    

Half Year results for the six months ended 31 January 2010

Driving Profitable Growth

22 March 2010

Ian Meakins
Group Chief Executive

Highlights

- Revenue of £6,331 million, 15.1% below last year.
- Gross margin broadly maintained despite tough trading environment.
- Distribution and other administration costs in the half year reduced by £272 million (14.7%). Monthly run rate broadly flat.
- Generated trading profit of £167 million.
- Exit from underperforming businesses in Ireland, Belgium, Czech Republic and Slovakia.
- Net debt reduced by £49 million since the start of the financial year to £910 million.
- Completed Group-wide review of resource allocation





Steve Webster
Chief Financial Officer

Summary of Results

	H1 2010 £m	H1 2009 £m	Reported change (%)	Constant currency (%)
Revenue	**6,331**	7,458	(15.1)	(17.1)
Trading profit*	**167**	251	(33.5)	(34.1)
Exceptional items (excluding associates)	**(255)**	(120)		
Amortisation and impairment of acquired intangibles	**(119)**	(512)		
Operating loss	**(207)**	(381)		
Net finance costs	**(41)**	(83)		
Share of after tax loss from associates	**(13)**	-		
PBT*	**112**	168		
EPS*	**24.5p**	63.6p		
Net debt	**910**	2,486		
Net debt : EBITDA	**1.5x**	3.1x		
Gearing	**28.3%**	79.7%		
Interest cover △	**4.8x**	3.2x		

* Before exceptional items and amortisation and impairment of acquired intangibles

△ Interest cover is trading profit divided by net finance costs, excluding net pension related finance costs

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Revenue, Margin and Operating Costs Analysis

	H1 2010	H2 2009	H1 2009
Like for like revenue movement	**(12.2%)**	(18.3%)	(9.2%)
Gross margin %*	**27.5%**	27.7%	27.8%
Trading margin *	**2.6%**	2.8%	3.4%
Average monthly labour cost (£m)	**151**	164	176
Average monthly other operating cost (£m)	**112**	125	128

***Before exceptional items and amortisation and impairment of acquired intangibles**

- Like for like sales trends have improved across the group in H1 2010
- Gross margin held up remarkably well
- H2 cost base likely to be similar to H1
- Emphasis on preserving branch network
- Further action will be taken if unexpected market decline

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Quarterly like for like Sales Growth Trends

	Q2 2010 (%)	Q1 2010 (%)	Q4 2009 (%)	Q3 2009 (%)
UK and Ireland	**(3.5)**	(4.7)	(11.5)	(14.7)
Nordic	**(8.9)**	(15.3)	(21.6)	(23.1)
France	**(11.2)**	(12.7)	(14.8)	(14.5)
C&EE Continuing Operations	**(4.1)**	(3.7)	(5.0)	(7.9)
Ferguson	**(14.3)**	(20.9)	(25.8)	(19.4)
Canada	**(1.3)**	(10.0)	(10.7)	(7.2)
Group Continuing Operations	**(9.5)**	**(14.3)**	**(19.2)**	**(17.3)**

- General improvement in like for like sales trends
- Comparators more favourable
- General stabilisation of markets
- Largest decline at Ferguson, reflecting Commercial and Industrial segment decline

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Operating Cash Flow

	H1 2010 (£m)	H1 2009 (£m)
Trading profit (including discontinued operations in 2009)	**167**	182
Exceptional items (including discontinued operations in 2009)	**(255)**	(262)
Loss/(profit) on disposal of businesses and revaluation of disposal groups	**49**	(4)
Depreciation and impairment of property, plant and equipment	**93**	131
Profit on disposal of property, plant and equipment and assets held for sale	**(2)**	(17)
Amortisation and impairment of software intangible assets	**145**	9
Change in working capital	**(142)**	383
Change in provisions and other non cash items	**1**	151
Cash flow from operating activities	**56**	573
Tax received / (paid)	**100**	(31)
Interest paid	**(32)**	(92)
Capital Expenditure	**(41)**	(87)
Acquisitions and disposals	**(22)**	2
Proceeds from sale of property, plant and equipment and assets held for sale	**54**	95
Exchange	**(31)**	(409)
Fair value changes and other movements	**(35)**	(68)
Decrease / (Increase) in net debt	**49**	(17)

Exceptional Items

	2010 £m	2009 £m
Restructuring costs	**42**	120
Loss on disposal of businesses	**49**	-
Impairment of BCP asset and other associated provisions	**164**	-
	255	120

- Estimated additional £8 million charge in H2 relating to North American SAP pilot
- Restructuring costs in H2 2010 likely to be modest

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Exceptional Restructuring Costs and Benefits since 1 August 2007

	Cost £m	Headcount reduction	Benefit* £m pa
UK and Ireland	210	4,109	160
France	49	1,798	42
Nordic	25	1,878	51
Central and Eastern Europe	43	723	28
Europe	**327**	**8,508**	**281**
US plumbing and heating	106	6,946	271
Canada	12	184	9
North America	**118**	**7,130**	**280**
Group head office	13	61	13
Total continuing operations	**458**	**15,699**	**574**

***benefits exclude disposed Irish and Central and Eastern Europe businesses**

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Exceptional Restructuring Costs and Benefits half year to 31 January 2010

	Cost £m	Headcount Reduction	2010 Benefit £m	Benefit £m pa
UK and Ireland	15	745	7	11
France	4	68	2	3
Nordic	11	115	2	4
Central and Eastern Europe	3	114	3	7
Europe	**33**	**1,042**	**14**	**25**
US Plumbing and Heating	5	835	26	33
Canada	1	4	2	3
North America	**6**	**839**	**28**	**36**
Group Head Office	3	20	2	3
Total Continuing operations	**42**	**1,901**	**44**	**64**

***benefits exclude disposed Irish and Central and Eastern Europe businesses**

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Ferguson

	H1 2009 £m	Exch £m	Disp £m	Acqn £m	Organic £m	Change %	**H1 2010 £m**	Change %	Const Cur %
Revenue	3,038	(20)	-	8	(653)	(21.6)	**2,373**	(21.9)	(21.4)
Trading profit	188	(1)	-	-	(88)	(47.1)	**99**	(47.3)	(46.9)
Trading margin	6.2%						**4.2%**		

- Strong overall trading performance ahead of the market
- New residential market stabilised, RMI bottoming out
- Continued weakness in commercial and industrial segments
- H1 2010 like for like revenue decline 18% (H2 2009 : 22.6%)
- Gross margin held up well despite underlying price pressure
- Underlying local currency trading profit down 44% to $159 million

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Canada

	H1 2009 £m	Exch £m	Disp £m	Acqn £m	Organic £m	Change %	**H1 2010 £m**	Change %	Const Cur %
Revenue	369	32	-	-	(48)	(12.0)	**353**	(4.3)	(12.0)
Trading profit	18	1	-	-	(1)	(7.1)	**18**	1.1	(7.1)
Trading margin	4.7%						**5.0%**		

- Market holding up relatively well in line with improving GDP trends
- Business continues to outperform the market
- Markets have broadly stabilised
- H1 2010 like for like revenue decline 6% (H2 2009 : 9%)
- Good improvement in gross margin in the period
- Higher trading margin due to lower cost base from prior year actions

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North America Loan Services

	H1 2009 £m	Exch £m	Disp £m	Acqn £m	Organic £m	Change %	**H1 2010 £m**	Change %	Const Cur %
Trading loss	(11)	-	-	-	8	77.3	**(3)**	77.5	77.3

- Phased orderly reduction of loan portfolio with a view to ultimate exit
- Net construction loan receivables 54% below 2009 at £124 million
- Net trading loss of £3 million (2009 : £11 million)
- Run rate of losses expected to continue to decline

UK and Ireland

	H1 2009 £m	Exch £m	Disp £m	Acqn £m	Organic £m	Change %	**H1 2010 £m**	Change %	Const Cur %
Revenue	1,401	6	(16)	-	(158)	(11.2)	**1,233**	(12.0)	(12.4)
Trading profit	20	-	1	-	12	62.8	**33**	67.9	67.9
Trading margin	1.4%						**2.7%**		

- Irish business sold – loss of £4m in H1 2010
- Residential markets stabilising with Commercial and Industrial market declining
- H1 2010 like for like revenue decline 4% (H2 2009 : 13%)
- Gross margin down but improving in second quarter
- Improved trading performance and margin driven by lower cost base
- Trading margin of Lightside businesses 6.5% and Heavyside business moved back to profitability

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France

	H1 2009 £m	Exch £m	Disp £m	Acqn £m	Organic £m	Change %	**H1 2010 £m**	Change %	Const Cur %
Revenue	1,055	65	(7)	-	(179)	(16.0)	**934**	(11.5)	(16.6)
Trading Profit/(loss)	22	1	(4)	-	(24)	(100.6)	**(5)**	(121.6)	(120.4)
Trading margin	2.1%						**(0.5%)**		

- Weak business environment
- H1 2010 like for like revenue decline 11.9% (H2 2009 : 14.6%)
- Gross margin slightly higher
- Prior year trading profit included £4m profit on disposal of business classified as exceptional in H2 2009
- Heavyside performance in line with the market but underperformed in Lightside
- Root cause of Brossette underperformance identified and action plan developed

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Nordic

	H1 2009 £m	Exch £m	Disp £m	Acqn £m	Organic £m	Change %	**H1 2010 £m**	Change %	Const Cur %
Revenue	1,088	64	-	-	(168)	(14.6)	**984**	(9.6)	(14.6)
Trading profit	44	3	-	-	(1)	(0.7)	**46**	5.8	(0.7)
Trading margin	4.0%						**4.7%**		

- Danish construction markets (47% revenue) remain worst affected
- Other markets have stabilised
- All countries tracking in line with their respective markets
- H1 2010 like for like revenue decline 12.7% (H2 2009 : 22.3%)
- Small gross margin improvement
- H1 included non recurring profit of £7million

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Central and Eastern Europe

	2009 £m	Exch £m	Disp £m	Acqn £m	Organic £m	Change %	**2010 £m**	Change %	Cons't Cur'y %
Revenue	507	33	(53)	-	(33)	(6.0)	**454**	(10.5)	(15.9)
Trading (loss)/profit	(1)	-	3	-	3	459.6	**5**	616.1	775.4
Trading margin	-						**1.0%**		

- Improved trading performance due to benefits of prior year restructuring
- Disposal of Belgium, Czech Republic and Slovakian businesses completed
- Prior year included one off charge of £2m relating to impairment of an IT asset
- Revenue of continuing business down 6%
- H1 2010 continuing businesses like for like revenue decline 4% (H2 2009 : 6.5%)
- Gross margins flat despite significant pricing pressure
- Trading profit of continuing business £6 million (2009 £2 million)
- New managing director appointed

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Driving Profitable Growth

Ian Meakins
Group Chief Executive

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Agenda

- Assessment
- Value Creation
- Actions Taken
- Resource Allocation
- Business Unit Strategy
- Operational Performance
- Outlook

First Impressions – September Presentation

- Construction materials distribution
  - Attractive over the long term
  - Cyclical
- Attractive portfolio of businesses in its core geographies
  - Strategically strong locally and nationally ← **Clear Leadership**
  - Customer Service fundamental for success
  - Large profit pool available ← **Gross Margin progress**
  - Competitive logistics network
  - Operational leverage - sourcing and costs
- Performance vs. competition is mixed
  - US and Nordics - gaining
  - UK - turning around
  - France – still losing in Brossette
- We compete in many different businesses
  - Some are more attractive
  - Scope for performance improvements
- Cross border synergies ← **Lower priority**
  - Limited success
  - Further work required
- Market conditions remain challenging

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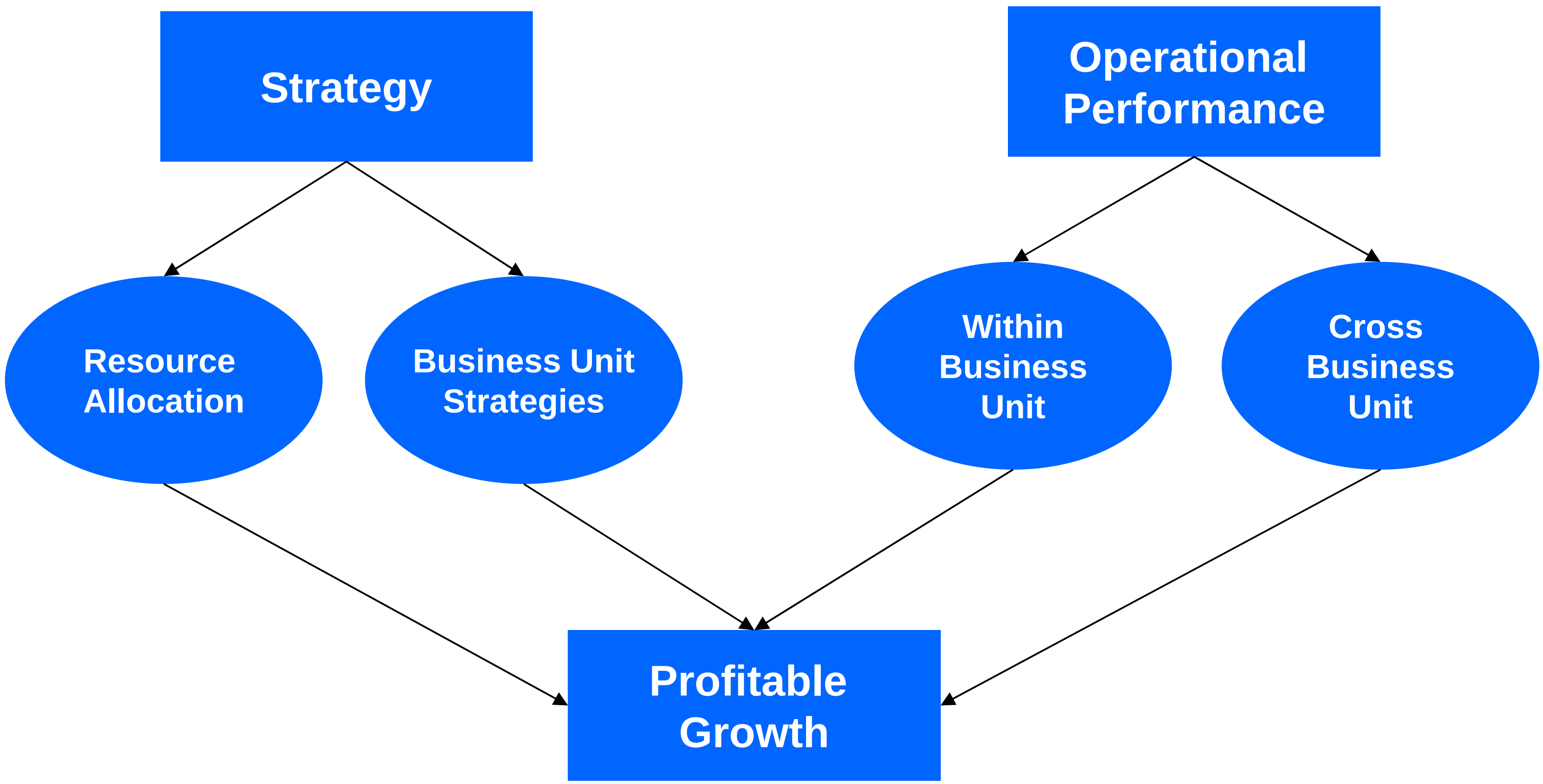
Assessment

- For many years Wolseley performed well
- Last few years lack of:
  - Strategic approach to capital and resource Allocation
  - focus on operational performance and organic growth
- Many acquisitions – unrelated segments – not fully integrated
- Focus on global model at expense of winning locally
- Balance sheet exposed by big acquisitions at cycle peak
- Robust response to downturn
  - Broad strokes required
  - Aggressive cost reduction essential
- Need now to focus, invest and deliver at branch level

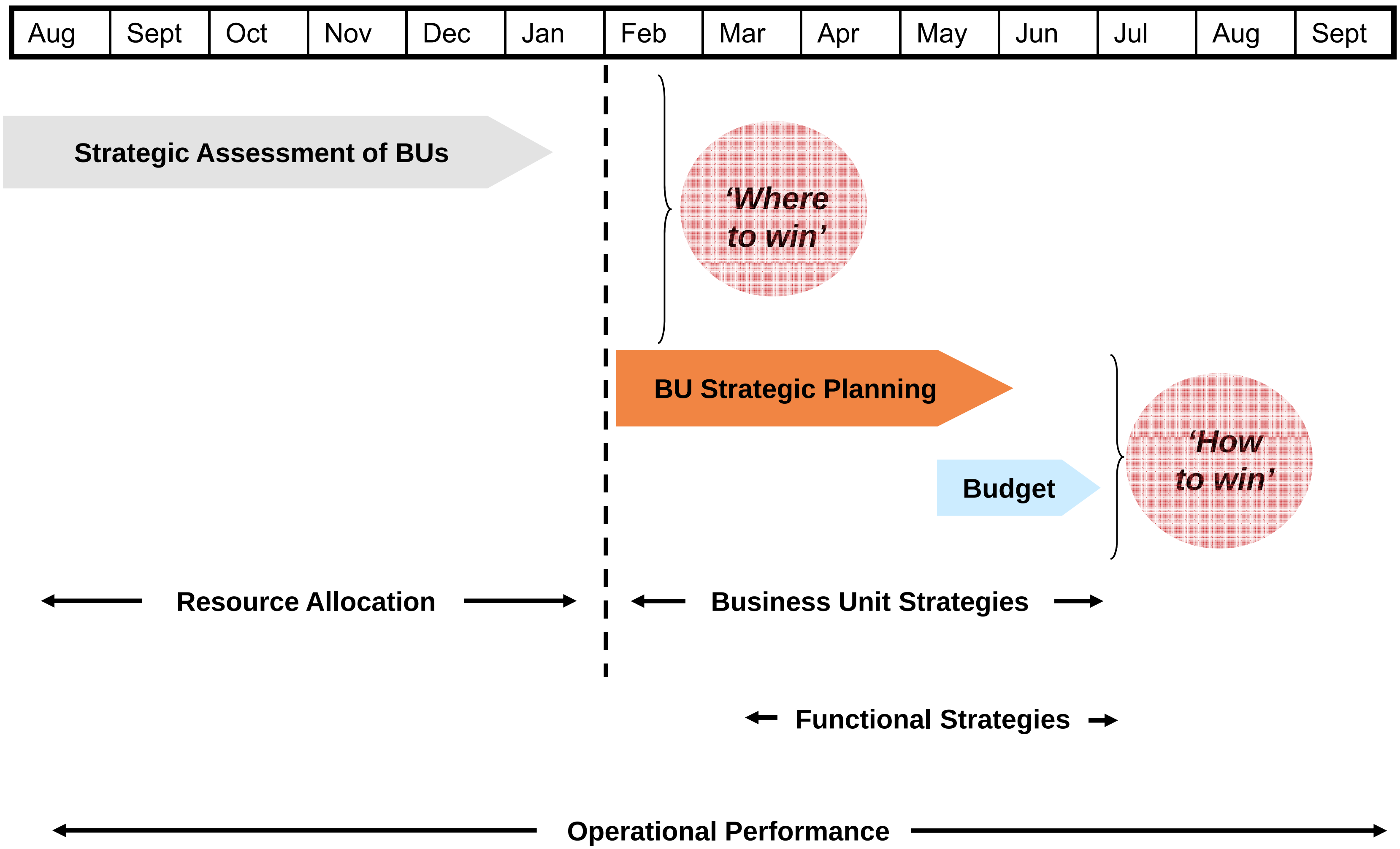
Delivery Since September

- Financial performance year to date
- Customer service measures in place
- Performance review process established
- Further cost reductions in H1
- Market share performance
- Resource Allocation complete for FY 10
- Senior team changes made in H1
- Postponed SAP deployment
- Disposal of non-core assets

Value Creation



Process


Aug
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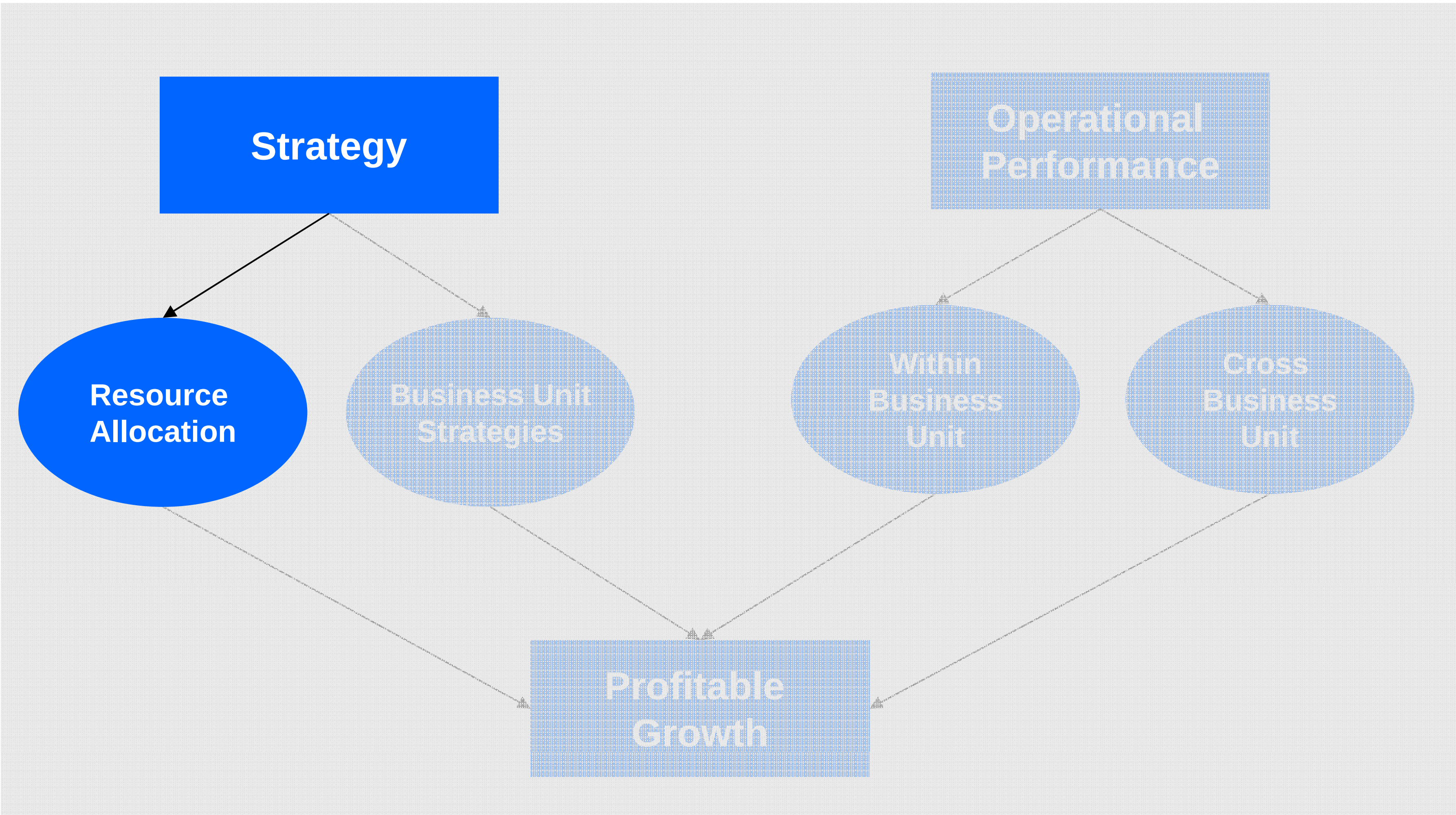
Strategic Assessment of BUs
'Where to win'
BU Strategic Planning
Budget
'How to win'
Resource Allocation
Business Unit Strategies
Functional Strategies
Operational Performance

Value Creation
Strategy - Resource Allocation



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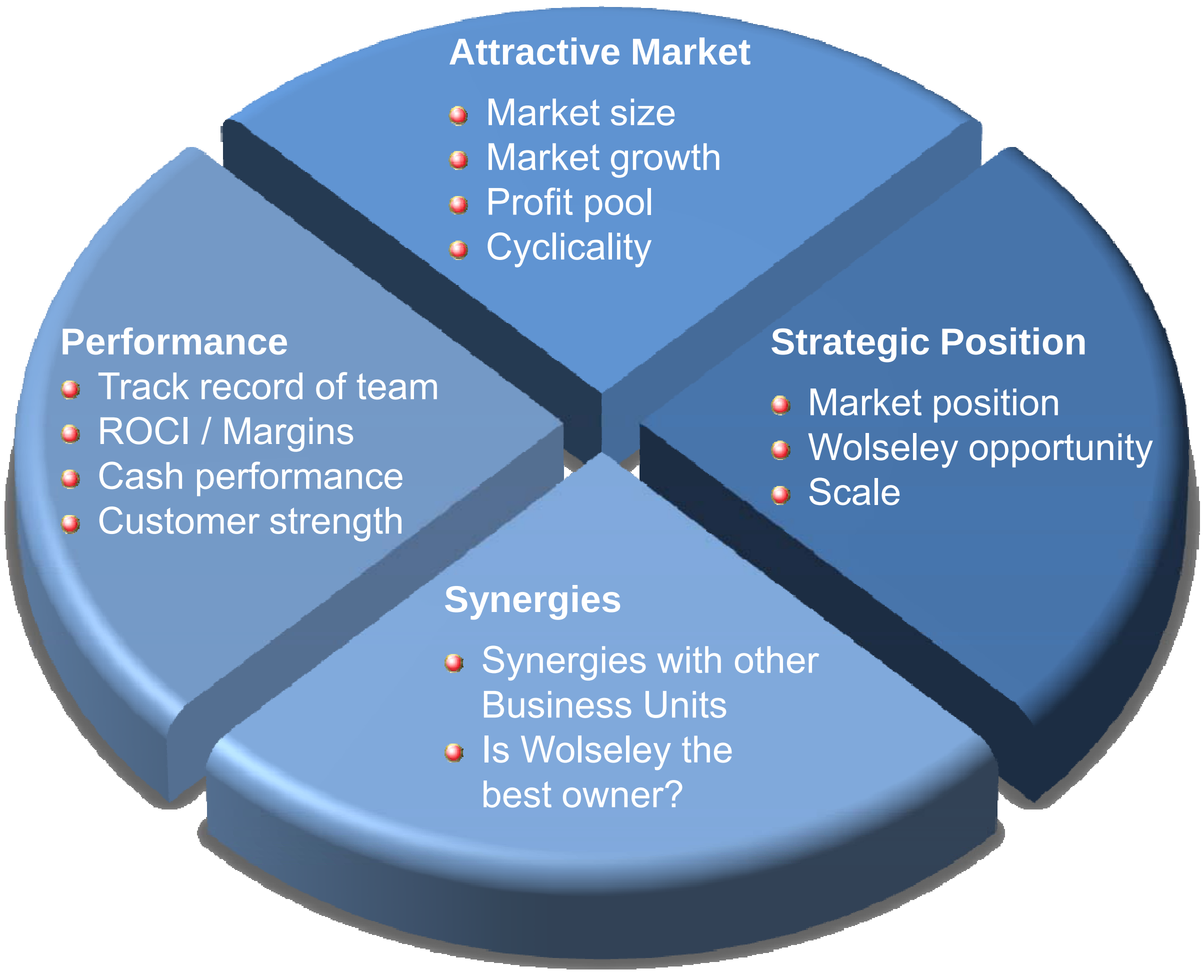
Resource Allocation

Selection Criteria



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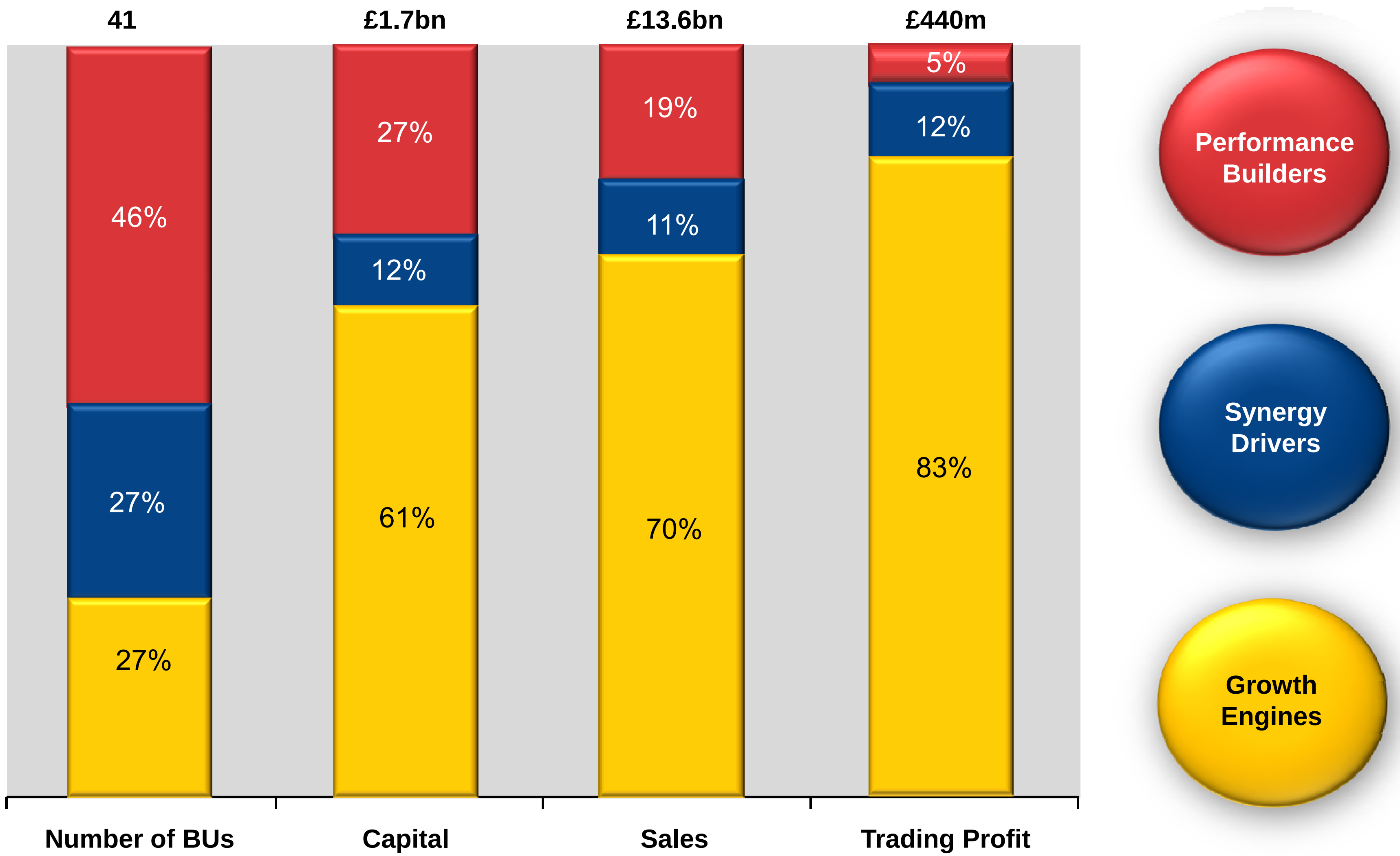
Resource Allocation
Classification of Business Units

'Growth Engine'	Invest to create profitable growth
'Synergy Driver'	Take advantage of Growth Engine synergies
'Performance Builder'	Drive performance, then reclassify or exit

Resource Allocation

Classification of Business Units



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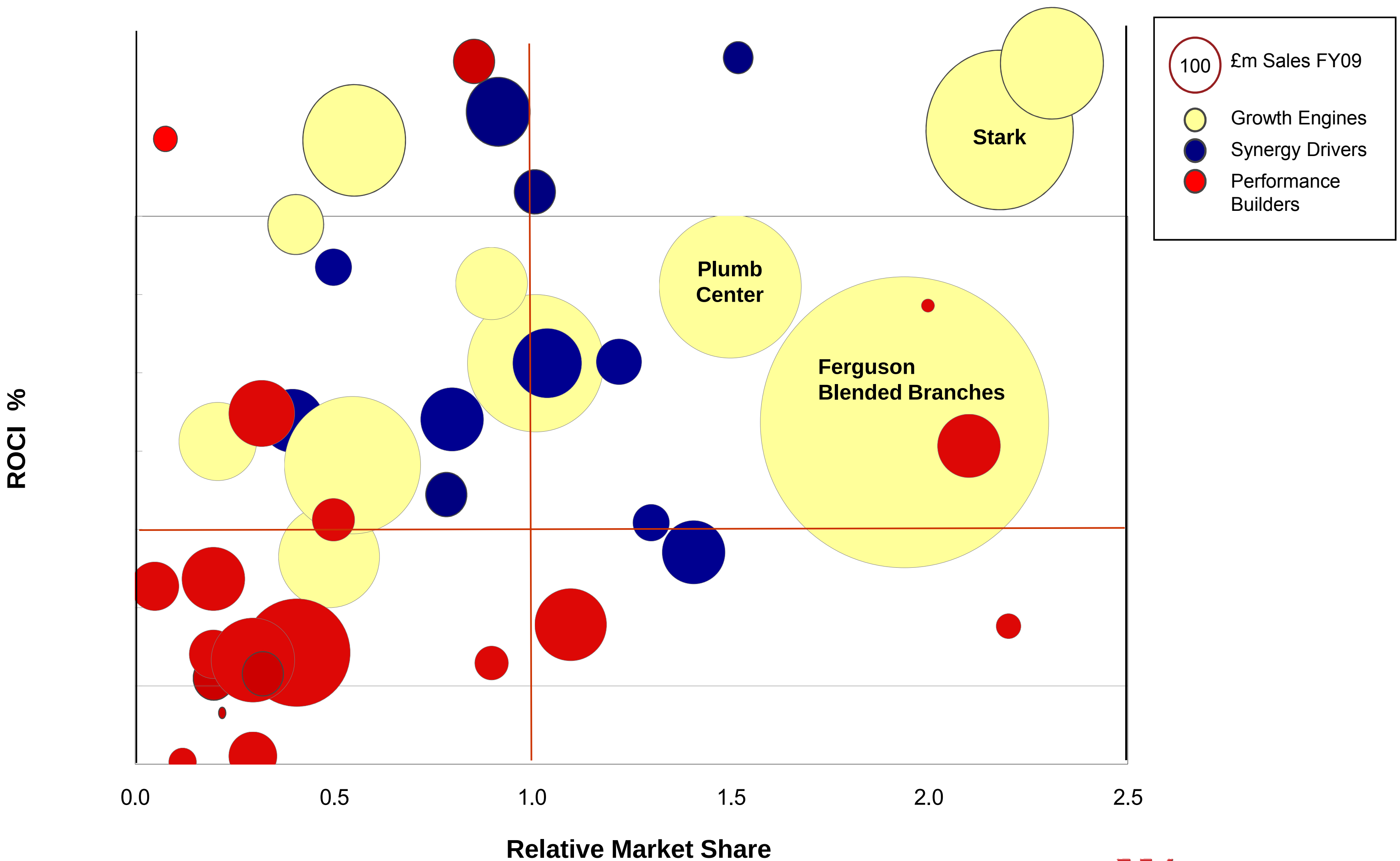
Resource Allocation
Classification of Business Units



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Resource Allocation
Outputs

- Proportionally resources will go to the “best” businesses
  - Larger less volatile markets
  - Leading share positions
  - Faster growth
  - Better ROCI and cash flow
- Greater focus on accelerating organic growth
- Bolt-on acquisitions to “best” businesses
  - Provided financial hurdles met - disciplined
  - Integrated fully and rapidly extract local synergies
- Performance builders will improve, reclassify or exit
- No unrelated acquisitions – must be synergies
- Clear benefits of Group
- Balance sheet conservatively managed

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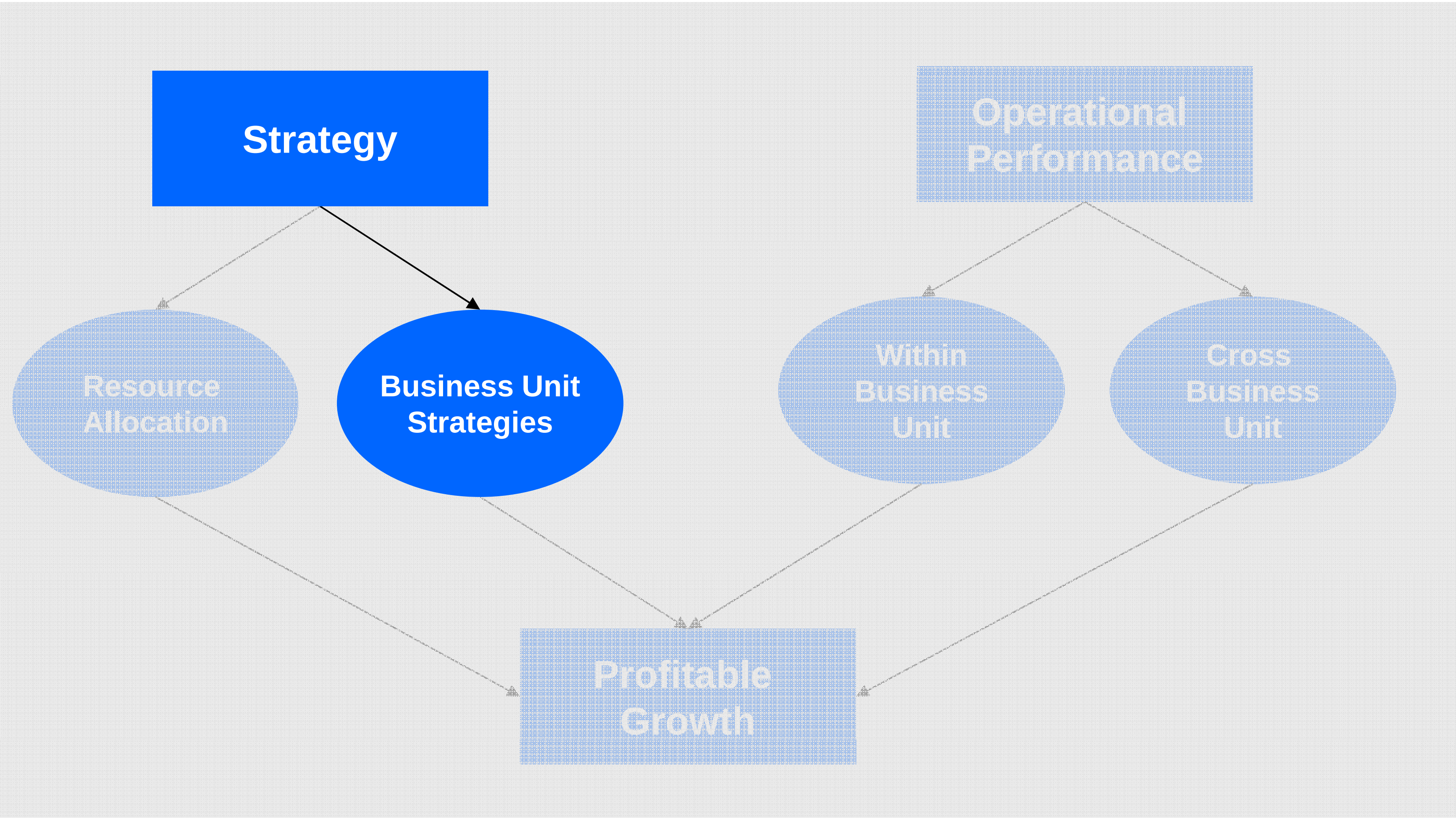
Value Creation

Strategy - Business Unit Strategies



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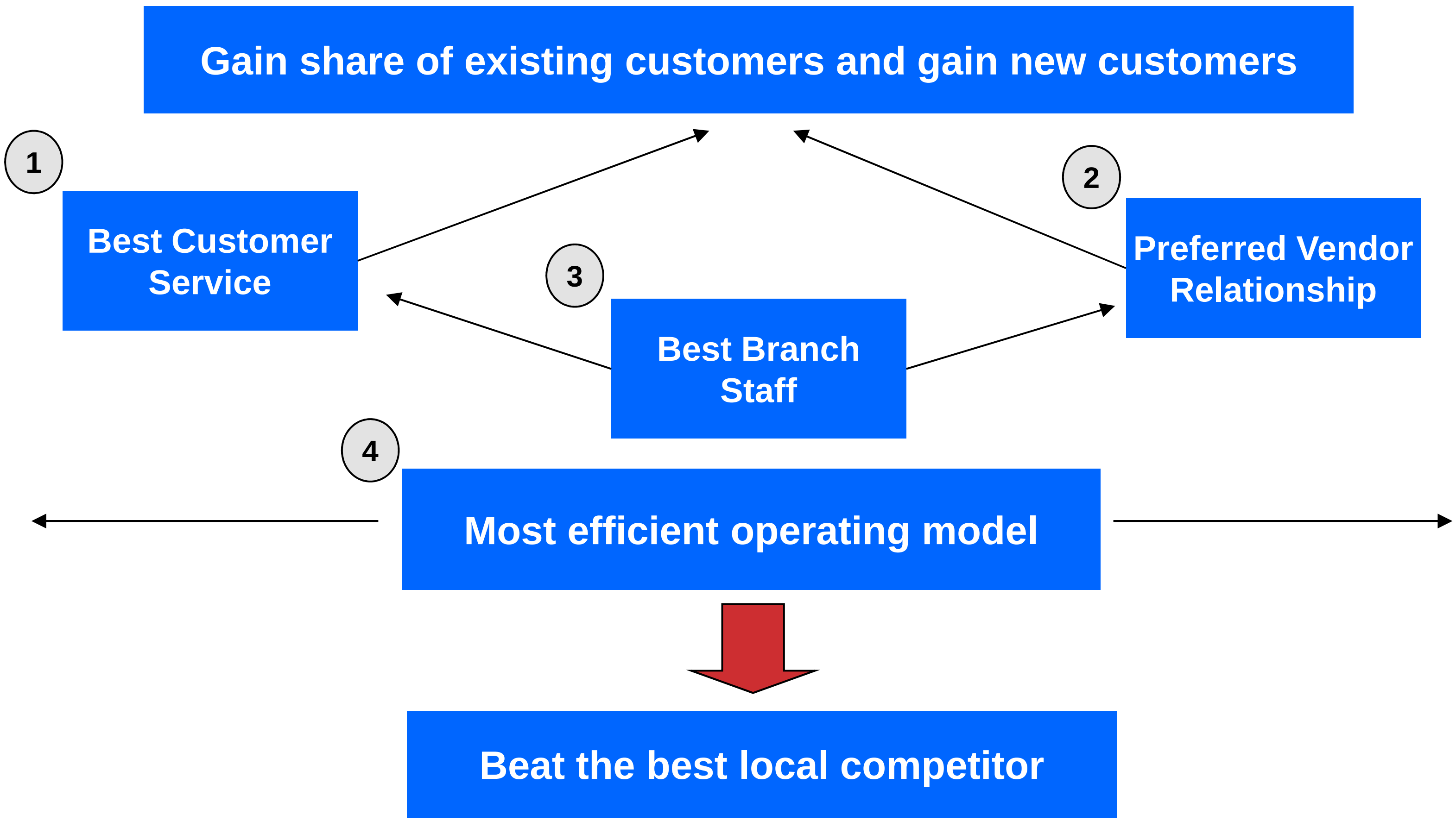
Business Unit Strategies

Driving Profitable Growth

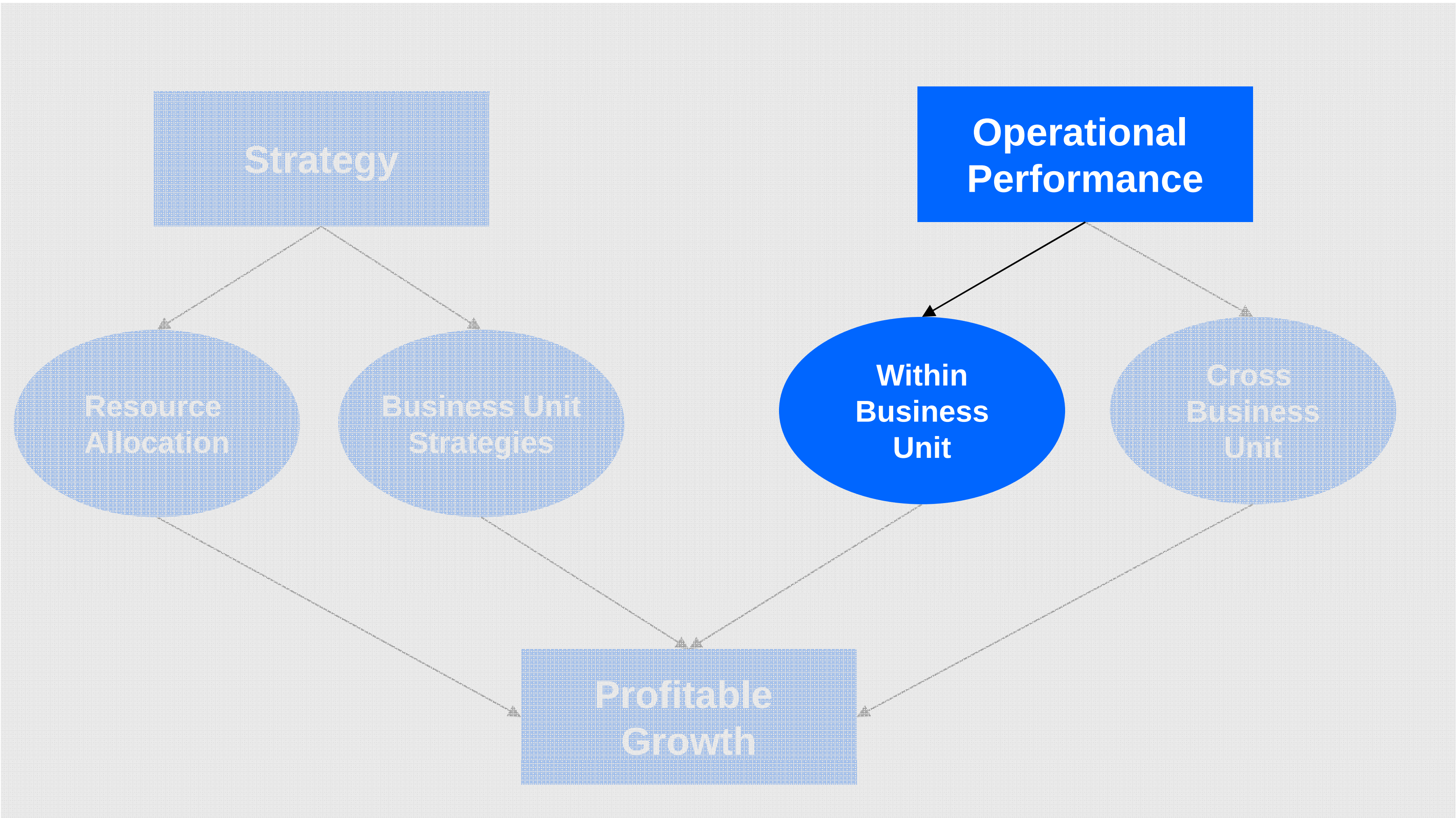


Business Unit Strategy
HVAC Deep Dive

- Analyse the market
- Determine our position in the market
- Review our business
- Develop opportunities for growth

Value Creation

Operational Performance – within Business Unit



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Within Business Unit

Performance Review Process – FY10

Best Customer Service

- External surveys
- Internal supply chain OTIF
- Market Share nationally
- Key customer performance (start)

Operational Efficiency

- Gross margin management
- Labour / other cost ratios
- Cross branch comparisons
- Best practice identified

Best Branch Staff

- Performance Review
- Talent pool

Financial Performance

- Top line sales per working day
- Margin management
- Working capital

Preferred Vendor

- Key vendor performance
- Category management approach (start)

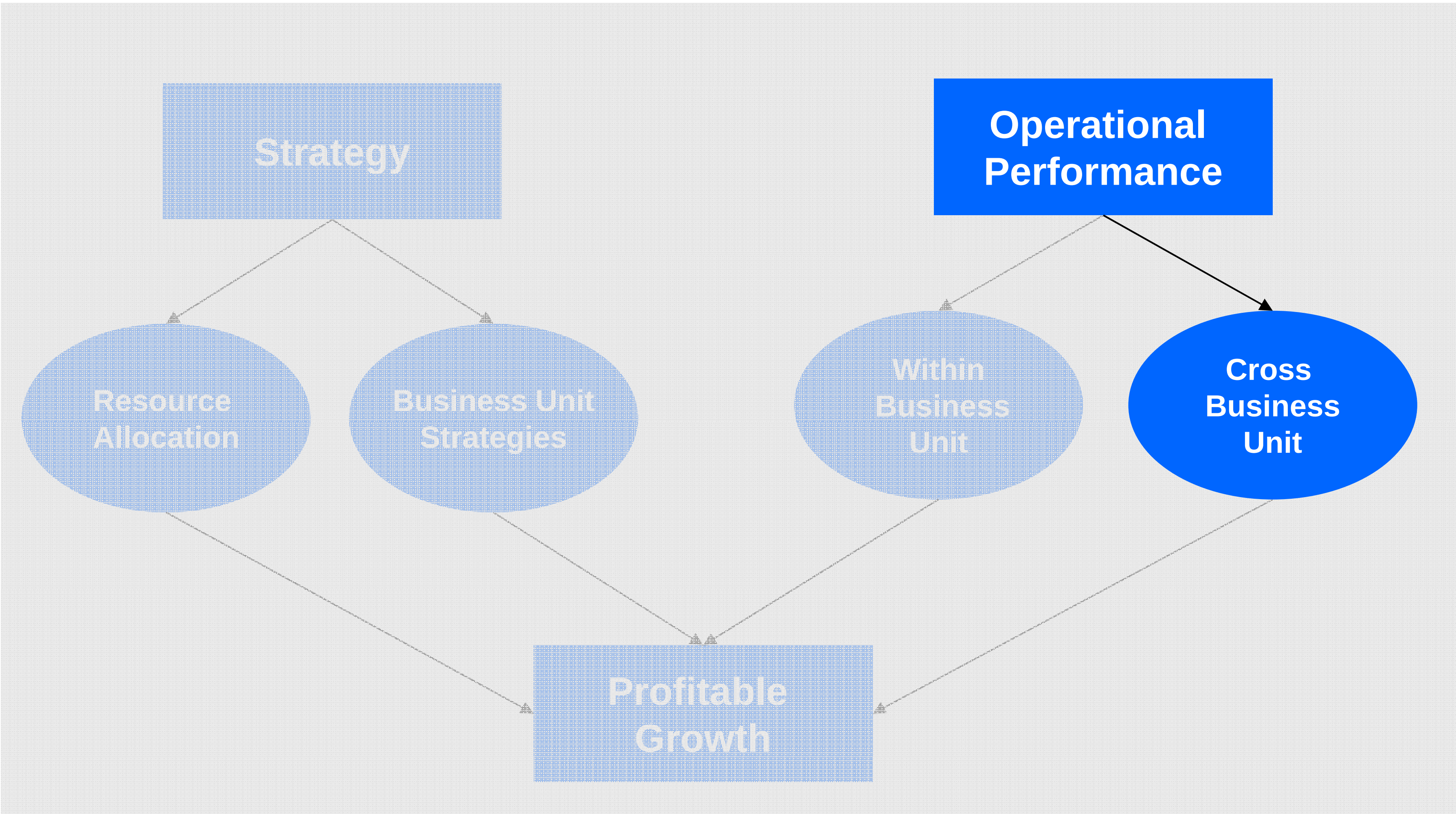
Plans agreed, monitored and pursued rigorously monthly

Within Business Unit

Performance Review Process - Brossette

- Strategic position is not cause of poor performance
  - RMS 0.4x but regional strengths
- Historically performed well
  - 5%+ ROS, >15%+ ROCI
- Performance caused by poor execution
  - Poor product availability caused share loss
  - Core inventory reduction to meet cash needs
  - Sales force productivity decline
  - DC network ½ built – not integrated
  - Poor customer service & share loss
  - Pricing management on core products / customers
  - Branch closures poorly implemented
  - Cost base inflated – DCs and satellite branches
  - Inexperienced GM
- Action plan with quarterly milestones
  - Data driven diagnosis
  - Inventory levels increased to improve service
  - Cash targets reduced
  - Sales force remuneration changed
  - Customers re-segmented and re-priced
  - Re-negotiation with key suppliers
  - Key accounts sales team re-focussed
  - Detailed action plans by region / branch
  - Experienced GM October 09

Value Creation
Operational Performance – cross Business Unit



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Cross Business Unit
Synergies

Performance Builders | Synergy Drivers | Growth Engines

Management Synergies

- Performance Review Process
- Best practice / Bench marking
- Corporate Finance
- Management Development
- Capital Allocation

Operational Synergies

- IT Infrastructure
- Joint Sourcing
- Own Label Development

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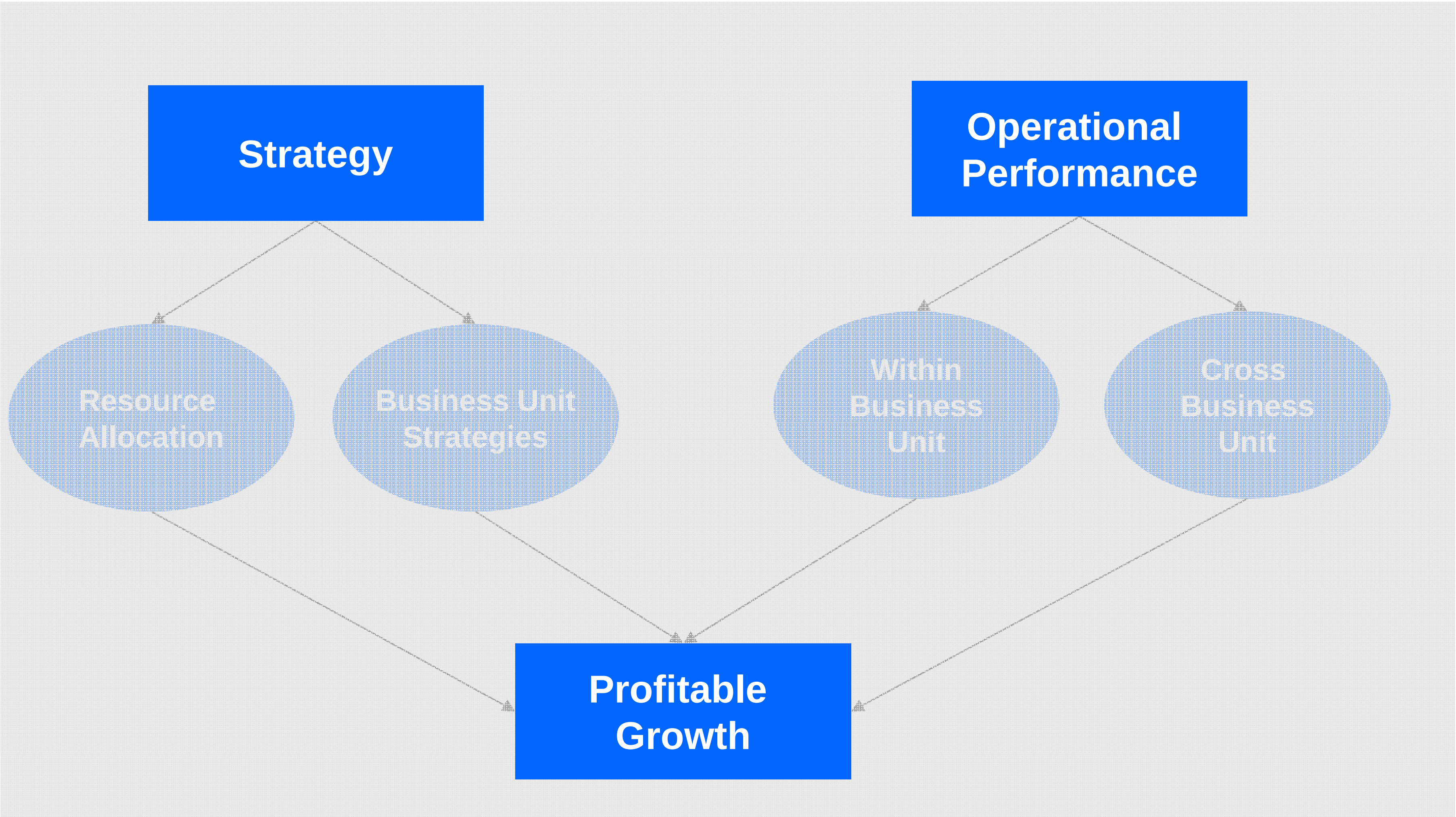
Value Creation

Driving Profitable Growth



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Profitable Growth
Summary

- Markets still very tough-but stabilising
- Majority of our businesses are strategically attractive
  - Robust business models
  - Leadership positions
  - Great growth opportunities
- Future direction of Group is clear-Growth Engines/Synergy Drivers
- Performance Builders will be resolved
  - Reclassify or exit
  - Market conditions determine timings
- Business is under control
  - Costs/balance sheet/capex-easy wins taken
  - Further cuts are market dependent
- Still significant opportunities to improve performance
  - Customer service/Vendor relationships/Branch staff
  - Raise gross margins basis point by basis point
  - Raise net margins significantly

Q & A

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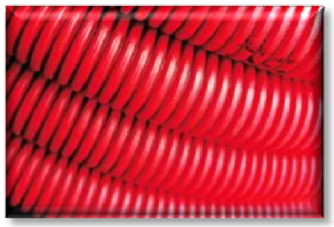
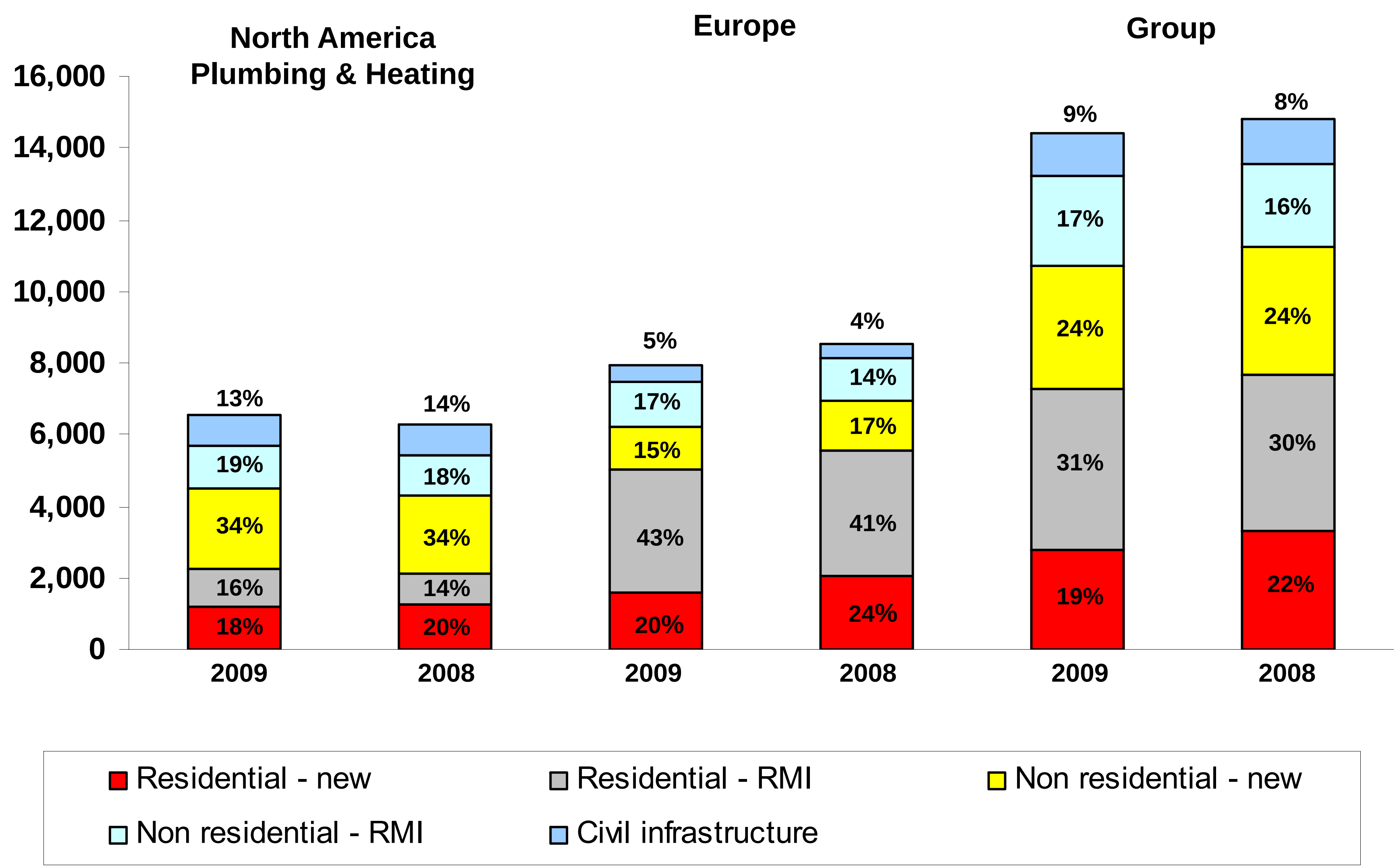


Appendices

Business drivers 2009 & 2008

% of divisional sales



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Branch growth