

Risk management

The Company has in place a comprehensive risk management programme which is designed to ensure that significant and emerging risks are identified, assessed and managed effectively. During the year, the risk management programme was strengthened with the introduction of a protocol which ensured more consistent categorisation and assessment of risks. This allows for better appraisal of risks both from the perspective of the operating company and the Group, and for more accurate reporting and review of those risks. The new programme also requires a more rigorous plan for management of any significant risks that have been identified, with operating companies assuming greater accountability.

Risk	Mitigation
<p>Market conditions</p> <p>The Group's results depend on the levels of activity in the new construction and property repair and remodelling markets. These in turn can fluctuate rapidly, and depend on such factors as:</p> <ul style="list-style-type: none"> ▶ the general rate of GDP growth ▶ consumer confidence ▶ the availability of credit to finance customer investment ▶ mortgage and other interest rates ▶ the level of government initiatives to stimulate economic activity ▶ inflation ▶ unemployment ▶ demographic trends <p>and others. These factors are out of the Group's control and have been difficult to forecast.</p> <p>Levels of activity have decreased markedly over the last two years, and there is a risk that they may decrease further or that improvement may be slow. A continuing downturn or lack of improvement in any of the Group's markets could have a material adverse effect on the Group's results or financial condition.</p>	<p>The Group's businesses review all available indicators of activity – such as market statistics, economic forecasts, surveys and competitor announcements – to assist in making decisions.</p> <p>All the Group's businesses have active programmes, monitored from the centre, to reduce their cost base in line with expected levels of sales, to identify and exploit counter-cyclical opportunities, such as projects funded by the American Recovery and Reinvestment Act, and to diversify into the sectors, particularly commercial and industrial, that have proved more robust.</p> <p>Programmes remain well managed to improve cash flow and reduce debt.</p>
<p>Restructuring actions</p> <p>In response to the recent deterioration of its markets, the Group has undertaken a restructuring programme to reduce costs and preserve cash. This has involved divesting certain businesses and other assets, closing branches, reducing headcount and curtailing capital expenditure.</p> <p>The Group's assessment of the level of restructuring required, and its expectations for the financial benefits it will derive, are based on assumptions about future economic conditions that are inherently highly uncertain. There is a risk that the downturn may be more severe than the Group expects, so that it fails to reduce costs as much as it could do, and there is also a risk that the downturn is less severe and the recovery more rapid than the Group expects, so that it reduces its size excessively and is unable to benefit fully from the recovery. Either of these outcomes could have a material adverse effect on the Group's results or financial condition.</p>	<p>All decisions about closing or divesting businesses or exiting market sectors are made on the basis of cost-benefit analyses. Group management only approves those which are consistent with our overall view on the direction of our markets and the longer term strategic direction of the Group.</p> <p>Each business reports monthly on the costs incurred and the benefits realised to date and forecast to be realised in the current and subsequent financial year and these reports are reviewed and challenged by central management.</p>

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<p>Financial flexibility</p> <p>Wolseley's current bank facilities include a covenant that its net debt should not exceed 3.5 times its annualised earnings before interest, taxes, depreciation and amortisation ("EBITDA"). A breach of this covenant could result in a significant proportion of the Group's borrowings becoming payable immediately.</p> <p>In order to remain in compliance with this covenant, and depending on the future performance of its business, there is a risk that the Group might have to take actions to reduce costs or preserve cash that it would not otherwise have chosen to do, or that it might not have the resources to exploit opportunities it would otherwise have pursued. Either of these outcomes could have a material adverse effect on the Group's results or financial condition.</p>	<p>The Group regularly updates its five-year strategic plan to reflect changing market conditions and prepares medium-term financial forecasts and shorter-term budgets on the basis of this plan.</p> <p>These allow the Group to monitor its capital structure and assess whether the overall balance of debt and equity remains appropriate, and also to monitor its future compliance with covenants.</p> <p>If these forecasts indicate periods of limited headroom, the Group can take whatever action is needed to restore a comfortable margin of compliance.</p> <p>The Group also regularly reviews financial performance, cash flow forecasts and its exposure to fluctuations in currency exchange rates.</p> <p>The successful share placing and rights issue, and the signing of a two-year forward start debt facility effective in 2011, has significantly improved the Group's financial flexibility.</p>
<p>Competitive pressures</p> <p>Wolseley competes with numerous local and regional distributors, as well as product manufacturers, in serving the existing customer base and responding to trends in its markets.</p> <p>The Group's numerous markets have different characteristics. Trends affecting certain of them include:</p> <ul style="list-style-type: none"> ▶ customer or supplier consolidation ▶ manufacturers shipping directly to customers ▶ commoditisation of products ▶ increasing demand for e-commerce ▶ changes in technology to improve fuel efficiency or reduce environmental cost. <p>The Group's competitive position in any one market can depend on such factors as:</p> <ul style="list-style-type: none"> ▶ product availability ▶ supply chain efficiency ▶ pricing ▶ branch location ▶ the product knowledge and customer service levels of its staff ▶ availability of credit ▶ ability to support specific customer requirements (eg central billing). <p>There is a risk that competition in some or all of the Group's markets could reduce sales prices or margins, which could have a material adverse effect on the Group's results or financial condition.</p>	<p>Wolseley competes through the service, expertise and the product breadth it offers as well as on price.</p> <p>Local businesses respond to the dynamics of their local markets and serve customers appropriately. Whatever changes those businesses require – for example, shifting the product mix towards higher margin own-brand ranges, or developing services to reduce their customers' overall procurement costs – are supported by the investment in people, technology and logistics that is enabled by the Group's international scale.</p> <p>Central management conducts a regular review of operational performance, including the monitoring of non-financial KPIs.</p>

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<p>Systems and infrastructure capabilities</p> <p>The Group can only carry on business as long as transactions are supported by its information technology systems. There is a wide variety of systems across the Group, some of which have been operating for many years, which makes it difficult to capture or to aggregate certain kinds of information which would assist management in responding to market changes or to competitor activity. The Group is running a large-scale programme of business improvement (the Business Change Programme), which will implement shared and upgraded systems across the Group over a number of years.</p> <p>This programme has recently been in competition with other projects for the limited funding available, which has delayed the planned deployment, but the Group still expects that benefits over the lifetime of the systems will significantly exceed development costs.</p> <p>There are risks that the anticipated benefits may not be realised or that they may be delayed, that development and implementation of new systems and extending the life of legacy systems may cost more than currently budgeted, and that the deployment may result in greater business disruption or diversion of management attention than currently foreseen. Any of these outcomes could have a material adverse effect on the Group's results or financial condition.</p>	<p>Wolseley is committed to investing to ensure the appropriate infrastructure is in place to sustain its current business and support growth. A governance structure has been established, cascading from the Board to operating divisions, to ensure that the planned revenue and capital costs remain appropriate, that benefits will be delivered and the risks of disruption to the business are controlled and monitored and to make the detailed decisions about allocating resources between competing projects.</p>
<p>Liquidity risk</p> <p>While the Group's current bank facilities provide adequate borrowing capacity for the next four years, these facilities are only available as long as the Group continues to comply with its covenants. The Group will seek to refinance these facilities well before they expire, and may identify investment opportunities in the medium term that require access to additional financial resources. There is a risk that the Group may not be able to obtain new facilities or refinance existing facilities on satisfactory terms, which could have a material adverse effect on the Group's results or financial condition.</p>	<p>During the course of the year, strong and effective management of this risk has ensured that no major debt facility should need to be negotiated until 2013.</p> <p>The Group's strategic plan provides the basis for assessing the level of facilities required throughout its planning horizon and also allows an estimate of relevant credit metrics.</p> <p>The Group intends to obtain a credit rating during the financial year 2009/10 and is currently working towards this. A credit rating will assist in the refinancing of existing facilities as they mature and extend the financing options available to the Group.</p>
<p>Product prices and availability</p> <p>The market price and availability of products distributed by the Group, such as stainless steel, copper, plastic, timber and other products (or commodities used in such products), can fluctuate.</p> <p>The cost of fuel, which is a significant proportion of the Group's distribution cost, can fluctuate.</p> <p>Product shortages may arise as a result of unexpected demand or production difficulties. In addition, suppliers in certain territories rely on obtaining credit insurance on their receivables, and in recent market conditions have been finding it increasing difficult to do so, which affects their willingness or ability to make product available on credit.</p> <p>There is a risk that the Group may be unable to accommodate or respond to adverse price fluctuations and that the Group may lose sales due to lack of available products, which could have a material adverse effect on the Group's results or financial condition.</p>	<p>The Group sources products from a wide variety of manufacturers and suppliers with none of these accounting for more than 5 per cent of its total material and supply purchases during the 2008/9 financial year. The Group actively seeks diversity of suppliers for key product ranges and increasingly works with suppliers to forecast demand and hence manage product availability better.</p> <p>Generally, the Group is able to maintain margins by passing on price increases from its suppliers to its customers. The Group's businesses also seek to minimise the effects of changing prices through economies of purchasing and inventory management, resulting in cost reductions and productivity improvements.</p> <p>The Group has provided assistance to a number of its suppliers in covering their receivables, for example by making presentations directly to credit insurers or changing credit terms to mitigate their exposure.</p>

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<p>Credit and counterparty risk</p> <p>Wolseley provides sales on credit terms to many of its customers. There is an associated risk that customers may not be able to pay outstanding balances.</p> <p>The North American Loan Services business (formerly part of Stock Building Supply) also provides loans to finance the construction of properties. There is an associated risk that customers may not be able to pay outstanding loan balances.</p> <p>Wolseley places funds on deposit with banks, and enters into interest rate swaps under which it is entitled to receive future cash flows from banks. There is an associated risk that counterparties may not be able to meet their obligations.</p>	<p>Each of the businesses has established procedures to monitor and collect outstanding receivables. Significant outstanding and overdue balances are reviewed regularly and prompt action is taken. In many cases, protection is provided through lien rights on projects or through credit insurance arrangements, and all of the major businesses use professional, dedicated credit teams, in some cases field based. Appropriate provisions are made promptly for debts that may be impaired.</p> <p>The construction loans provided by North America Loan Services are secured on the related properties and are managed by a dedicated lending team within that business.</p> <p>Group Treasury maintains a list of approved counterparties and exposure limits, and monitors the credit ratings and credit default swap spreads of these counterparties monthly.</p>
<p>International operations</p> <p>Wolseley operates in 27 countries, which can present logistical and management challenges owing to different business cultures, laws and languages. The Group needs to strike the right balance between centralising where there are benefits to be gained from the Group's size and expertise, while allowing businesses the right amount of autonomy to respond to local conditions, and while recognising that business models that have been successful in certain regions cannot necessarily be transferred to others.</p> <p>In addition, there are general risks arising from managing operations internationally:</p> <ul style="list-style-type: none"> ▶ fluctuations in currency exchange rates may affect Wolseley's reported operating results and its financial position; ▶ changes in tax regulation and international tax treaties could affect the financial performance of Wolseley's foreign operations; and ▶ changes in other regulations or treaties may also affect the ability of the Group to repatriate profits from its foreign operations. 	<p>Wolseley believes that the benefits of its geographical spread outweigh the associated risks. The portfolio effect of owning businesses in a range of economies and currency regimes reduces the volatility of the Group's longer term performance. The Group continues to realise efficiencies in sourcing and distribution, and has programmes in place to share best practice.</p> <p>The Group seeks to manage its foreign currency risk and the steps it takes are described in the financial risk management section on pages 37 to 38 and 111 to 114.</p> <p>The Group actively works with its taxation advisers to understand the implications of changes to tax legislation and to minimise its tax exposure and risk.</p>
<p>People</p> <p>Wolseley's ability to provide leadership and products and services to customers depends on retaining sufficiently qualified, experienced and motivated personnel.</p> <p>In order to increase productivity, and be able to take growth opportunities when markets improve, Wolseley must maintain the skills and experience of its existing management and continue to develop the managers of the future.</p> <p>The current difficult conditions experienced in certain markets, and the Group's response to them, have increased staff turnover and may demotivate remaining staff.</p>	<p>One of Wolseley's key competitive advantages is the quality and experience of its people. Local companies have allocated specific responsibilities for reviewing the performance of senior managers and employees with high potential. Development and succession planning for these individuals is planned and strong performance is rewarded.</p> <p>The Group continues to invest significant time and money in senior management, manager development and graduate development programmes.</p> <p>The Group reviews its compensation, incentivisation and rewards policies to ensure that it is able to recruit and retain high quality employees.</p>

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<p>Governmental regulations</p> <p>The Group's operations are affected by various statutes, regulations and laws in the countries and markets in which it operates. While the Group is not engaged in a highly regulated industry, it is subject to the laws governing businesses generally, including laws affecting competition, land usage, zoning, the environment, health and safety, transportation, labour and employment practices (including pensions), data protection, and other matters. In addition, building codes or particular tax treatments may affect the products Wolseley's customers are allowed to use and, consequently, changes in these may affect the saleability of some Wolseley products.</p>	<p>The Group monitors regulations across its markets to ensure that the effects of changes are minimised.</p> <p>Certain changes in regulations may also provide opportunities, by increasing demand for a broader or higher margin product range. For instance, changes to the standard of heat insulation in new buildings required by building regulations in the UK have increased demand for specialist products provided by Wolseley UK.</p>
<p>Litigation</p> <p>The international nature of Wolseley's operations exposes it to the potential for litigation from third parties. In the US, the risk of litigation is generally higher than that in Europe in such areas as workers' compensation, general employer liability and environmental and asbestos litigation.</p> <p>There is a risk that, due to the increasing sourcing of products from lower cost countries, recourse to the manufacturer may be more difficult were a product to fail for a customer.</p>	<p>Wolseley has a culture which is designed to resolve disputes directly with the party in question in a spirit of openness and co-operation. Litigation is generally regarded as a last resort.</p> <p>In the case of asbestos litigation, Wolseley employs independent professional advisers to actuarially determine the potential gross liability, on the basis of assumptions about how claims will develop and the cost of settling such claims over the remaining lifetime of the potential litigants, which is about 50 years. Actual experience may be expected to differ from the assumptions made, and these assumptions are reviewed each year and the liability adjusted in the financial statements.</p> <p>Wolseley has insurance which significantly exceeds the current estimated liability relating to asbestos claims. Based on current estimates, no material profit or cash flow impact is expected to arise in the foreseeable future. Wolseley has recognised a discounted liability of £42 million in respect of asbestos litigation with an equivalent insurance receivable shown in other receivables reflecting the discounted sum recoverable from insurers in respect of this liability.</p>

Further information of financial and related risks can be found on pages 37 to 38 under Other financial matters.