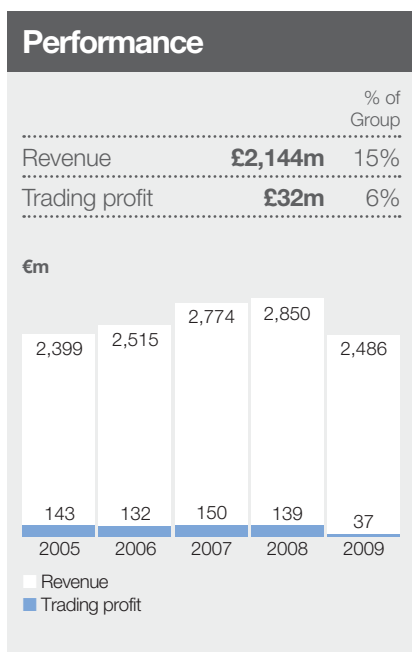


European operations – France



Key brands



Réseau Pro is a distributor of wood and building materials.



Brossette is a major distributor of plumbing supplies and pipes, valves and fittings in France.



Silverwood is a specialist in timber, flooring, indoor and outdoor covering and product structure.

The main brand, Brossette, is the number two integrated distributor of plumbing, heating, pipes valves and fittings in France. The division also trades as Brossette TC (specialist in drains and industrial pipes), CDL (electricals), Pôle Confortique (air conditioning), Brossette TP (specialist in public works) and Ditac (parts).

The timber import and solutions division recorded revenue of €0.3 billion in 2009 (2008: €0.3 billion). It has 24 branches and it trades through seven brands: Silverwood (interior and exterior panelling), Sinbpla (specialist carpentry and joinery), Savare (specialist sawing and planing), Nailweb (joists and girders), Charpentes Françaises (industrial), Bois des Trois Ports (exotic woods) and Cerland (garden furniture).

Market opportunities

The French construction market is the second largest in Europe, with volumes estimated by Euroconstruct at €214 billion in calendar year 2008, though forecast to contract by 6 per cent in calendar year 2009.

Although there is a government recovery programme, only €2 billion of additional expenditure has been pledged to the construction sector, mostly in initiatives to construct social housing (an additional 25,000 units per year) and renovate unfit housing. The RMI market, which provided 62 per cent of Wolseley France's revenue in 2009, will continue to be key, and is strongly linked to consumer confidence. The renewable energy segment is growing rapidly and represents a significant opportunity.

In the longer term, population growth and the ageing of the housing stock are expected to underpin demand.

Business strengths

Strong brand and market position

- ▶ Brossette is the No.2 distributor of plumbing and heating in France
- ▶ Réseau Pro is a leading distributor of heavyside building materials in France

Attractive market dynamics

- ▶ France is the second largest construction market in Europe
- ▶ Market downturn likely to be less severe than in UK

Established business model

- ▶ Recent investment in distribution model
- ▶ Operating cash flow of €297 million over the last 12 months

Business profile

The Group's French business is organised into three divisions.

The building materials division, based in Paris and Rennes, recorded revenue of €1.4 billion in 2009 (2008: €1.6 billion). It has one national and five regional distribution centres, and 349 branches. The main brand, Réseau Pro, is the number two integrated distributor of heavyside building materials in France. The division also trades through the brands Panofrance (timber, panels and interior design), Cardor (tiles) and Coverpro (roofing).

The plumbing, heating and pipes division, based in Lyon, recorded revenue of €0.8 billion in 2009 (2008: €1.0 billion). It has one national and seven regional distribution centres, and 403 branches.

Scale

776

Number of branches

9,053

Number of employees

Strengths and strategy

Wolseley France has an established business model and leading brands in one of the largest European markets and has invested in distribution centres in recent years.

The plumbing and heating business is being repositioned away from its traditional reliance on oil-fired boilers and towards the growing demand for renewable energy solutions. The number of small sales points will be reduced as there is better coverage from distribution centres and larger locations will be reinforced in service levels and by the renovation of showrooms. Spare parts and electricals will be integrated into the core business and higher-margin own brand sales will be developed.

The building materials business will be developed through Réseau Pro as a nationwide supplier of a wide range of products, while specialist brands are used to develop new markets. The branch network is being rationalised. There are opportunities from the expected growth of demand for environmentally sound and more energy-efficient construction materials and methods, and to develop own-brand product lines.

No further investment for growth will be made in France as a whole until the restructuring currently planned has been completed and results are satisfactory. Non-core operations will be disposed of when appropriate.

Performance

Local currency revenue was down 12.8 per cent to €2,486 million (2008: €2,850 million) with organic revenue declining 12.9%. Despite this, the gross margin was broadly flat although trading profit was 73 per cent lower at €37 million (2008: €139 million), as management continued to phase cost reduction actions in accordance with French social laws. The 2007/8 trading profit benefited from €11 million more non-exceptional property and other asset disposal profits than 2008/9. Trading margin for the year ended 31 July 2009 was 1.5 per cent (2008: 4.9 per cent). Spot cash-to-cash days were lower than the prior year with improvements in inventory days and receivable days, despite changes to legislation regarding payment of suppliers.

Management attention continues to focus on lowering the cost base and maintaining gross margins with additional social plans launched in June and July. During the year restructuring actions gave rise to €28 million of exceptional costs, headcount was reduced by 1,152 and 56 branches were closed. The restructuring actions are expected to give rise to annualised savings of €39 million (£34 million). Particular focus has been on the Brossette lightside businesses which made a trading loss of €4 million in the year ended 31 July 2009. The repositioning of Brossette continues with the aim of providing a broad range of solutions for professionals in the heating segment, to expand the showroom capability and to improve customer service and the product offering.

In addition, action has been initiated to exit the loss making branches relating to the public works business, subject to employee consultation.

France reduced the number of branches to 776 in the year ended 31 July 2009 (2008: 848).



Local brands/knowledge

Being part of Wolseley plc allows the different Wolseley businesses to leverage the knowledge and capabilities of the Group and create natural synergies. Examples include taking advantage from experiences in similar businesses such as Réseau Pro (Wolseley France's main heavyside brand) which has recently been sharing best practices with DT Group in the Nordic region and has introduced its "Craftsmen corner" concept into "Réseau Pro Express" (the self-service area). This is a dedicated area in the front of a branch with specialist advice as well as high end tools and accessories for highly skilled tradesmen. To date, the concept has been extremely well received by customers.