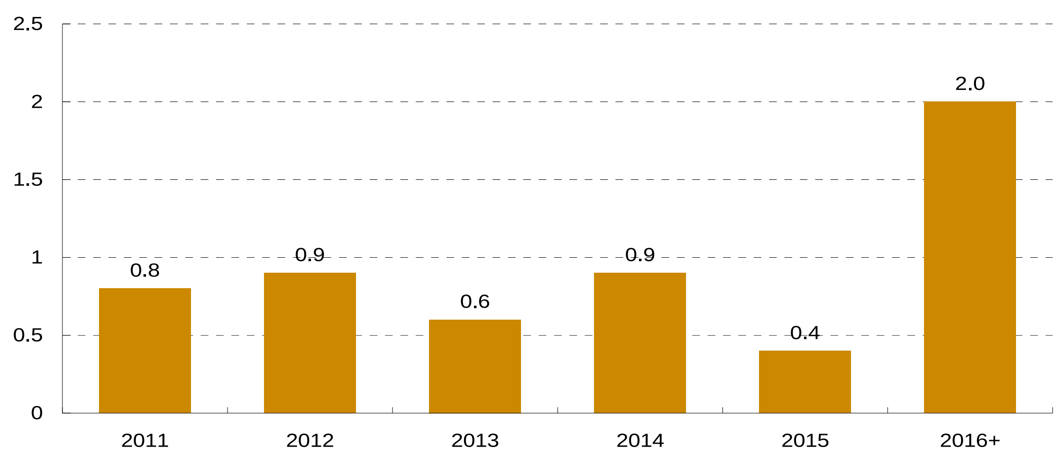
	2009	2010e
CRH	2.1	2.1
Lafarge	3.8	3.6
Holcim	3.0	2.6
HeidelbergCement	4.0	3.6
St Gobain	2.3	1.9
Martin Marietta	3.2	2.5
Vulcan Materials	6.6	6.0
Cemex	5.7	6.5
Average	4.1	3.8

Source: Company Reports, NCB, Bloomberg Consensus

And no significant debt maturities over the short to medium term

The Group has a favourable debt profile to withstand the current downturn. At the end of the first half 2010, total debt equated to €5.9bn, however this is offset by the Group's cash reserves of €1.1bn and undrawn facilities of €1.5bn.

Chart 2: CRH Debt Maturity Profile



Source: Company Reports

US Materials – Stuck between a rock and a hard place

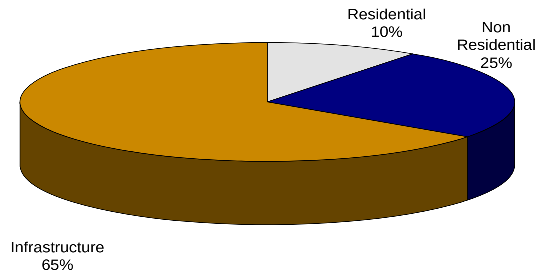
The August profit warning was driven by US Materials. CRH's profit warning on August 24 2010 was due to lower than expected profits from the US Materials division, driven by two factors:

1. **Weak state and local spending, and**
2. **More competitive pricing.**

CRH now expects a 20% decline in USD EBITDA for US Materials in the full year 2010, versus previous expectations for a decline of approximately 10%. We forecast a 19% decline in US Materials EBITDA to USD757m for the full year.

We expect US Materials to account for 35% of CRH Group EBITDA and 71% of US EBITDA in 2010. Since we estimate 80% of US Materials profits are derived from asphalt and aggregates we therefore focus on these segments. CRH is the number 1 player in asphalt and the number 3 player in aggregates in the US. Infrastructure is the most important end market representing 65% of EBITDA in 2009.

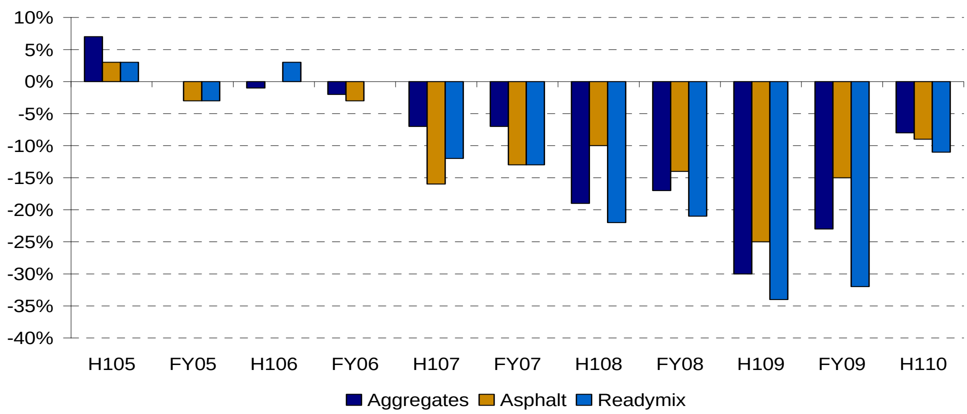
Chart 3: US Materials 2009 EBITDA End market exposure



Source: CRH

Volumes in CRH's US Materials division have been declining since 2005. From 2005 to H1 2010, CRH reported cumulative volume declines in aggregates, asphalt and readymix of 47%, 44% and 58% respectively. In the first half of 2010 volumes declined 8%, 9% and 11% respectively.

Chart 4: CRH Volume Trend Analysis



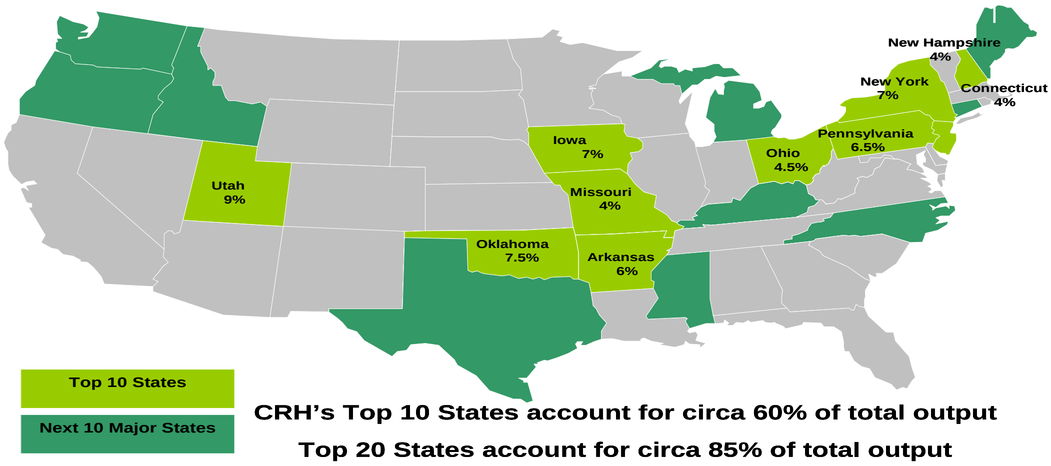
Source: CRH, NCB

CRH Aggregates Exposure by State versus Peers

CRH's Americas Materials division generated 60% of EBITDA in the East and 40% in the West in 2009. Using information from the ***US Geological Survey*** department and records from the ***Mine Safety and Health Administration (MSHA)*** we have calculated CRH's aggregate output based on the hours of production at each mine.

Based on our analysis, CRH's top 10 States accounted for circa 60% of total output in 2009 with the top 20 States accounting for circa 85% of total output. Chart 5 below illustrates how exposed CRH is to the Northeast and the Mid-West and South, following the APAC acquisition in 2006.

Chart 5: CRH Materials Aggregates – Output based on Hours of production



Source: US Geological Survey, MSHA, NCB estimates

CRH versus the Peers

CRH has greater exposure to the Northeast compared to Vulcan Materials (no. 1 aggregates player in the US) and Martin Marietta (no. 2 aggregates player in the US) and this may explain its underperformance in aggregate volumes in H1 2010. In the first half of 2010 CRH reported a 12% decline in aggregate volumes in the Northeast.

On the other hand, Vulcan's operations are mainly based in the South (its five largest States are Florida, California, Texas, Georgia and Virginia). Martin Marietta also has a bias towards the South with Texas, North Carolina, Georgia, Iowa and Louisiana accounting for 56% of aggregate output.

CRH's pricing proved more resilient in H1 2010 versus the peers and this may also explain the volume underperformance as it chose to focus on maintaining pricing levels at the cost of volumes. The volume underperformance by CRH may also reflect the ease of shipments in the flatter southern States while rail freight is less of an option in more undulating northern States.

Table 8: CRH performance in Aggregates in H1

Aggregates	H1 2010 Volumes	H1 2010 Pricing
CRH	-7%	+1%
Martin Marietta	-0.3%	-3.6%
Vulcan Materials	-3.1%	-1.1%

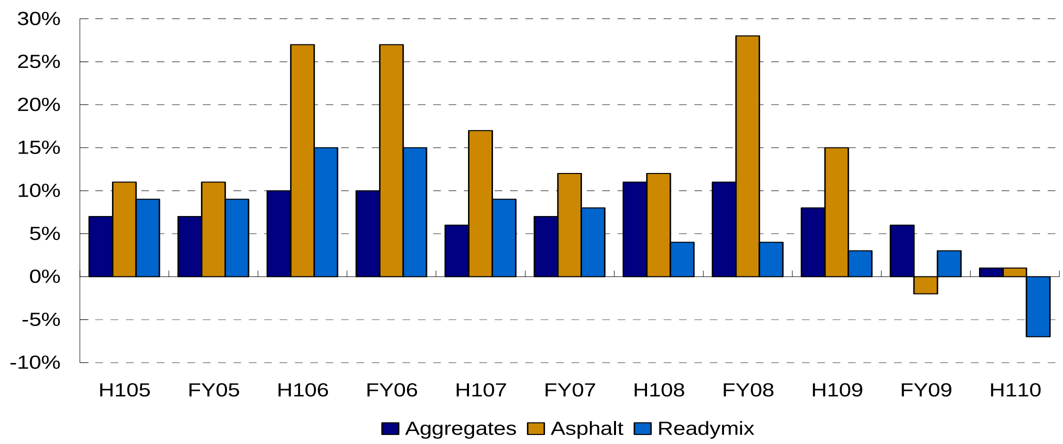
Source: Company Reports

US Materials – Pricing Trends

- **We do not expect any pricing surprises in H2 2010.**
- **US pricing resilient despite weak volumes across the industry.**
- **Pricing should revert to more normal levels of growth going forward.**

Despite the weak volumes, pricing has remained resilient from 2005 to 2009 in the US. CRH reported average annual price increases of 8%, 15% and 8% in aggregates, asphalt and readymix respectively over the 5 year period, highlighting very strong price discipline for an industry where volumes declined in excess of 40% in the same period. Pricing in the current year has been weaker. In H1 2010 aggregates prices increased 1%, asphalt increased 1% and readymix declined 7%.

Chart 6: CRH Pricing Trend Analysis



Source: CRH, NCB

Short term outlook for pricing

We do not expect any pricing surprises in the second half of 2010 from CRH. Based on our analysis of guidance given at the interim stage for the last three years, either on company conference calls or presentations, the pricing outcome for the full-year tends to be relatively predictable at the interim stage. In fact variance at the full year tended to be to the upside.

Table 9: CRH Pricing Guidance

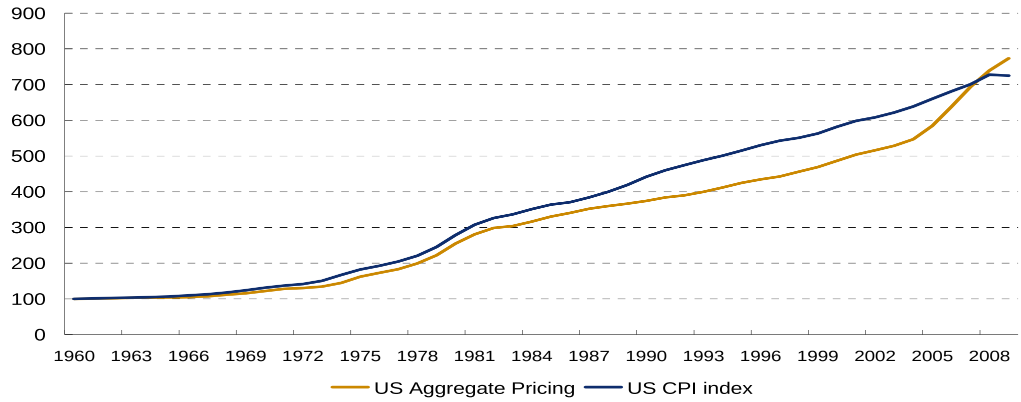
	Guidance for FY at H1 results			Actual FY outcome		
	Aggregates	Asphalt	RMC	Aggregates	Asphalt	RMC
2010	0/+1%	+1/2%	-6/7%	-	-	-
2009	+4/6%	Lower	-	+6%	-2%	-
2008	+11%	12%+	+4%	+11%	+28%	+4%
2007	Expect price improvements			+7%	+12%	+8%

Source: CRH, NCB

Outlook for US Aggregates pricing

Historically aggregates prices have grown year-on-year but at a rate below inflation. Since the 1930's, the unit price of crushed stone (and construction sand & gravel) has not keep up with inflation until the last few years. We expect this trend to revert to more normal levels over the coming years. On a positive note, **while pricing has not kept up with inflation over the long term we have not seen any year-on-year price fall in aggregates over the last sixty years.**

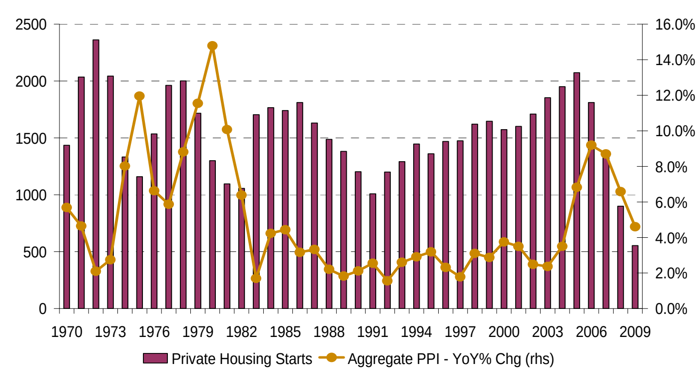
Chart 7: Aggregate Pricing and CPI



Source: Datastream

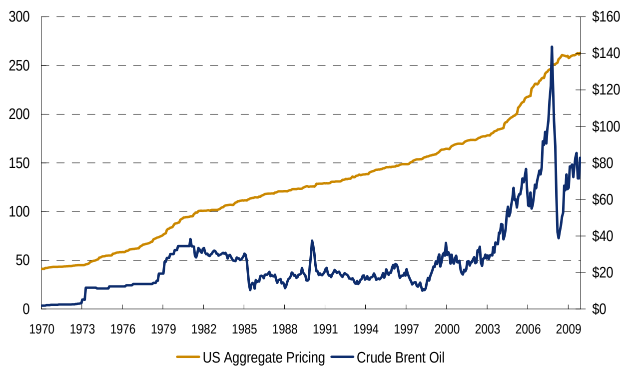
Based on our discussions with the ***US Geological Survey (USGS)***, we believe the price strength in recent years is more a function of a very strong housing market (housing starts peaked in January 2006) and the oil price, a key input (which peaked in July 2008) as opposed to any change to the structure of the market. The charts below highlight the correlation between housing starts and the oil price versus US aggregates prices.

Chart 8: US Aggregate Pricing and US Housing Starts



Source: Datastream

Chart 9: US Aggregate Pricing and Crude Brent Oil



Source: Datastream, Bloomberg

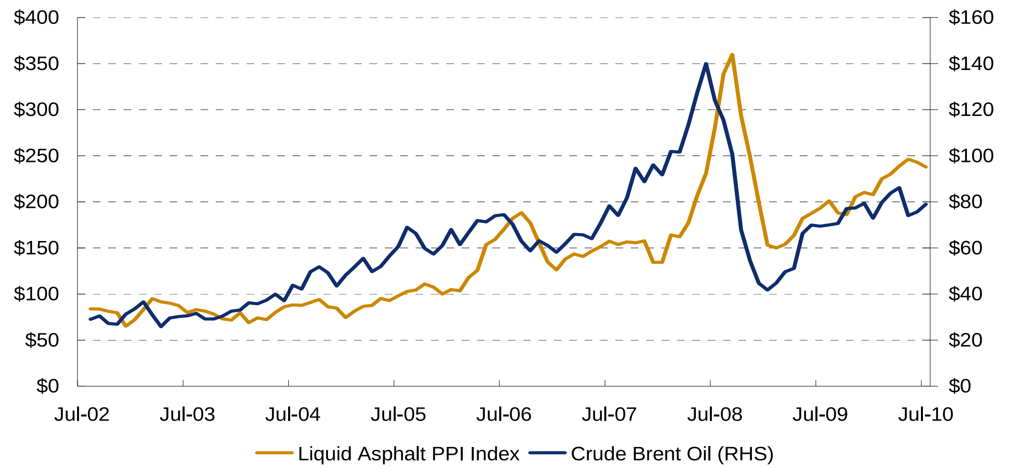
We do not expect pricing in aggregates to change materially over the next 12/18 months and expect flat to +1% as the most likely outcome in 2010 and 2011.

Outlook for US Asphalt pricing

The outlook for asphalt pricing is likely to continue to be dictated by the oil price, as bitumen, a crude oil derivate is the key component of asphalt production equating to circa 50% of input costs.

Key to maintaining margin on asphalt is the ability for asphalt producers to pass on rising bitumen costs through higher prices. The chart below highlights the close correlation between liquid asphalt pricing and the oil price, with asphalt price recovery typically lagging the oil price by 2 to 3 months.

Chart 10: Relationship between asphalt pricing and oil price



Source: Datastream

In the first half of 2010 CRH reported asphalt prices up 1% but unit variable costs up 5% mainly due to higher liquid asphalt costs. For the full-year 2010 CRH expect 1 to 2% growth in asphalt prices and unit costs to increase by 6 to 7%.

Vulcan expects flat to a 1% decline in asphalt prices in 2010. In its second quarter conference call Vulcan said that a lot of the asphalt that was shipped in the first half of 2010 had been priced in the second half of 2009 when economic conditions were particularly weak and it expected an improvement in the second half of 2010.

Given the increase in liquid asphalt costs year to date, key to maintaining margins in 2011 will be the sectors ability to push these cost increases through which may prove challenging given the value for money drive by procurement agencies, both federal and local, across the US in the current environment.

We expect a challenging pricing environment for aggregates and asphalt in 2011. We do not expect pricing in aggregates to change materially over the next 12/18 months and expect flat to +1% as the most likely outcome in 2010 and 2011. Pricing discipline in aggregates has been strong over the last five years despite declining volumes. Key to maintaining margins in asphalt in 2011 will be CRH's ability to increase prices to offset rising raw material costs, this may be difficult given the challenging construction market in the US.

US Infrastructure Spending

- **State and local spending on roads likely to lag economic recovery.**
- **New Highway Bill unlikely in the short term.**
- **Recovery Funds provide support to 2010 & 2011 spend.**

US Infrastructure is the most important end market for CRH generating 50% of US EBITDA (and approximately 25% of Group EBITDA). CRH is the largest producer of asphalt in the US, the number three player in aggregates and a top five player in readymixed concrete. It operates in 44 states in the US, with EBITDA split 60/40 between the East and the West respectively. In its H1 2010 release CRH said that its Materials business had experienced weaker than expected volumes and more competitive pricing due to pull-backs in state and municipally funded projects.

We outline the outlook for highway spending below:

Table 10: US Highway Funding – Outlook for State & Local spend the unknown

Source	2008	2009	2010f	2011f	2012f
Federal ($bn)	40.0	40.7	41.1	41.5	42.0
State Matching ($bn)	10.0	10.2	10.3	10.4	10.5
State ($bn)	30.0	25.0	19.4	19.4	19.4
ARRA ($bn)	Na	5.5	11.9	8.9	1.5
Total ($bn)	80.0	81.4	82.7	80.2	73.4
% Change	+6%	+2%	+2%	-3%	-8%
Oberstar Proposal ($bn)				*49*	*54*
Obama Proposal ($bn)				*8*	*8*

Source: US House Transportation & Infrastructure Committee, NCB Estimates, ESN

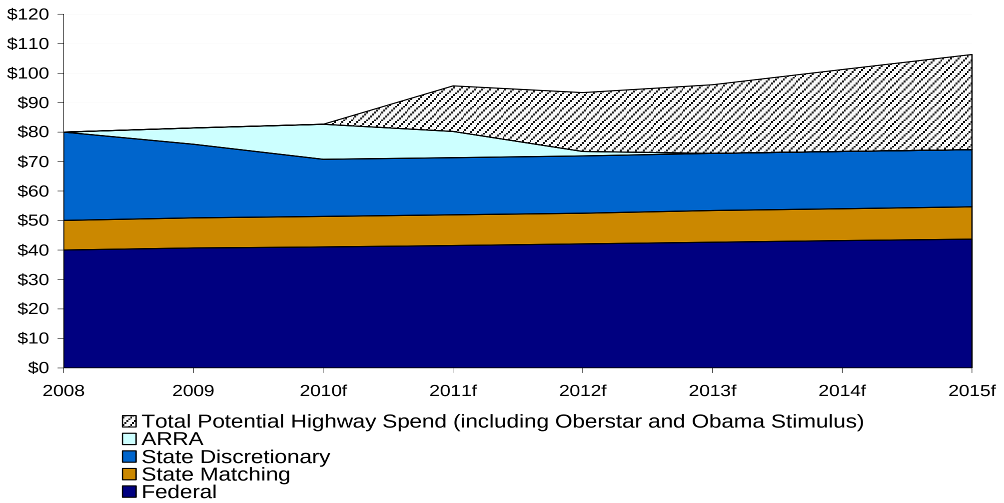
- **Federal** spending on highways is relatively predictable. And the highway trust fund is funded out to September 2013. Potential upside to federal spending will come through the initiation of a new 6-year highway fund (to replace the SAFETEA-LU) but we do not expect this in the short term.
- **State Matching** should also be relatively predictable. In order for States to receive the circa €40bn from the Federal Government they must contribute 20% towards each project, this is the State matching principle. It is unlikely for States to stop paying this as they get 4x what they put in through Federal Funds.
- **State** spending is more discretionary and this is the source of weakness that CRH has encountered. With many state and local governments under pressure in the US, funds that were typically used on highways and roads have been diverted elsewhere. We will discuss this in more detail in the next section.
- **ARRA (Recovery Fund)** set aside €27bn for highway and bridge construction beginning in 2009. It appears ARRA funds were used to replace weak State spending in 2009 and 2010. In its interim results, CRH noted ARRA funds were slower than expected to come through. We expect an USD11.9bn contribution in 2010.
- **Oberstar Proposal** is a draft bill from ***James Oberstar***, ***Chairman of the House Transportation and Infrastructure Committee*** which was released after the SAFETEA-LU Act expired in 2009***.*** He proposes a new six year plan for highway spending totalling USD337bn (SAFEFTA-LU totalled USD225bn, its predecessor TEA-21 was circa USD170bn). SAFETEA-LU

saw spending on highways increase from USD33.6bn in 2004 to USD40.7bn in 2009. While we do expect a new highway bill to be implemented, it is unlikely to be implemented in the short term.

- **President Obama proposed**, in September 2010, a six year infrastructure plan to revamp America's roads, railways and airport runways. The proposal would entail an up-front investment of USD50 billion to jump-start additional job creation and improve the nation's road and highway network. There were no further details on the plan and it remains unclear whether the USD50bn would be included as part of the new Highway Bill. Given the expected outcome of the US midterm elections, its seems highly unlikely that the Whitehouse will have the necessary votes to carry this through Congress.

The chart below highlights the current highway spending outlook based on the information we have today and the potential spend if the Oberstar and Obama measures are included.

Chart 11: Total Highway Spending



Source: NCB estimates

State & Local Spending on Highways to Lag Economic Recovery

According to ***the National Association of State Budget Officers***, State revenue collections historically lag behind any national economic recovery, therefore State revenues will remain sluggish throughout fiscal years 2011 and 2012.

In previous downturns State and Local spending on highways has taken 2 years to return to normal levels. The sluggish recovery is borne out in our analysis of State and Local spending on highways following previous downturns. Since 1960, State and local spending on highways has increased by 5% per annum. However in the two years following a decline in US GDP, State and local spending has declined by an average of 3%, before resuming its upward trend.

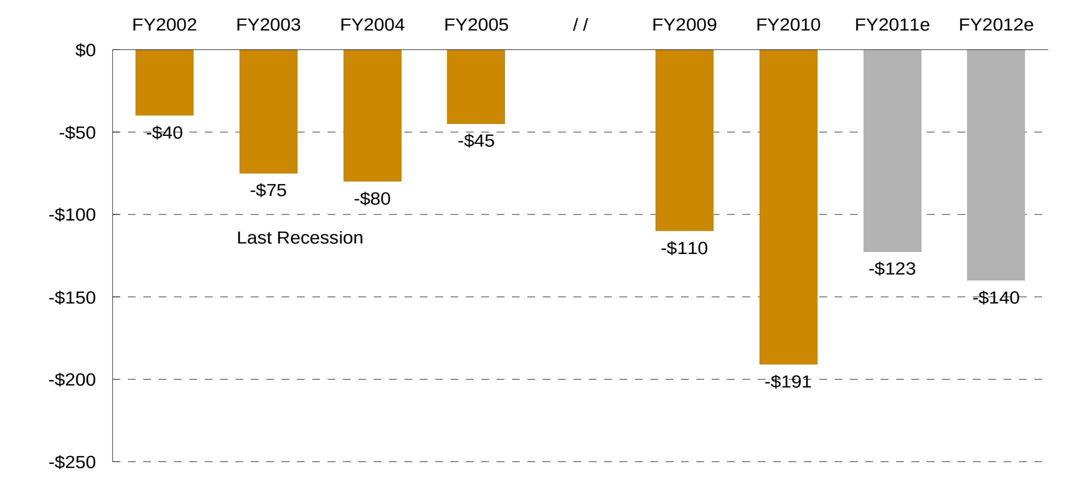
Table 11: US GDP growth compared to State/Local Highway growth

	1975	1976	1977	1980	1981	1982	1982	1983	1984	1991	1992	1993
GDP % change	-0.2%			-0.3%			-1.9%			-0.2%		
State/Local highway spend % chg	17%	-12%	-17%	8%	0%	3%	3%	-2%	5%	9%	-2%	-3%

Source: CBO

The current State budget deficits are the largest on record. Given the extent of State Budget Deficits and the Budget Output gap facing many states in FY2011 and FY2012 we do not expect a quick recovery in State and Local spending on highways.

Chart 12: Total State budget shortfall in each fiscal year, in billions



Source : Center on Budget and Policy Priorities

Eleven States plan to cut General Fund Spending for transportation in 2011 (year-end September), according to the ***Fiscal Survey of States, June 2010.*** This is somewhat of an improvement on 2010 when twenty States cut funding for transportation. Furthermore, **ten States plan to use transportation or motor vehicle related fees to reduce budget gaps in 2011**, compared to eleven in 2010.

The table below gives our estimate of CRH's key States for aggregate output.

Table 12: CRH's Top 10 States* and forecast budget deficits

	FY2010 (YE June)		FY2011 (YE June)	
State	US Budget Deficit ($bn)	Shortfall as % of Budget	US Budget Deficit ($bn)	Shortfall as % of Budget
Utah	$1.0	22.1%	$0.7	15%
Oklahoma	$1.6	28.4%	$0.7	15%
New York	$21.0	38.8%	$8.5	16%
Iowa	$1.3	22.6%	$1.1	19%
Pennsylvania	$5.9	23.6%	$4.1	16%
Arkansas	$0.4	9.1%	N/A	N/A
Ohio	$3.6	13.9%	$3.0	11%
Missouri	$1.7	22.7%	$0.7	9%
New Hampshire	$0.4	28.6%	$0.4	24%
Connecticut	$4.7	27.0%	$5.1	28.9%
Average	$41.6	24%	$24.3	17%
US Total Figure	$190.8	29%	$122.6	19%

**Analysis based on total employee hours worked in CRH's aggregate operations in 2009 identified by the MSHA and USGS*
Source: Center on Budget and Policy Priorities, US Geological Survey, MSHA, NCB estimates

While budget deficits look set to improve for States in the year ending June 2011, they still remain at high levels, suggesting continuing tight control of expenditure on highways at State level.

New Highway Bill unlikely in short term

SAFETEA-LU for the period 2005 to 2009 gave a formal commitment by the federal government to spend USD194bn on highways and bridges over the period. Funding increased from USD34bn in 2005 to USD41bn in 2009. The Act was due to expire on September 30 2009 but has been extended for 18 months and USD41bn has been allocated to the federal highway program in 2010, a slight increase on 2009. Federal funding comes from a motor fuel excise tax of 18.4 cent per gallon of gasoline (which hasn't been increased since 1993) paid into the ***Highway Trust Fund***.

We do not expect a new 6-year Highway Bill to be announced in the short term, particularly with the mid term elections in November 2010, meaning no significant increase in current levels of Federal funding for highways.

But at least there are sufficient funds in place to maintain current spending levels to 2013. The ***Congressional Budget Office*** projects the balance plus expected receipts in the Highway Trust Fund are sufficient to maintain USD41bn in annual highway spending to September 2013 (see table below). This makes the authorisation of a new Highway Bill less pressing for politicians, a point made by *Martin Marietta's CEO* in its interim results release.

Table 13: Federal Highway Fund

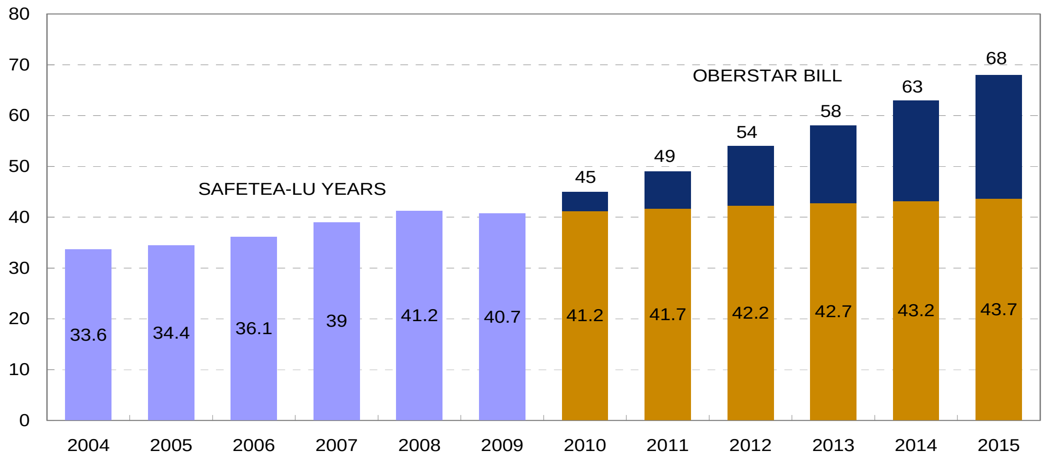
$bn	Fiscal Year Ending Sept 30				
	2009	2010	2011	2012	2013
Federal Spend	40.7	41.1	41.5	42.0	42.6

Source: CBO Highway Trust Fund Projection, August 19, 2010

Oberstar's Bill unlikely to get early passage through Congress

The chart below illustrates the annual amount allocated as part of SAFETEA-LU and the draft bill from ***James Oberstar***, which was released after the SAFETEA-LU Act expired in 2009. The increases proposed by Oberstar were not implemented in 2010 and are unlikely to be implemented in 2011 for the reasons outlined above.

Chart 13: SAFETEA-LU spend & Oberstar



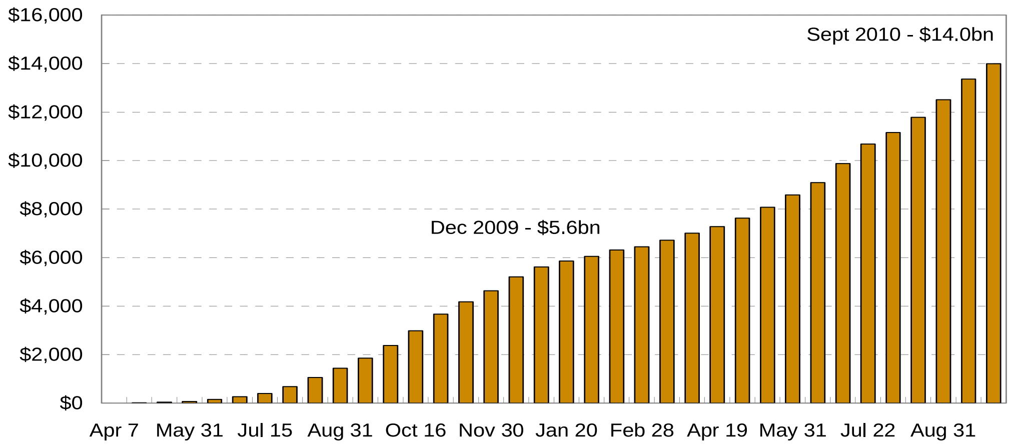
Source: National Asphalt Pavement Association, Oberstar Bill

Recovery Funds – supports infrastructure spend through 2011

The ***Recovery Fund (ARRA)***, introduced in February 2009, allocated USD48bn to the Department of Transport including USD27bn for highway and bridge construction and maintenance. Approximately USD5.5bn of the funds were spent in 2009 and as of September 30, 2010 USD14bn in total had been spent, according to the ***American Road & Transportation Builders Association (ARTBA)***.

In September 2010, USD1.5bn of **ARRA** highway funds were spent, up from USD1.35bn in August 2010, the largest monthly outlay of funds to date. With highway construction season underway, outlays should continue to increase rapidly, according to the **ARTBA**. Outlays represent payments to contractors for work performed on ARRA-financed highway and bridge improvement projects.

Chart 14: ARRA funds spent to date ($m)



Source: ARTBA

Since ARRA's inception the national average payout has been 52.3%. According to our analysis CRH's top 5 states have spent on average 62% of ARRA funds, higher than the payouts in Martin Marietta or Vulcan Material's top 5 States. This suggests the key States that CRH operates in have received a relatively higher level of ARRA funds to date and potentially have less available funds to benefit from than peers over the next 12 to 18 months.

Table 14: ARRA Funds paid out since September 2010

	CRH	*Paid Out*	Martin Marietta	*Paid Out*	Vulcan Materials	*Paid Out*
Top 5 States	Utah	*89%*	Texas	*42%*	Florida	*37%*
	Oklahoma	*84%*	North Carolina	*56%*	California	*33%*
	New York	*41%*	Georgia	*36%*	Texas	*42%*
	Iowa	*86%*	Iowa	*86%*	Georgia	*36%*
	Pennsylvania	*59%*	Louisiana	*32%*	Virgina	*17%*
Average ARRA funds paid out		62%		45%		35%

Source: US Department of Transportation / Federal Highway Administration, NCB estimates, Company Reports

We are cautious on the outlook for infrastruture spending in the US. We expect State and local spending on roads to lag a broader economic recovery. Recovery funds will provide support for the remainder of 2010 and 2011. Key to an increase in highway spending from 2012 onwards will be the initiation of a new six year highway bill although the timing of its introduction is uncertain.

Europe – slow recovery in 2011

- **Poland, Switzerland and Finland to outperform.**
- **Netherlands to remain a drag.**
- **We forecast CRH Europe sales to decline by 4.1% in 2010 with a recovery of 1.5% in 2011.**

We expect further declines in European construction activity in 2010 driven by weakness in **Southern Europe** and the **Netherlands** as public debt burdens force cuts to government spending levels. Increasing unemployment, lack of credit availability and low consumer confidence continues to impact private construction. In the first half of 2010, CRH reported like-for-like sales declined 9%, but the trend moderated in Q2 with sales down 5%. We expect a return to growth in 2011.

As outlined in the table below, CRH's exposure to **Poland** and **Switzerland** (circa 20% of Group EBITDA and 40% of European EBITDA) leaves it relatively well placed in the current year. In its interim results, CRH reported first half cement volumes in **Finland** and **Switzerland** were ahead of 2009. The **Netherlands** (circa 8.5% of Group EBITDA) will be the main drag on earnings in the current year as the residential sector remains challenging. Construction activity in **Spain**, **Ireland** and **Portugal** (which combined account for approximately 5% of Group EBITDA) will be very weak in the current year

Table 15: European Construction Output Forecasts

Country	CRH EBITDA %	Overall Construction Output		
	2010 Breakdown**	FY2009	FY2010e	FY2011e
Poland*	12.0%	4.3%	10.0%	14.5%
Netherlands	8.5%	-5.5%	-9.4%	-1.7%
Switzerland	8.0%	3.3%	2.0%	1.0%
Finland	5.0%	-16.9%	-5.0%	-1.0%
Portugal	3.0%	-9.5%	-9.3%	-2.0%
United Kingdom	2.5%	-11.5%	0.5%	1.0%
Belgium	2.0%	-2.9%	-1.8%	0.4%
Ireland	1.2%	-34.6%	-18.0%	1.6%
Spain	1.2%	-11.2%	-13.8%	-6.0%
Germany	1.0%	-3.2%	-2.0%	-2.4%
France	1.0%	-7.4%	-3.9%	-0.8%
Denmark*	0.8%	-11.3%	-2.9%	4.1%
Other (incl Turkey, Ukraine)	2.0%	N/A	N/A	N/A
Total Western Europe	34.2%	-8.9%	-5.7%	-1.7%
Total Europe*	48.2%	-8.8%	-4.0%	1.2%

*Source: ESN, * Euroconstruct,, ** NCB estimates*

Strong Growth Expected in Poland

Poland was one of the few markets in Europe to register construction output growth in 2009 and this is likely to accelerate in 2010 and 2011. Infrastructure spend is expected to continue to increase coupled with sports and stadium projects required for the *European Football Championship in 2012*. CRH is a top 3 player in cement and readymixed concrete in Poland and has asphalt and aggregates operations there and so is well placed to benefit from the continued infrastructure led construction growth. In the first half of 2010, CRH reported cement volumes slightly ahead of last year despite severe flooding in May and a very harsh winter.

Infrastructure spend drives growth in Switzerland

The **Swiss** market has remained robust through the downturn with both residential construction and infrastructure, supported by the national stimulus plan, offsetting weakness in the non-residential market. CRH has significant exposure to the Swiss market with circa 8% of EBITDA generated there. In the first half of 2010 CRH reported that first half cement volumes in Switzerland were 6.5% ahead of 2009. It also reported an improved performance in its Swiss distribution business in the period.

Signs of a recovery in Finland

Construction activity in **Finland** was very weak in 2009 and is expected to fall further in 2010. Weak non-residential markets in 2010 will be partially offset by improving residential and infrastructure markets. CRH is the largest player in cement, aggregates and readymixed concrete in Finland. In its recent trading update it reported a 10% increase in first half cement volumes in 2010 as higher residential activity impacted readymixed concrete and aggregates volumes, although prices remained under pressure. Overall profits in Finland in H1 2010 were ahead of last year.

Netherlands a drag on earnings

The **Benelux** accounts for approximately 50% of CRH's European distribution sales and 33% of European product sales. CRH is the number 1 player in DIY stores and builders merchants in the **Netherlands**. It also has significant operations in concrete and clay products. The construction environment in The Netherlands continues to deteriorate. ***EIB*** (Dutch Construction Sector Organisation) forecasts residential renovation demand to decline 9% in 2010 and to be flat in 2011. **Belgium** is expected to perform relatively stronger with only a moderate decline in construction activity in 2010 and a return to growth in 2011. In its first half results, CRH reported sales and profits at ***Cementbouw***, its Benelux materials business, declined versus 2009 as it was impacted by lower volumes and higher transport costs. Concrete products, builders merchants and DIY also saw relatively weak demand in the first half.

Rest of Europe

Spain, Portugal and Ireland (which combined now account for just 5% of Group EBITDA) will continue to be a drag on earnings with significant declines expected in activity in 2010 as public and private debt burdens lead to significant curtailment in construction.

The rest of Europe is a mixed picture for construction activity. The **UK** market appears to have stabilised and CRH reported improved brick demand in the first half of 2010. We expect moderate declines in construction activity in **France** and **Germany** in the current year.

Overall we expect trading conditions to remain difficult in Europe in 2010 with a slight improvement in 2011. We forecast CRH Europe sales to decline by 4.1% in 2010 and to recover by 1.5% in 2011 as better conditions in Poland, Switzerland and Finland offset weakness in the Netherlands and southern Europe.

Lack of emerging market exposure relative to peers

CRH's lack of exposure to emerging market growth has been a drag on earnings relative to peers. We estimate CRH generates 10% of Group sales in emerging regions (the majority of which are generated in Poland which it entered in 1995). Its emerging markets exposure is the lowest amongst its peers and compares to 52% for Lafarge and 50% for Holcim.

CRH completed its first transaction in China in February 2007 and in India in May 2008, both in the production of cement. In the first half of 2010 trading activity at Yatai Cement (26% Chinese associate) was ahead of last year, driven by strong volume growth. In India, cement volumes at Andhra Pradesh (50% joint venture) where ahead of last year but profits were impacted by price competition and capacity additions in the region.

Table 16: Construction Peers Sales breakdown and End market exposure

Sales by Geography	CRH	Lafarge	Holcim	Heidelberg Cement	Cemex*	Saint Gobain	Wolseley
Western Europe	45%	29%	34%	37%	20%	71%	49%
North America	45%	19%	16%	28%	60%	13%	45%
Emerging Markets	10%	52%	50%	35%	20%	16%	7%
By end-market exposure							
Residential	34%	47%	45%	20%	20%	60%	56%
Non-Residential	32%	20%	20%	15%	13%	10%	37%
Infrastructure	34%	33%	35%	50%	67%	9%	7%

* Cemex end market exposure focused on United States
Source: Company Reports, NCB estimates, ESN

While we expect CRH to continue to invest in its partners in India and China they are a small part of CRH and we expect it to be a number of years before they represent a material part of Group profitability. CRH's relative underweight exposure to emerging market growth has been a key factor, in our view, in its underperformance relative to peers year to date. This is a disadvantage that can't easily be corrected bearing in mind the likely precedence of maintained dividend payout over transformational acquisitions.

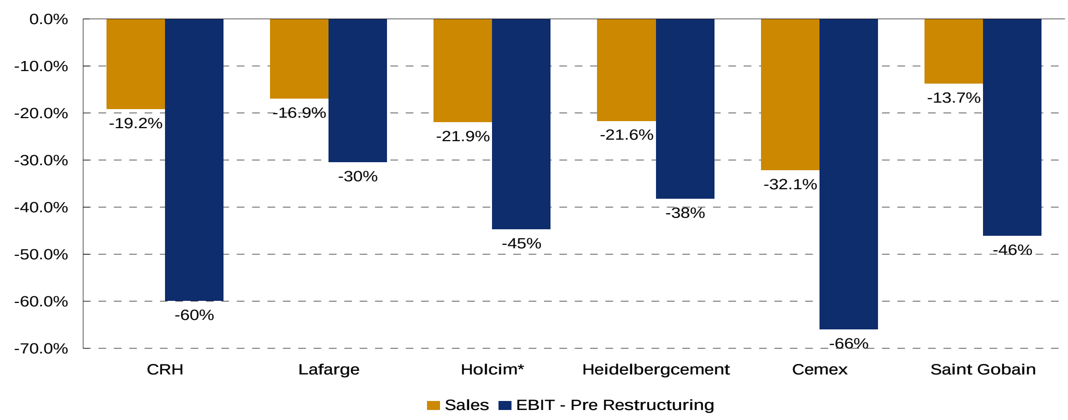
Cost Saving Initiatives

- **Severe declines in peak to trough earnings.**
- **Significant costs taken out of the sector.**
- **Restructuring costs above the line impact reported operating profit figures.**

Severe declines in peak to trough earnings.

On average sales and operating profit across the peer group have declined by 21% and 48% respectively from peak to trough. The weak US housing market, lack of credit available from banks, Government spending cuts across Europe and in the US were just some of the factors contributing to the significant declines reported in the sector. Apart from Cemex, CRH has the largest peak to trough decline in operating profit, based on our 2010 forecasts for CRH (operating profit pre restructuring costs has fallen from €2.1bn in 2007 to €850m in 2010f for CRH).

Chart 15: Peak to Trough – Sales and Operating Profit



**Holcim didn't disclose its restructuring charges*
Source: Company Reports, NCB, ESN

Significant costs taken out of the sector – geared into recovery.

As a result of the significant fall off in activity, CRH and its peers announced a range of cost cutting plans, beginning in 2007. This should translate to a strong operationally geared earnings recovery once revenues begin to improve, although the timing of the recovery remains difficult to predict. CRH has stated that it expects to achieve €1.71bn in annualised cost savings (10% of sales) of which at least 40% will be fixed savings. The table below highlights the cost reductions across the sector, Lafarge and Holcim only include permanent savings hence the 100% fixed rate.

Table 17: Cost Savings Implemented

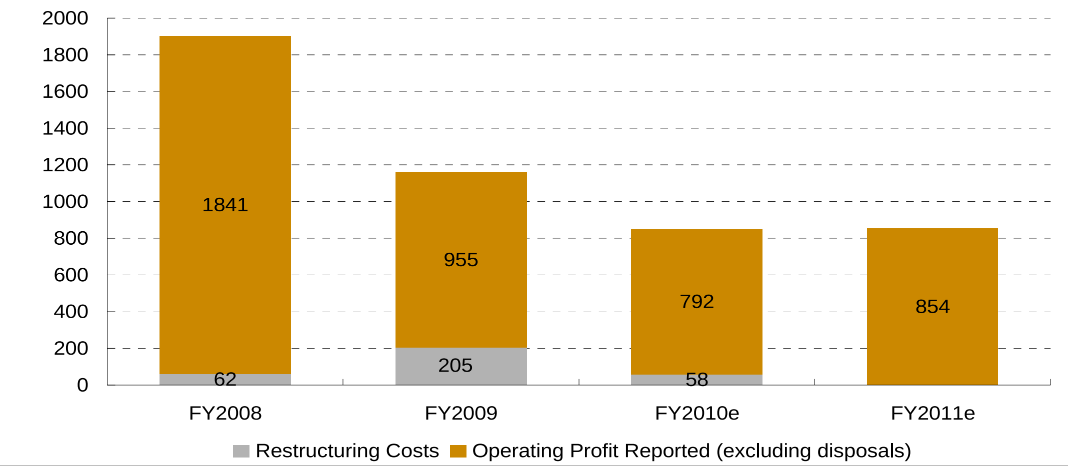
Company	Accumulated Savings to date	Further Initiatives	Total Savings	Savings % 2010 Sales	Expected Fixed Savings
CRH	1450	260	1710	10.1%	40%
Lafarge	650	230	850	5.2%	100%
Holcim	850	100	950	4.2%	100%
HeidelbergCement	550	300	850	7.2%	80%
Cemex	900		900	6.3%	60%
Saint Gobain	1500	600	2100	5.4%	50%

Source: Company Reports, Bloomberg forecast, NCB Estimates, ESN

Restructuring costs above the line impact reported operating profit figures.

CRH includes restructuring costs as part of operating expenses, unlike some of its peers such as St Gobain and Cemex. As a result, its reported operating profit has been impacted by the costs associated with the spending cuts by €62m, €205m and €58m in 2008, 2009 and 2010 respectively. In 2009 in particular, reported operating profit would have been circa 21% higher if costs associated with the cost reduction plan were excluded from operating expenses.

Chart 16: CRH Operating Profit and Restructuring Costs



Source: Company Reports, NCB

Revised Forecasts

We are cutting our forecasts for two reasons:

1. **Slower recovery in US Materials.** As a result of the factors outlined above in relation to local and state spending and pricing we now forecast 2012 US Materials sales to increase 1% (versus our previous forecast of 4% growth) and 2012 EBIT margin of 7.7%, versus 7.2% in 2010 and 2011 and compared to our previous forecast for a recovery to 8.0%. This results in a cut of 5% to our 2012 US operating profit to USD638m. We are not making any changes to our 2010 or 2011 US materials estimates which we revised following the August profit warning.
2. **The dollar / euro exchange rate.** Our new rate is 1.32 and 1.39 for 2010 and 2011 respectively versus our previous rates of 1.29 and 1.32 respectively. This reduces our 2010 EPS by 1.5% and our 2011 EPS by 5.8%. The change in the dollar / euro rate has a positive impact on CRH's dollar denominated debt. As a result of the stronger dollar in the first half CRH had a negative foreign exchange translation impact of €452m. Given current exchange rates much of this will be reversed in the second half 2010 (we estimate by circa €375m) resulting in year-end net debt of €3.4m, versus our previous forecast of €3.7bn.

Our new EPS forecasts for 2010, 2011 and 2012 are 67.4c (previous forecast 68.4c), 79.1c (previous forecast 83.9c) and 107.9c (previous forecast 116.6c) respectively.

Table 18: NCB Forecasts

Sales (€ m)	2009	2010f	2011f	2012f
US Sales	7989	7969	*7502*	7680
US growth %	-16.9%	-0.3%	*-5.9%*	+2.4%
US growth % - constant currency	-20.9%	-6.0%	*-0.9%*	+2.4%
Europe Sales	9384	8997	*9134*	9499
Europe growth %	-16.2%	-4.1%	*+1.5%*	+4.0%
Total Sales	17373	16966	*16636*	17179
Total growth %	-16.5%	-2.3%	*-1.9%*	3.3%
EBITDA	1803	1632	*1694*	1917
EBITDA growth %	-32.3%	-9.5%	*+3.8%*	+13.2%
EBITDA margin	10.4%	9.6%	*10.2%*	11.2%
EPS (cents)	88.3	67.4	*79.1*	107.9
EPS growth %	-57.8%	-23.6%	*+17.3%*	+36.4%

Source: CRH, NCB estimates. Currency – average €/USD rate 2009 1.4, NCB assume 2010 1.32, 2011 1.39

Valuation

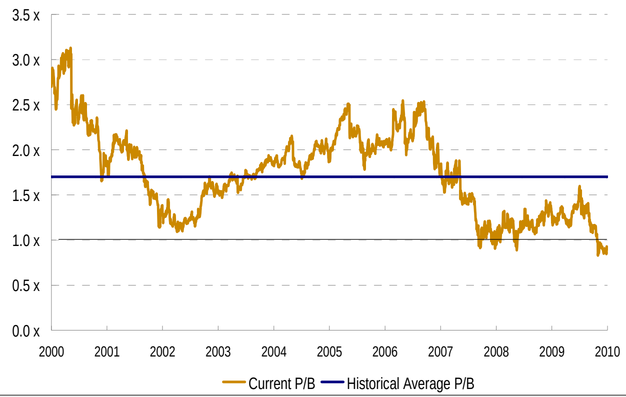
- **Trading at discount to historic multiples on P/BV and EV/Sales.**
- **Sum-of-the-parts implies a value per share of €13.47 to €16.76, midpoint €15.10.**
- **Price target of €14.80, equates to 1.0x P/BV and 0.8x EV/Sales.**

1. Average Historical Multiples – P/BV of 1.0x significantly below LT average

Profits have been severely impacted by the economic downturn so current PE and EV/EBITDA multiples for CRH and many of its peers look high. Looking at the less volatile price/book value (P/BV) and EV/sales 2010 CRH is trading at 0.8x and 0.7x respectively. This compares to the 10-year average price/book value of 1.8x and average EV/sales of 1.0x.

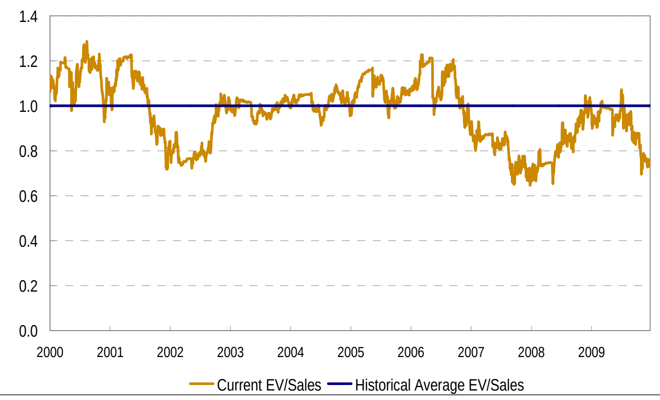
Looking at P/BV, CRH has rarely traded below book value over the last 10 years, reaching a low of 0.9x book value briefly in October 2008 and in March 2009. Included in book value is €4bn of intangibles but given that CRH has not made any significant acquisitions over the last 3 years we believe it is unlikely any intangible assets will have to be written down. Tangible assets of €8.4bn are held at cost.

Chart 17: CRH Price/Book Value 2010



Source: Factset

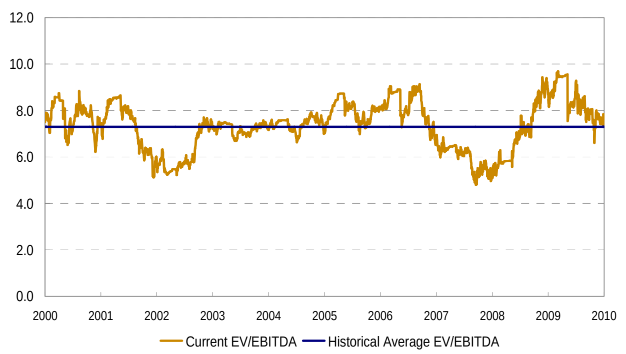
Chart 18: CRH EV/Sales 2010



Source: Factset

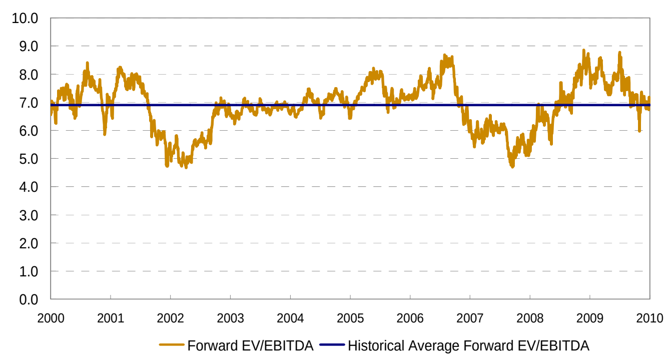
Given the severe economic conditions CRH has operated in over the last two years profitability has been severely depressed with average EBITDA margin of 10.4% in 2009 and 9.6% in 2010f, the lowest level since the 10.4% margin generated in 1993. As a result, CRH is currently trading in line with its current and forward 1 year average EV/EBITDA multiples despite the decline in share price.

Chart 19: CRH Current EV/EBITDA



Source: Factset

Chart 20: CRH Forward EV/EBITDA



Source: Factset

2. DCF Analysis suggests significant upside

Our DCF analysis implies a fair value per share of €17.10, assuming a return to organic turnover growth of 1.6% (the average organic revenue growth from 1996 to 2009) and EBITDA margin of 11.5% from 2015 (versus the average EBITDA margin of 13.1% over the last 10 years).

Our explicit period represents our more detailed estimates out to 2014. We assume continuing tight control of capital expenditure (€500m per annum) from 2010 to 2014 and no material working capital outflow until 2013 (€50m) and 2014 (€100m).

The semi-explicit period (2015-2024) assumes constant turnover growth of 1.6% and EBITDA margin of 11.5%, an improvement from the current level of 9.6% but still well below the ten-year average of 13.1%. We assume a capex / sales rate of 3.6% (equivalent to €651m in capex in 2014 rising to €751m in 2024).

The fade period (5 years) assumes return on invested capital (ROIC) fades to WACC of 9%.

The terminal period assumes a terminal growth rate of 1.6%.

Based on our sensitivity analysis (see table below on the bottom right) the current share price implies no improvement in the current EBITDA margin of approximately 9.5% and 1% growth in turnover through the semi-explicit and terminal periods.

Table 19: DCF Summary

NCB Forecasts	2010	2011	2012	2013	2014	Total Explicit	Semi-explicit	Fade	Terminal
Turnover growth	-2.3%	-1.6%	3.3%	1.6%	1.6%	-	1.6%	-	1.6%
EBITDA margin	9.6%	10.2%	11.1%	11.0%	11.0%	-	11.5%	-	NA
Present Value FCF €m	1169	954	1018	895	806	4842	5524	1669	3834

Value per share	
Present Value FCF €m	15869
Net Debt €m	-3358
Pension & Minorities €m	-538
Net Asset Value €m	11973
Value per share €	17.10
Assumptions	
WACC	9.0%
Terminal ROIC	9.0%

DCF Sensitivity		Turnover Growth		
		0%	1%	2%
	9.5%	11.12	12.44	14.12
	10.0%	12.02	13.45	15.29
EBITDA	10.5%	12.91	14.47	16.45
margin	11.0%	13.71	15.37	17.48
	11.5%	14.25	15.93	18.07
	12%	14.79	16.49	18.66

Source: NCB estimates

3. Sum-of-the-Parts Valuation

Using the average EV/EBITDA multiples from the six areas that CRH operates in suggests a value per share of €16.76 to €13.47 based on 2010 and 2011 multiples respectively, with a midpoint of €15.10. The reason for the difference is that many of CRH's peers are expected to grow earnings in 2011 (and hence have lower 2011 multiples) driven by exposure to the likes of emerging markets while the short term outlook for CRH's earnings is for a less significant recovery in 2011.

Table 20: Sum of the Parts based on our FY2011 forecasts

	EV/EBITDA 2010	EBITDA 2010	Value €m	EV/EBITDA 2011	EBITDA 2011	Value €m
Europe Materials	6.7	393	2,639	5.8	426	2,456
Europe Products	8.3	248	2,045	6.5	262	1,715
Europe Distribution	6.9	183	1,266	6.0	200	1,206
American Materials	13.0	573	7,475	10.6	555	5,865
American Products	7.3	189	1,381	6.3	195	1,229
American Distribution	8.3	47	388	7.3	57	420
Subtotal			15,193			12,891
Less Minorities			-84			-84
Less Net Debt			-3376			-3376
Total			11,732			9,431
Valuation per Share			16.76			13.47

Source: Factset, NCB estimates

4. Peer Valuation – 2011 EV/EBITDA in line with sector, dividend yield is the highest

On our peer valuation, CRH trades on a 2010 EV/EBITDA of 7.4x, an 8% discount to the sector, although based on the 2011 EV/EBITDA of 6.8x it is trading in line with the sector average. CRH is trading on a 2011 PE of 15.5x versus the sector average of 12.9x.

Looking at EV/Sales for 2010 CRH is trading on 0.7x, among the lowest in the materials space. CRH's price/book value of 0.8x is a 20% discount to the sector average but is similar to the levels that the European sector trades at.

We expect CRH to declare a dividend of 62.5c for the full year, unchanged on 2009. This equates to a dividend yield of 5.1%. This dividend yield is the highest in the peer group.

Table 21: Peer Valuation (local currency)

Name	Mkt. Cap	P/E 10	P/E 11	EV/EBITDA 10	EV/EBITDA 11	EV/Sales 10	EV/Sales 11	Div Yield 10	P/BV 10
CRH	8709	18.2	15.5	7.4	6.9	0.7	0.7	5.1%	0.8
Europe									
LAFARGE	11916	12.6	9.8	7.1	5.9	1.6	1.4	4.8%	0.8
HOLCIM	19903	15.3	11.8	6.6	5.8	1.4	1.3	2.5%	1.0
HEIDELBERGCEMENT	7028	14.2	9.2	6.5	5.6	1.3	1.2	0.7%	0.7
SAINT GOBAIN	18031	13.1	10.4	5.7	5.1	0.7	0.6	3.1%	1.1
WOLSELEY	4761	22.8	14.6	8.1	7.0	0.4	0.4	0.0%	1.4
America									
MARTIN MARIETTA	3587	38.1	28.2	12.0	10.3	2.6	2.4	2.0%	2.6
VULCAN MATERIALS	4610	N/A	N/A	17.0	12.9	2.8	2.6	2.7%	1.1
CEMEX	8620	N/A	N/A	10.1	8.5	1.8	1.6	0.0%	0.5
MASCO	3800	48.6	21.4	8.7	7.6	0.8	0.8	2.7%	1.4
OWENS CORNING	3318	17.6	13.0	7.1	5.8	1.0	0.9	0.0%	1.2
AVERAGE (excl outliers)		15.9	12.9	8.0	6.8	1.3	1.0	1.8%	1.0

Source: Factset, NCB estimates

Despite our downward revisions and our caution on US Materials we maintain our price target of €14.60. This is within the range of our sum-of-the-parts analysis which implies a value per share of €16.76 to €13.47 based on 2010 and 2011 multiples respectively. At our price target CRH would trade on a 2010 P/BV of 1.0x and an EV/Sales of 0.8x, the dividend yield would be 4.3% still among the highest in the sector. Our DCF points to a higher fair value (€17.10) but given the lack of visibility and uncertain pace of recovery it is difficult to see the catalyst to drive the share price to this level in the short term. We rate CRH a Buy.

CRH: Summary tables

PROFIT & LOSS (EURm)	12/2007	12/2008	12/2009	12/2010e	12/2011e	12/2012e
Sales	**20,991**	**20,802**	**17,373**	**16,966**	**16,636**	**17,179**
Cost of Sales & Operating Costs	18,131	18,137	15,570	15,334	14,941	15,262
Non Recurrent Expenses/Income	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA	**2,860**	**2,665**	**1,803**	**1,632**	**1,694**	**1,917**
EBITDA (adj.)*	**2,860**	**2,665**	**1,803**	**1,632**	**1,694**	**1,917**
Depreciation	-739	-781	-794	-794	-794	-794
EBITA	**2,121**	**1,884**	**1,009**	**838**	**900**	**1,123**
EBITA (adj)*	**2,121**	**1,884**	**1,009**	**838**	**900**	**1,123**
Amortisations and Write Downs	-35.0	-43.0	-54.0	-46.0	-46.0	-46.0
EBIT	**2,086**	**1,841**	**955**	**792**	**854**	**1,077**
EBIT (adj.)*	**2,086**	**1,841**	**955**	**792**	**854**	**1,077**
Net Financial Interest	-303	-343	-297	-260	-231	-210
Other Financials	0.0	0.0	0.0	0.0	0.0	0.0
Associates	64.0	61.0	48.0	44.0	47.0	47.0
Other Non Recurrent Items	0.0	0.0	0.0	0.0	0.0	0.0
Earnings Before Tax (EBT)	**1,783**	**1,498**	**658**	**532**	**623**	**867**
Tax	-466	-366	-134	-120	-140	-191
Tax rate	*26.1%*	*24.4%*	*20.4%*	*22.6%*	*22.5%*	*22.0%*
Discontinued Operations						
Minorities	-8.0	-14.0	-6.0	-8.0	-8.0	-8.0
Net Profit (reported)	**1,430**	**1,248**	**592**	**472**	**554**	**755**
Net Profit (adj.)	**1,430**	**1,394**	**592**	**472**	**554**	**755**

CASH FLOW (EURm)	12/2007	12/2008	12/2009	12/2010e	12/2011e	12/2012e
Cash Flow from Operations before change in NWC	2,209	2,092	1,462	1,230	1,309	1,510
Change in Net Working Capital	227	-62.0	661	150	0.0	0.0
Cash Flow from Operations	**2,436**	**2,030**	**2,123**	**1,380**	**1,309**	**1,510**
Capex	-872	-1,039	-532	-475	-500	-500
Net Financial Investments	-2,227	-904	-355	-214	0.0	0.0
Free Cash Flow	**-663**	**87.0**	**1,236**	**691**	**809**	**1,010**
Dividends	-318	-369	-386	-438	-438	-459
Other (incl. Capital Increase & share buy backs)	310	-646	1,518	93.0	20.0	20.0
Change in Net Debt	**-671**	**-928**	**2,368**	**347**	**391**	**571**
NOPLAT	1,541	1,391	761	613	662	840

BALANCE SHEET & OTHER ITEMS (EURm)	12/2007	12/2008	12/2009	12/2010e	12/2011e	12/2012e
Net Tangible Assets	8,226	8,888	8,535	8,485	8,191	7,897
Net Intangible Assets (incl.Goodwill)	4,380	4,796	4,783	4,783	4,783	4,783
Net Financial Assets & Other	988	1,203	1,427	1,471	1,518	1,565
Total Fixed Assets	**13,594**	**14,887**	**14,745**	**14,739**	**14,492**	**14,245**
Net Working Capital	3,372	3,624	2,975	2,770	2,770	2,770
Net Capital Invested	**16,966**	**18,511**	**17,720**	**17,509**	**17,262**	**17,015**
Group Shareholders Equity	**8,707**	**8,845**	**10,400**	**10,536**	**10,681**	**11,006**
o/w own Shareholders Equity	*8,641*	*8,775*	*10,324*	*10,452*	*10,589*	*10,906*
Net Debt	**5,163**	**6,091**	**3,723**	**3,376**	**2,985**	**2,414**
Provisions	0	0	0	0	0	0
Other Net Liabilities or Assets	3,096	3,575	3,597	3,596	3,596	3,595
Net Capital Employed	**16,966**	**18,511**	**17,720**	**17,509**	**17,262**	**17,015**

GROWTH & MARGINS	12/2007	12/2008	12/2009	12/2010e	12/2011e	12/2012e
Sales growth	*12.0%*	*-0.9%*	*-16.5%*	*-2.3%*	*-1.9%*	*3.3%*
EBITDA (adj.)* growth	***16.5%***	***-6.8%***	***-32.3%***	***-9.5%***	***3.8%***	***13.2%***
EBITA (adj.) growth*	*18.4%*	*-11.2%*	*-46.4%*	*-16.9%*	*7.4%*	*24.7%*
*EBIT (adj)*growth*	*18.1%*	*-11.7%*	*-48.1%*	*-17.1%*	*7.9%*	*26.1%*
Net Profit growth	*18.2%*	*-2.5%*	*-57.5%*	*-20.3%*	*17.3%*	*36.4%*
EPS adj. growth	***17.1%***	***-0.9%***	***-62.2%***	***-23.6%***	***17.3%***	***36.4%***
DPS adj. growth	*30.8%*	*1.9%*	*0.4%*	*0.0%*	*0.0%*	*5.0%*
EBITDA margin	***13.6%***	***12.8%***	***10.4%***	***9.6%***	***10.2%***	***11.2%***
EBITDA (adj) margin*	*13.6%*	*12.8%*	*10.4%*	*9.6%*	*10.2%*	*11.2%*
EBITA margin	*10.1%*	*9.1%*	*5.8%*	*4.9%*	*5.4%*	*6.5%*
EBITA (adj) margin*	*10.1%*	*9.1%*	*5.8%*	*4.9%*	*5.4%*	*6.5%*
EBIT margin	*9.9%*	*8.8%*	*5.5%*	*4.7%*	*5.1%*	*6.3%*
EBIT (adj) margin*	*9.9%*	*8.8%*	*5.5%*	*4.7%*	*5.1%*	*6.3%*

CRH: Summary tables

RATIOS	12/2007	12/2008	12/2009	12/2010e	12/2011e	12/2012e
Net Debt/Equity	0.6	0.7	0.4	0.3	0.3	0.2
Net Debt/EBITDA	1.8	2.3	2.1	2.1	1.8	1.3
Interest cover (EBITDA/Fin.interest)	9.4	7.8	6.1	6.3	7.3	9.1
Capex/D&A	118.0%	133.0%	67.0%	59.8%	63.0%	63.0%
Capex/Sales	4.2%	5.0%	3.1%	2.8%	3.0%	2.9%
NWC/Sales	16.1%	17.4%	17.1%	16.3%	16.6%	16.1%
ROE (average)	17.4%	16.0%	6.2%	4.5%	5.3%	7.0%
ROCE (adj.)	9.6%	8.0%	4.7%	3.8%	4.2%	5.4%
WACC	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
ROCE (adj.)/WACC	1.3	1.1	0.6	0.5	0.6	0.7

PER SHARE DATA (EUR)***	12/2007	12/2008	12/2009	12/2010e	12/2011e	12/2012e
Average diluted number of shares	606.2	596.4	670.8	700.0	700.0	700.0
EPS (reported)	2.36	2.09	0.88	0.67	0.79	1.08
EPS (adj.)	2.36	2.34	0.88	0.67	0.79	1.08
BVPS	14.25	14.71	15.39	14.93	15.13	15.58
DPS	0.61	0.62	0.63	0.63	0.63	0.66

VALUATION	12/2007	12/2008	12/2009	12/2010e	12/2011e	12/2012e
EV/Sales	0.9	0.7	1.0	0.7	0.7	0.6
EV/EBITDA	6.4	5.5	9.2	7.4	6.9	5.8
EV/EBITDA (adj.)*	**6.4**	**5.5**	**9.2**	**7.4**	**6.9**	**5.8**
EV/EBITA	8.6	7.8	16.4	14.4	13.0	9.9
EV/EBITA (adj.)*	**8.6**	**7.8**	**16.4**	**14.4**	**13.0**	**9.9**
EV/EBIT	8.7	8.0	17.3	15.2	13.7	10.3
EV/EBIT (adj.)*	**8.7**	**8.0**	**17.3**	**15.2**	**13.7**	**10.3**
P/E (adj.)	**9.1**	**6.9**	**21.5**	**18.2**	**15.5**	**11.4**
P/BV	1.5	1.1	1.2	0.8	0.8	0.8
Total Yield Ratio	2.8%	4.5%	5.3%	5.1%	5.3%	
EV/CE	1.1	0.9	1.0	0.8	0.7	0.7
OpFCF yield	18.8%	23.7%	16.6%	16.0%	15.2%	17.5%
OpFCF/EV	13.4%	13.8%	12.8%	11.4%	11.2%	13.6%
Payout ratio	25.9%	29.7%	70.8%	92.7%	79.0%	60.8%
Dividend yield (gross)	2.9%	3.9%	5.1%	5.1%	5.1%	5.3%

EV AND MKT CAP (EURm)	12/2007	12/2008	12/2009	12/2010e	12/2011e	12/2012e
Price** (EUR)	21.4	16.0	19.0	12.3	12.3	12.3
Outstanding number of shares for main stock	606	534	671	700	700	700
Total Market Cap	**12,982**	**8,558**	**12,752**	**8,610**	**8,610**	**8,610**
Net Debt	**5,163**	**6,091**	**3,723**	**3,376**	**2,985**	**2,414**
o/w Cash & Marketable Securities (-)	*-1,457*	*-1,353*	*-1,687*	*-2,034*	*-2,425*	*-2,996*
o/w Gross Debt (+)	*6,620*	*7,444*	*5,410*	*5,410*	*5,410*	*5,410*
Other EV components	**66**	**70**	**76**	**84**	**92**	**100**
Enterprise Value (EV adj.)	**18,211**	**14,719**	**16,551**	**12,070**	**11,687**	**11,124**

Source: Company, NCB Stockbrokers estimates.

Notes
** Where EBITDA (adj.) or EBITA (adj) or EBIT (adj.)= EBITDA (or EBITA or EBIT) +/- Non Recurrent Expenses/Income*
***Price (in local currency): Fiscal year end price for Historical Years and Current Price for current and forecasted years*
****EPS (adj.) diluted= Net Profit (adj.)/Avg DIL. Ord. (+ Ord. equivalent) Shs. EPS (reported) = Net Profit reported/Avg DIL. Ord. (+ Ord. equivalent) Shs.*

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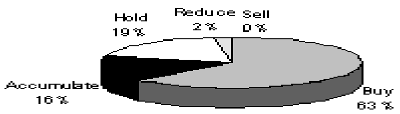
NCB Stockbrokers Ratings Breakdown



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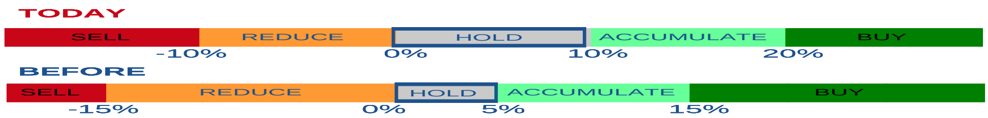
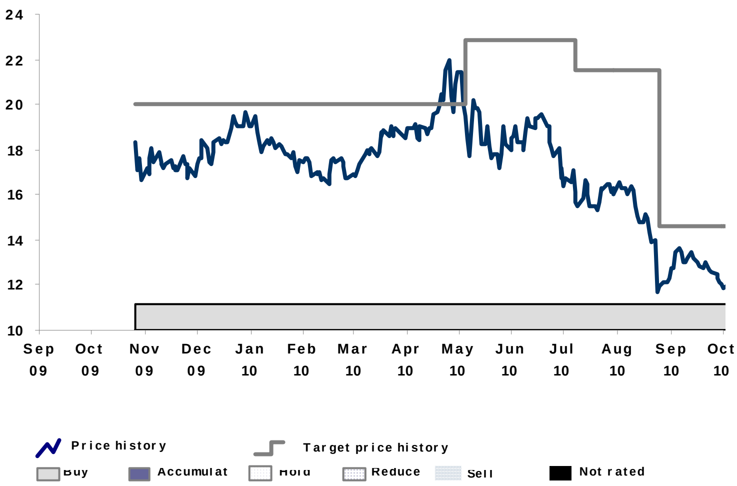


Recommendation history for CRH

Date	Recommendation	Target price	Price at change date
25-Aug-10	Buy	14.60	11.96
08-Jul-10	Buy	21.50	15.70
05-May-10	Buy	22.85	19.51
04-Mar-09	Buy	20.00	16.20
19-Aug-08	Buy	23.34	15.27
06-Aug-08	Buy	22.45	15.63
22-Apr-08	Buy	26.93	20.94
30-Nov-07	Buy	32.32	23.19

Source: Factset & ESN, price data adjusted for stock splits.
This chart shows NCB Stockbrokers continuing coverage of this stock; the current analyst may or may not have covered it over the entire period. Current analyst: Murray McCarter (since 19/04/2010)



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Head of Equities	**Tommy Conway**	tommy.conway@ncb.ie	353 1 611 5842
Investment Strategy	Bernard McAlinden	bernard.mcalinden@ncb.ie	353 1 611 5933
Economic Research	Brian Devine	brian.devine@ncb.ie	353 1 611 5847
Airlines	George Humphreys	george.humphreys@ncb.ie	44 207 071 5238
Banks	Ciaran Callaghan	ciaran.callaghan@ncb.ie	353 1 611 5876
Construction & Mid Caps	Murray McCarter	murray.mccarter@ncb.ie	353 1 611 5827
	Conor Harnett	conor.harnett@ncb.ie	353 1 611 5917
	Ciaran Callaghan	ciaran.callaghan@ncb.ie	353 1 611 5876
Food & Beverages	Paul Meade	paul.meade@ncb.ie	353 1 611 5927
Oil & Gas	Peter Hutton	peter.hutton@ncb.ie	44 207 071 5227
Pharmaceuticals	Tommy Conway	tommy.conway@ncb.ie	353 1 611 5842
	Conor Harnett	conor.harnett@ncb.ie	353 1 611 5917
Shipping	Amrit Singh	amrit.singh@ncb.ie	44 207 334 5427
Support	Anezka Pavelkova	anezka.pavelkova@ncb.ie	44 207 071 5212
ESN Database	Lucia Raccone	lucia.raccone@ncb.ie	353 1 611 5924
	Kate O'Dowd	**kate.odowd@esnpartnership.eu**	**353 1 611 5924**
	Ivana Knietelova	**ivana.knietelova@esnpartnership.eu**	**353 1 611 5928**

SALES & TRADING

Head of Sales	**John Sheehan**	john.sheehan@ncb.ie	353 1 611 5912

SALES

Catherine Flavin	353 1 611 5816	catherine.flavin@ncb.ie
Karl Goggin	353 1 611 5804	karl.goggin@ncb.ie
Billy Hanley	353 1 611 5815	billy.hanley@ncb.ie
Ed Murray	353 1 611 5839	ed.murray@ncb.ie
Rod Salmon	44 207 071 5225	rod.salmon@ncb.ie

SALES TRADING

Paul Chew	paul.chew@ncb.ie	353 1 611 5826
Alan Duff	alan.duff@ncb.ie	353 1 611 5835
Cormac Mullen	cormac.mullen@ncb.ie	353 1 611 5840
Gerry Walsh	gerry.walsh@ncb.ie	353 1 611 5813

TRADING

Clive Cleary	clive.cleary@ncb.ie	353 1 611 5811
Mick Kilduff	micheal.kilduff@ncb.ie	353 1 611 5817
Paul Lynch	paul.lynch@ncb.ie	353 1 611 5878

GENERAL SWITCH:

DUBLIN 353 1 611 5611 — website: www.ncb.ie

LONDON 44 207 071 5200 — email:forename.surname@ie

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Members of ESN (European Securities Network LLP)

Banca Akros S.p.A.
Viale Eginardo, 29
20149 Milano
Italy
Phone: +39 02 43 444 389
Fax: +39 02 43 444 302

Danske Markets Equities
Holmens Kanal 2-12
DK-1092 Copenhagen K
Denmark
Phone: +45 45 12 00 00
Fax: +45 45 14 91 87

Bank Degroof
Rue de l'Industrie 44
1040 Brussels
Belgium
Phone: +32 2 287 91 16
Fax: +32 2 231 09 04

Equinet Bank AG
Gräfstraße 97
60487 Frankfurt am Main
Germany
Phone:+49 69 – 58997 – 410
Fax:+49 69 – 58997 – 299

Caixa-Banco de Investimento
Rua Barata Salgueiro, 33-5
1269-050 Lisboa
Portugal
Phone: +351 21 389 68 00
Fax: +351 21 389 68 98

Investment Bank of Greece
24B, Kifisias Avenue
151 25 Marousi
Greece
Phone: +30 210 81 73 000
Fax: +30 210 68 96 325

Caja Madrid Bolsa S.V.B.
Serrano, 39
28001 Madrid
Spain
Phone: +34 91 436 7813
Fax: +34 91 577 3770

NCB Stockbrokers Ltd.
3 George Dock,
Dublin 1
Ireland
Phone: +353 1 611 5611
Fax: +353 1 611 5781

CM - CIC Securities
6, avenue de Provence
75441 Paris
Cedex 09
France
Phone: +33 1 4016 2692
Fax: +33 1 4596 7788

SNS Securities N.V.
Nieuwezijds Voorburgwal 162
P.O.Box 235
1000 AE Amsterdam
The Netherlands
Phone: +31 20 550 8500
Fax: +31 20 626 8064

European Securities Network LLP
Registered office c/o Withers LLP
16 Old Bailey - London EC4M 7EG