

Chairman's statement

We enter 2010 after a year of profound change and unprecedented challenges in both our industry and our Company, but I am confident the measures we have taken to reposition Wolseley this year will enable us to take maximum advantage of the opportunities that will arise as the global economy recovers.

John W Whybrow Chairman



Summary results (continuing operations)

Revenue	£14.4bn
Trading profit ¹	£447m
Operating cash flow	£1,200m
Cash conversion ²	364%
Operating loss	£(606)m

¹ Trading profit, a term used throughout the Annual Report, is defined as operating profit before exceptional items and the amortisation and impairment of acquired intangibles. See note 12 of the consolidated financial statements for a reconciliation from operating profit to trading profit.

² Cash conversion is the ratio of operating cash flow to trading profit (including discontinued operations).

Group results

2009 has been an extraordinary year, by any measure, and we are experiencing the most severe global downturn since the 1930s. It was triggered by problems in the US housing market, which spread to the financial services industry and has now moved on to the broader economy. During the year the construction industry in North America and Europe that Wolseley serves has continued to be significantly adversely affected by these circumstances and consequently many of our businesses have dealt with peak to trough declines in activity levels which would not have been considered possible only 18 months ago.

The difficult operating environment is clearly reflected in the results for the year. Group revenue from continuing operations for the 12 months to 31 July 2009 was down 2.5 per cent to £14.4 billion and earnings per share from continuing operations before exceptional items and amortisation and impairment of acquired intangibles was down 60.2 per cent to 95.6 pence.

While our financial results reflect these macro-economic conditions and our exposure to them, management action this year has remained resolutely focused on the deployment of plans to deal with this severe market contraction. Particular focus has continued on restructuring actions to lower the cost base and driving strong cash generation. These actions are expected to reduce headcount by 9,848 and we have closed 653 underperforming branches through specific restructuring programmes. These restructuring actions are expected to deliver annualised savings of over £431 million.

Further considerable progress has been made in driving improvements in working capital which showed through in an excellent operating cash flow performance of £1,200 million (2008: £1,262 million), which is only 5 per cent below the prior year despite the significant reduction in trading profit. Challenging targets for working capital have been met and across both continents actions have been taken to reduce capital expenditure and dispose of non-core assets and businesses.

Financial restructuring and capital raising

Despite the significant ongoing actions, the demands imposed by the operating environment and outlook for our industry also required that we reviewed more fundamentally how we run the business. In particular, it became apparent that action was required to strengthen Wolseley's balance sheet and ensure that the Company maintained its focus and put its resources into our principal business activities.

A comprehensive package of measures was announced with the accelerated Half Year Results in March which included a share placing and rights issue, which raised approximately £1 billion, and a €1 billion committed two-year forward start debt facility from 1 August 2011. It was pleasing that the share issue was well subscribed with over 99 per cent of our shareholders voting to accept our proposals and over 98 per cent of the rights offered being taken up.

The Board is conscious that the inevitable but regrettable consequence of the capital raising exercise has been the dilution of the interests of some existing shareholders. The Directors considered a range of alternative options to raising equity, including the negotiation of amendments to the financial covenants in the Group's existing facilities and the possibility of further disposals of businesses.

After careful consideration, the Board determined that the share issue was necessary and clearly provided the correct path to achieving financial stability for the Group within an appropriate time frame and in a manner that best preserved long-term shareholder value. As a consequence of the capital raising and a strong working capital performance for the year ended 31 July 2009 gearing was significantly lower at 28.4 per cent (2008: 73.5 per cent).

Aligning executive remuneration with shareholder interests

In recognition of the substantial decrease in profitability in 2009, the Remuneration Committee of the Board has been working to bring about fundamental change to the way remuneration works for our senior executives. These changes are outlined in the Remuneration report on page 62. Our approach has sought to balance the reality of our current level of financial performance with a need to offer a competitive remuneration package for individuals who are performing well and in a manner aligned with long-term shareholder interests.

In summary, at Board and Executive Committee level there will be no bonus payments for the year ended 31 July 2009, no salary increase for the coming year and a reduction in long-term incentive plan and share option awards. In addition, this year both Executive and Non Executive Directors will contribute between 10–15% of salary or fees to be used to invest in shares in the Company, thereby further reinforcing the relationship between Director and shareholder interests.

Focusing on our strengths

At the time of the capital raising, announced with the release of the Half Year Results, we also outlined a greater focus for the Group on the North America plumbing and heating, UK and Ireland, Nordic and French businesses. We strongly believe that significant shareholder value can be generated through an even greater level of focus on these core businesses, which we regard as presenting the best opportunities for growth and return on investment in the medium term. The Group historically has achieved higher returns where it has consolidated its market position, and developed strong local brands and a critical mass, which delivers significant cost and scale advantages.

In March we also determined to exit Stock Building Supply ("Stock"), the Group's US building materials business. The business was loss making and highly exposed to continuing deterioration in the US new residential construction market. In May we announced the disposal of the business and the formation of a joint arrangement with the Gores Group LLC. Going forward Wolseley has retained a minority holding in Stock, which will allow shareholders to benefit from any future market recovery in US housing, while deconsolidating its results from our financial statements and excluding these from our banking covenant commitments. We wish the business every success under Gores' stewardship and continue to have an interest in its overall direction through Board representation.

In July we announced the outcome of the strategic review of those countries that comprise the Group's Central and Eastern Europe activities. Our future focus in the region will be on those countries where we have built sufficient scale, established leading market positions and can deliver an appropriate financial return. Accordingly, we have determined to sell our businesses in Belgium, Slovakia and the Czech Republic.

During the year we also disposed of MART, Wolseley's Hungarian plumbing and heating business, and Wasco-Anbuma, a carbon and stainless steel pipe business based in Belgium, to local management.

Board changes

In June, Chip Hornsby stepped down as Group Chief Executive and the Board appointed Ian Meakins as his successor. In all, Chip spent over 31 years in our industry, joining Ferguson in 1978 and working his way up to take over as Chief Executive of that business in 2001. He was appointed as Wolseley Group Chief Executive on 1 August 2006 and led the drive to reduce costs and improve cash flow in response to increasingly challenging trading conditions arising from the global financial crisis. I would like to take this opportunity to recognise Chip's significant contribution to the Group in a long and distinguished career and wish him and his family well for the future.

Ian Meakins started in his new role on 13 July and brings a wealth of operational experience in global business, having undertaken a number of leadership positions in brand, retail and wholesale distribution operations on an international scale. His track record on improvement of business performance is impressive and he is already making an impact in his first few weeks. Later on in this report, Ian will share some of his early thoughts with you about his intentions to keep the focus on operating performance given market conditions. In addition, he is already turning the organisation's attention to further sharpening our strategy to ensure prioritising investment in Wolseley's most attractive businesses.

Action has also been taken to strengthen the broad range of skills and senior experience of the Board. On 1 September, Alain Le Goff joined the Board as a Non Executive Director. Alain has significant international experience in logistics and cost reduction from the consumer products industry through his previous role at Reckitt Benckiser.

In October, Michael Wareing will also join the Board as a Non Executive Director. Michael was formerly International Chief Executive of KPMG and will assume the role of Chairman of the Audit Committee on 1 January 2010. Although Jim Murray will not be retiring from the Board until 2010, I would like to take this opportunity to thank him for his significant contribution over the last eight years, and in particular for his conscientious and constructive leadership of the Audit Committee.

I should also comment on a Board review which we undertook during the year. This review, using an external facilitator, undertook an evaluation of the performance of the Board, that of its Committees and individual Directors. I am pleased to report that your Board was rated as being highly effective in comparison with other FTSE 100 companies regarding its engagement and contribution, and in its response to the economic situation. Equally, opportunities for continued development of the Board, being cognisant of the changing internal and external dynamics, were also identified.

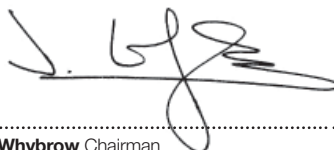
Dividends

It is not appropriate to pay any dividend on the ordinary shares in 2009. However, the Board is very mindful that dividends are an extremely important part of shareholder return and income. It is the Board's intention over time to return to paying dividends, taking account of the Group's capital position, retained earnings and prospects. I also recognise that the reduction in the Group's value over the last year has caused considerable hardship and has demanded the actions we detail in this report. I would like to thank our shareholders and banks for their support and faith in what we are doing.

Summary

In summary, last year was undeniably difficult and a continuing weak economic environment means that 2010 will present significant challenges in all of our markets. During the year I have spent a considerable amount of time working with executives, managers and employees throughout the organisation and I continue to be impressed by their professionalism, dedication, and application. I would like to thank all our employees who have worked extremely hard, often meeting very demanding deadlines with great enthusiasm.

In the current operating environment, the path to recovery will be neither smooth nor straight. But we build on a number of strengths: strong core businesses with appropriate scale and leading market positions, talented people and, above all, thousands of loyal customers around the world who recognise the quality of service that we provide. By doing our best by them, in all of our enduring franchises around the world, we will take the actions that will deliver once again sustainable returns for our shareholders. I am confident that through Ian's leadership and the continued commitment and determination of our people, Wolseley will make rapid progress towards this objective.



.....
John W Whybrow Chairman