

An impressive year

This has been another outstanding 12 months for the Group, with record results for the 10th year in succession. We are positioning ourselves to make further progress

I was delighted and honoured to take over as Wolseley's Group Chief Executive on 1 August 2006. We enjoyed a great run under Charlie Banks' leadership and I want to put on record my admiration for his tremendous achievements.

Charlie established some fine foundations which are reflected in the figures you see in this Report, with 2005/6 characterised by excellent growth in North America, strong market outperformance in the UK, good performances in Holland, Switzerland and Italy and broadly satisfactory results elsewhere in the Group.

In North America, Stock Building Supply achieved excellent results, outperforming the market and growing sales by 27.4%. Towards the end of the year a reduction in housing starts and a fall in the price of timber affected revenue and this is likely to be continued into the current financial year. Ferguson saw outstanding growth, with a 35.1% increase in top line performance and 40.4% bottom line growth driven by some of the highest fill rates in the industry, our ongoing distribution centre strategy, our market focus and a clutch of successful acquisitions. Wolseley Canada recorded a solid performance and again delivered double-digit growth.

Despite major changes to our UK business, which included the completion of a comprehensive restructuring, the business performed well in a challenging market, with good acquisition performance driving sales up by 14.4%. In continental Europe, the highlights included good progress in Switzerland and Italy, the Benelux countries and also a rewarding performance from our French business, PBM. The

results from Wolseley Austria and Brossette were less satisfactory, although we remain confident that both these businesses will deliver improved performance in the coming 12 months.

This time next year, I expect to be reporting results from three new Wolseley countries, after the completion of our acquisition of DT Group, which was agreed just before the year end. At just over £1.3 billion this is the largest single acquisition in Wolseley's history so far. DT Group is the Nordic region's leading distributor of building materials, with a strong presence in Sweden, Norway, Finland and Denmark and significantly broadens our European reach.

Just as the DT Group acquisition will take us into new geographic areas, others have taken us into new product areas. For example, during the year Wolseley UK bought William Wilson and AC Electrical to move into the electrical distribution sector for the first time and moved further into the insulation materials market through the acquisition of Encon. In the USA, Stock Building Supply also entered into the electrical products and services market and strengthened its position in installed services, meeting a clearly emerging need from our major home construction customers.

We invested £914 million on a total of 53 acquisitions in seven countries during the year, as follows:

	North America	Europe
Number of acquisitions	31	22
Total consideration for acquisitions	£497m	£417m

Our European market: At the end of the financial year we had operations in 13 European countries, having moved into Belgium for the first time. As the new year opened, we were finalising our acquisition of DT Group which gives us a major presence in Sweden, Norway, Finland and Denmark.



Historically, acquisitions have delivered around half of our annual growth and this is an area where our management team are strong. In industry at large, there is always concern that acquisitions fail to deliver the anticipated benefits; at Wolseley a rigorous assessment process and skilful integration into the Group ensures that acquisitions perform in line with expectations and deliver shareholder value.

A simple business model, executed with commitment and focus

A distribution business like ours is not an overly complex model.

What makes us different is the way in which we focus on our markets and execute our business model. That's the competitive advantage behind our growth – and we're not about to radically change such a proven strategy.

So the future is about evolution not revolution. The emphasis remains on growth, through acquisitions and through organic growth driven by our capabilities in four key areas which are at the heart of our success:

People

We invest in – and support – the most important resources that we have: our people. Our customer experience is based on interaction with our 70,000 plus people and customer service is at the heart of every recruitment we make and every training programme we launch. Our commitment is to recruit and train the best people available throughout our industry that have a particular eye on providing outstanding customer service. This includes the way we assist customers in all aspects of their business, by providing the right products at the right time, as well as being knowledgeable in all aspects of their particular needs.

Product

We continue to offer more products and services to more customers in more sectors in more countries. We buy the right products at the right specification and the right price. Our objective is to have the widest product offering of anyone in the industry, so we can fulfil all of our customers' particular needs. This includes carrying some of the most recognised brands in each of our business sectors to allow us to support our customers in each specific area.

Distribution

We buy our products well and provide those products and services reliably, efficiently and quickly to our customers. Our logistics infrastructure allows us to ensure that our size translates directly into better, faster service. Our objective is to have the highest order fill rates of anyone in the industry, as this will be of great benefit to our customers so that they consider

us to be not only reliable, but also, more importantly, a true partner in their business.

Service

We shape our business to meet our customers' needs in whatever way is most advantageous for them. We go out of our way to make it easy for customers to choose Wolseley – whether that's through deliveries, collection services, online shops, shared branches or any other initiative. Since the largest majority of our business is transacted at the local level, through more than 4,650 locations across Europe and North America, our objective is to lead the industry when it comes to access and availability of product.

You can read practical examples of our model in action on pages 12 to 19.

A track record of success and a focused future

We have demonstrated year after year that by doing it our way, we can consistently deliver excellent performance. In this, our tenth successive year of delivering record results, we have again demonstrated that, despite facing some challenging market conditions, we can continue to grow and in most cases have been able to outperform both the market and the competition.

So our emphasis remains on profitable growth driven by an ever stronger focus on the core competencies that underpin the execution of our business and some key factors that we believe give us true competitive advantage.

Our structure is designed to keep the right activities at the right level in the Group – the continental groups are directly responsible for the profits of the operating companies they oversee. This is their key priority and area of focus. In addition, they are responsible for organic growth; being same branch sales, new branch openings, expansion into new geographies, as well as expansion into new customer types throughout their areas of responsibility.

At the Group and continental levels we also focus on the strategy and our five core competencies, which feed into the operating companies and underpin their ability to grow.

Human resources and leadership development

Customer service is why we exist as an organisation. Identifying and training the top talent within our industry therefore not only impacts customer service, but also our ability to support double-digit growth. Whilst we recognise that people are a large component of our costs, we strive to identify and train people as one of our most valuable investments.

Our North American market: We have an extensive branch presence across the continent, served by our impressive Distribution Centre network. During the year we continued to grow our leading positions in both the building materials and the plumbing and heating markets in the US and Canada.



Charlie Banks retires
Charlie Banks retired at the end of the financial year, following 39 years with Ferguson and Wolseley, the last five as Group Chief Executive. Here is his parting message.

"It has been an honour and a privilege to have been associated with Wolseley for so many years. In my time as Group CEO, we saw sales almost double in size and both the share price and EPS rise dramatically. It has been an amazing journey.

None of our achievements would have been possible without the continued support of our shareholders and debt providers. I am also grateful to the Board for giving me the opportunity to lead this great company and to our employees, without whose unswerving commitment we would not have been able to execute our strategy and deliver such exceptional growth.

I know that we have laid the foundations for continued success in the coming years and I have total confidence in Chip Hornsby and his team to lead Wolseley to new and even greater heights."

Organic growth and acquisitive growth

We have just appointed Adrian Barden, previously Managing Director of our UK business, to a newly created position to lead our global M&A efforts. This will bring even more focus to our acquisition processes, in a more competitive market, including developing a target base of acquisition opportunities on both continents, establishing a formalised integration process of acquisitions into the Group and refining our post acquisition performance review process.

Sourcing

We are elevating sourcing to a higher level to deliver the right products to our customers. This will include responsibility at the Group level for the top 30–50 suppliers, which will be coordinated with both the continental groups.

We want to identify and drive low cost country/own brand/proprietary brands throughout the entire Group so that this will be a significantly larger portion of our business within the next two to three years. Indirect spend initiatives will also deliver cost savings across our business.

Supply chain

We are developing a format such that supply chain becomes a distinct competitive advantage across the Group. Simply put, our intent is to have the broadest product offering with the highest fill rates of anyone in the industry. We believe that the right combination of sourcing and supply chain will become a significant competitive advantage.

Business improvement

Our aim over the next several years is to continually improve our net margin by focusing on a number of growth and cost reduction initiatives. In looking at the longer term, increased focus on efficiency and productivity throughout the entire Group will bring great benefit in improving our overall net margin. The utilisation of information for the benefit of customer service and productivity will be at the forefront of this initiative, but it is certainly not limited to that aspect alone.

The future

So what are my objectives for our organisation in the immediate future? We are still focused on delivering double-digit sales growth – but now with a greater emphasis on margin improvement and the new leadership structure is designed to allow us to build on our experience and our scale.

Our customer base runs into millions – every one of them with individual needs, being serviced by our front line staff. Above all, this is a relationship business and

the only way to make it work is by serving local customers, locally. We will continue to go out of our way to try and help our customers succeed – we make their problems our problems and we work with them to find solutions. Loyal customers provide repeat business and increasingly more business, as the amount of product they buy from us increases.

We are also making it easier to do business with us at all levels. In the USA and the UK we have structured our branches into focused "business groups" (USA) or "core brands" (UK) to put a real emphasis on a particular sector, customer or product range. Results from the businesses structured this way show significant organic growth, so it's a model we are extending across the Group. This single point focus on specific customer groups, be they plumbers, electricians, roofers, or general contractors, means our customers know what they can expect. Our team of people are real subject and product experts, the products are relevant to the requirement and the customer remains loyal.

Looking ahead

We have huge potential for further growth. As you will see in our Performance review on pages 20 to 41 the size of our potential market is vast and despite our success we still have only a relatively small share.

Look across the 19 countries where we currently operate and you'll find that we are in just about every sector of construction materials somewhere – but we don't as yet provide a complete offering anywhere. Even without moving beyond Europe and North America, there are significant opportunities for our businesses to share knowledge and learn from each other's experiences in order to extend our product range and introduce ourselves to new customers.

In conclusion, I would like to thank the Board and you, our shareholders, for giving me the opportunity to lead this great company. I believe we have a tremendous future ahead of us and with the continued loyal commitment of our outstanding 70,000 plus strong team, without whom we would be nothing, we can look to the future with confidence. We are committed to making Wolseley "the name the world builds on".

Chip Hornsby
 Group Chief Executive

Looking ahead





Invest >

Thomas Kopsa, Amy Beal and Jason Powers,
Ferguson Trainees in Raleigh Durham, USA

People – we'll continue to create and develop exciting and innovative programmes to attract high quality employees into the Group. But we'll also increasingly invest in training and development programmes which are designed to help all our people fulfil their – and our – potential.

> Investing in people
People are our key competitive advantage. We support them in many different ways, ensuring that they have the skills to meet our requirements and their career goals.



Duncan Fellows, British Gas Engineer, Cheltenham Spa, UK

> Delivering to the customer
We work hard to ensure that our recruitment programmes are geared to identify customer-focused people with the passion to deliver.

In North America, Ferguson is widely respected for market-leading graduate programmes that once again brought people into the organisation in 2005/6 and has recently seen them recognised by *Business Week* magazine as one of the top 50 places in the USA to start and build a career. People don't just join Wolseley companies – they stay at Wolseley companies for long-term careers. Our new Group Chief Executive, the head of our North American organisation and the President and CEO of Ferguson, along with countless other members of our leadership team, each have over 20 years' service with the Group.

The European Graduate Programme ("EGP") delivers a pipeline of internationally-minded graduates who can move effortlessly between cultures as well as languages. The programme, which provides a mix of on-the-job training with formal residential courses, has proved popular with trainees and managers alike.

Across the Group, the EGP is complemented by a wide range of innovative activities, ranging from established programmes at Stock Building Supply to the new Groupwide International Leadership Development Programme, among others.

During the last year we invested £21 million on 142,000 days of training and development.

This investment in our people allows us to deliver the services our customers need. For example, British Gas service engineers are able to get on with their jobs, thanks to an innovative agreement with Wolseley UK. A single national account means that engineers can collect products and spare parts from any of our branches throughout the UK, with just a signature, meaning better and more immediate service for British Gas customers.



Today >

Earth wire sold by William Wilson, UK

Product – we'll continue to introduce new products to our existing customers, giving them the opportunity to buy more goods and services from us. But we'll also use our understanding of industry trends to identify emerging demands and win new customers in new sectors.

> Today's trends

We believe that we offer the broadest product range in our industry, under the umbrella of countless brands from more than 4,650 branches across 19 countries.



Tomorrow

Charles Evans and Ronnie Patterson, Stock Building Supply, North Carolina, USA

> Tomorrow's advantage

We're always looking for new opportunities where our expertise and experience can provide customers with more products at the right specification and the right price.

In the UK, we moved into the electrical distribution sector for the first time, through the purchases of William Wilson and AC Electrical. In the USA, we followed suit with the acquisition of Efficient, an electrical supplier based in Las Vegas. In both instances, we're giving customers more opportunities to become – and remain – Wolseley customers.

In the Spring, Brossette and PBM opened a joint facility "Batipole" in Lannion, France, allowing customers to purchase from one location building materials from PBM's Reseau Pro brand, electrical products from Brossette's CDL brand and plumbing and heating equipment from Brossette. The French businesses will continue to innovate to find ways to meet their customers' needs.

High volume, production builders in the western States of the USA are increasingly demanding a turnkey installation service from suppliers – they need the people who provide the frames to also install equipment throughout the build project.

Stock Building Supply evolved its business model to meet this new demand, shaping its service to win business from a new set of customers by providing the products and services they need, how and where they need them.



Scale >

Wolseley UK's new DC, Royal Leamington Spa, UK

Distribution – we'll continue to roll out our proven Distribution Centre ("DC") strategy, using our expertise and financial strength to set the industry standard in logistics. But we'll also develop initiatives at the sharp end of the supply chain, creating new ways to get products to customers, with increased speed and reliability.

> More choice and availability
Over 50% of Ferguson products now pass through the doors of one of their 9 DCs – and the Iowa facility alone handles over 77,000 products.



Simplicity

Wasco branch, Diest, Belgium

> Less hassle and cost

We constantly search for innovative ways, such as our “branch within a branch” concept, to take more products to more customers.

Our DCs have helped to transform the Ferguson business in the US. DCs don't only save costs – they also have impact on customer satisfaction. Fill rates out of the US DC facilities regularly exceed 94% and are amongst the highest in our industry.

Now we're rolling out the DC model across Europe. The new National Distribution Centre opened in the UK in August 2006 and the Italian DC will follow towards the end of the year. Plans are already advanced to open similar facilities in other countries.

Through the “branch within a branch” initiative, we establish a counter from one brand in the premises of another, thereby increasing the branch's total product offering without increasing the size of the branch itself.

At the Wasco branch in Diest, Belgium, we have gone one step further – implanting not one but two new product areas within the branch. So in addition to their regular plumbing and heating supplies, Wasco customers can now access spare parts from a Parts Center area and specialist fixings from a Unifix area, all under a single roof. These additional product areas are also introducing a new customer base to the Wasco brand.



Convenient >

Tobler's innovative website – www.haustechnik.ch

Service – we'll continue to exploit technology in order to interact with customers in whatever way they prefer. But we'll never forget that successful business relationships are built on successful personal relationships.

> Remote capability
We look for ways to make it easy for customers to do business with us – and that includes Internet technology that enables customers to buy online.



Personal

Bob Smith, Wolseley UK, providing customer service for 60 years

> Personal service

We get close to our customers, listening to what they need and then creating innovative, often highly personalised services, to match.

Few people would place plumbers close to the top of a list of those who use the web in their daily lives. Yet a recent e-business initiative at Tobler in Switzerland is proving the very opposite. The Tobler website experiences an average of over 1,600 hits each day and more than 15,000 unique visitors per month.

All 50,000 plus Tobler products are available online. If customers place an order by 6pm, products are delivered first thing the following morning, either to the plumber's business or to the job site.

In the UK and the USA, we've structured our branches to put a real emphasis on a particular sector, customer or product range. This single point focus on a specific

customer group – such as plumbers, electricians, roofers and so on – delivers a truly personal, knowledgeable service. Customers know what to expect and they know that our people will give them the personal service they need to get on with their jobs.

Our customers' experiences are based on their interaction with our people. We invest in a wide range of programmes that help ensure that when customers meet any of our people, they do so with somebody who speaks their language – literally as well as professionally – knows their business, understands their pressures and can meet their needs.