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Presenter: Steve Webster
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Operator: Welcome to today's Wolseley Interim Management Statement conference call. For your information this call is being recorded. I would now like to hand the call over to Mr Steve Webster, Chief Financial Officer. Please go ahead sir.

Steve Webster: Good morning ladies and gentlemen and welcome to our analyst and investor call to discuss Wolseley's Interim Management Statement for the three months ended 31st October 2009. Thanks for joining us, I'm Steve Webster, CFO of Wolseley and I have with me Derek Harding who is Director of Group Strategy and Investor Relations. I hope you've seen this morning's press release and been able to view the slides that accompany the call on our website. I'm now going to take you through the key points of the statement and then we can move on to your questions.

Starting with slide 2, the market trends and the trading performance remain in line with our expectations at the time of the full year results announcement in September when we said that we expected the new residential market to show continuing signs of stabilisation, RMI markets to decline at a lower rate and commercial and industrial markets to decline at a faster rate. So group revenue from continuing operations was down 13% to £3,395 million or down 20% in constant currency. Trading profit from continuing operations was down 41% to £104 million or down 46% in constant currency. We continue to focus on maintaining a tight control on costs and during the first three months restructuring costs of £10 million have been incurred and charged against the trading profit. That £10 million is made up of Wolseley UK £5 million, £3 million in North America, £1 million in France and £1 million in Central and Eastern Europe, and these costs may be re-classified as exceptional in subsequent periods if further similar costs are incurred and they become material in aggregate to the group.

Also when looking at the quarter on quarter performance you should note that in the prior year a £4 million profit on the disposal of two businesses in France was included in the trading profit in the first quarter which was later re-classified as exceptional. In addition to that the prior year includes the one-off property profit at £13 million in Ferguson. So the comparable group trading profit on an underlying basis is down 28% after excluding the effect of the £10 million restructuring costs, the £4 million profit on disposal and the £13 million property profit in Ferguson. We are extremely conscious of the need to protect the group's infrastructure in terms of the branch and DC network to ensure we are in a strong position when conditions improve. Profit from continuing operations before tax, exceptional items and amortisation and impairment of acquired intangibles was down 45% to £76 million or down 50% in constant currency.

While conditions in the group's markets remain very tough, it is encouraging to look at the like for like sales trends in the first quarter which are more favourable in the fourth quarter in fiscal 2009. For each cluster they show an improving trend and I'll just give you these numbers to save you asking about them at the end. Ferguson had a fourth quarter decline of just under 26%, the first quarter of 2010 the decline is just under 21% so an improvement there. Canada was down in the fourth quarter by just under 11%, in the first quarter 2010 now down by 10%. UK fourth quarter '09 down by around 12%, first quarter 2010 around 5% down. Nordic fourth quarter down about 22%, now first quarter 2010 down 15%. France down fourth quarter '09 15%, now first quarter 2010 13%, and finally Central and Eastern Europe down fourth quarter '09 8% and quarter one 2010 down 6%. Despite those good numbers we recognise we're not out of the woods yet, we are continuing to focus on improving performance in each of the businesses.

Since 31st July 2009 net debt has increased by £264 million to £1,223 million primarily due to the seasonality of working capital, this also represents a partial reversal of the favourable working capital position at the year end which we pushed very hard to achieve. We want to ensure that our businesses have the right level of inventory going forward, to improve customer service and take advantage of market opportunities. We expect the level of debt to be lower at the half year stage and it should be further reduced by 31st July 2010. As expected cash flow was down on the equivalent period in the prior year due to a lower level of trading profit, also the working capital outflow and the impact of a new receivables factoring arrangement in France in the prior

year. The year as a whole we continue to expect a modest cash inflow relating to working capital. The group's plans for deployment of the group's business change programme at Ferguson for the remainder of the current financial year are currently being reviewed in order to defer costs and to avoid business disruption in difficult markets. This is likely to impact the rollout of the programme which could result in an impairment at the half year stage. The current value of this asset on the group's balance is currently £140 million.

Finally just a reminder of where we got to on the resource allocation project. You may remember at the full year results I indicated our intention to evaluate our businesses going forward to prioritise future investment. We're making good progress on the project overall and I expect to update you on this progress at the half year results announcement.

Turning to the businesses, and first North America; for the three months to 31st October 2009 North American revenue in sterling was down around 17% or around 24% in constant currency compared to the corresponding period last year. Trading profit was also lower, down by 44% or 49% in constant currency reflecting lower profitability in Ferguson and the one-off property profit in the prior year that I previously mentioned. Ferguson, local currency revenue was around 26% lower and underlying trading profit excluding property profits was down around 47%. Ferguson has experienced a further decline in its commercial industrial market in the three months ended 31st October 2009 due to continued shortage of funds for project finance. However the residential market is showing increasing signs of stabilisation. The gross margin in Ferguson was marginally lower compared to the first quarter of fiscal 2009 and it is likely that the increasing pricing pressure will continue. Local currency revenue for Wolseley Canada was around 16% lower and trading profit was down around 33% due to a lower level of sales and also a lower gross margin. Remember the first quarter in the prior year for Canada was very strong as the Canadian markets had held up pretty well at that stage.

So now turning to Europe, for Europe as a whole revenue in euros for the three months to 31st October 2009 was down by around 10% or 16% in constant currency. Trading profit was down by around 23% or 30% in constant currency. Turning to the UK and Ireland, revenue was down by around 13%, trading profit excluding the 5 million of restructuring costs was up by around 17% due to the benefit of cost reduction actions taken in the prior year. The overall gross margin was around 2% lower than the first quarter of last year due to competitive pricing

pressures in the light side and the industrial and commercial divisions. We remain intensely focused on customer and product mix and actions to date have started to reverse this trend in recent weeks. There are increasing signs of stabilisation in the UK residential and RMI markets and there has been a slowing in the rate of decline in the commercial and industrial markets. Profits in the industrial and commercial division continue to be affected by aggressive price competition and competitive tendering. Trading profit in the light side division for the three months to 31st October 2009 was marginally up despite a lower gross margin. It's good to see that the heavy side division is showing improving sales and profit trends. The Irish market continues to be extremely challenging although the rate of trading loss has stabilised and is broadly in line with the corresponding period in the prior year.

The Nordic region reported revenue for the first quarter in local currency down by around 19% and trading profit was down by around 14%. The Danish market continues to be the most challenging in the region whilst revenue in Sweden almost reached the level of the prior year. Despite some pricing pressure the underlying gross margin in the Nordic region was slightly ahead of the same period last year as a result of a better mix and improved rebate terms negotiated with suppliers.

Turning to France which is the next slide in your packs; in France revenue and local currency for the first quarter was down by 17% with a gross margin marginally down compared to last year due to a lower margin in Brossette while heavy side held its gross margin. We continue to focus on lowering the cost base, implementing the social plans launched in June and July, repositioning the business towards renewable energy products and improving customer service in Brossette where we have lost some market share. The three months to 31st October the business made a trading loss of £9 million mainly as a result of continued under performance in the light side division. This compares to a break even position in the same period last year excluding the £4 million profit on disposal of businesses that I mentioned earlier.

In Central and Eastern Europe revenue in local currency was down around 16% with trading profit down around 33%. Since September we have completed the disposal of the Belgium and the Slovakian light side businesses. The disposal of the Czech lightside business is also underway and expects to be completed in the next few weeks. A loss on disposal arising from those actions was provided for as an exceptional cost in the prior year. The year ended 31st July 2009

the businesses we are disposing of generated revenue of £66 million. Continuing businesses in Central and Eastern Europe the pro forma local currency revenue for the quarter was down 7% and trading profit was down 28%.

Finally turning to the outlook; we expect market conditions to remain challenging due to the effect of tight credit conditions and continued high unemployment. While we expect the new residential and RMI markets to move towards stabilisation, the majority of the group's commercial and industrial markets are likely to deteriorate further in the short term. The group will continue to focus on delivering improved service to customers, protecting share and gross margin, driving further cost reductions and delivering a good cash performance.

So thank you for your attention so far, we'd now be happy to take any questions you have. If you would state the name and the company you represent and limit the number of questions to a maximum of two. Thank you.

Operator: Thank you. If you would like to ask a question please press *1 on your telephone keypad. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. If you find that your question has been answered you may remove yourself from the queue by pressing *2. Again please press *1 to ask a question. We'll pause for just a moment to allow everyone to signal for questions.

We'll take the first question from Nicolas Godet from Exane BNP Paribas. Please go ahead.

Nicolas Godet: Good morning, Nicolas Godet from Exane BNP Paribas, good morning Steve, good morning Derek. The first question is on cost cutting, you were getting £233 million for the full year if my memory is correct. How much have you achieved in Q1 and how much more should we expect from the new measures that you are implementing, you said in UK, US, France and Central Europe? This is my first question.

Steve Webster: I'll answer that first Nicolas and then come back to you for the second question, I'm sure you're storing up. In terms of the cost reductions we expect to achieve about two thirds of the cost reductions relating to the prior year actions in the first half, therefore in the first quarter so far Nicolas we've probably achieved about a third of those cost reductions which

translates to about £70-75 million. That's what we've achieved in the first quarter and in terms of what's happened in the first quarter so far, the headcount reductions in the first quarter were around 500 and we take an additional 20 million or thereabouts of costs out of the cost base.

Nicolas Godet: So full year target, is the full year target increased following the new measures that you have implemented so far?

Steve Webster: We don't really have a full year target in that sense. What we're having to do obviously is to look every month at the market conditions we're seeing and take actions as we go, so that's what we will continue to hit the cost base very hard in the light of the prevailing market conditions, but we do feel we've done most of the heavy lifting in terms of the cost reduction actions and the branch closures in the previous year. We will continue to take costs down but it won't be at the same scale or magnitude as the prior year.

Nicolas Godet: Ok, thank you. My second question relates to pricing pressure, could you comment in which countries you have some pricing pressure and in which you don't have, and tell us if it's a gross margin squeeze from the distribution industry or is it a broader deflationary environment from your manufacturers and if this pricing pressure is new to you and is challenging your view that to an extent EBIT should improve?

Steve Webster: The pricing pressure is more to do with the competition in the market place and the volumes in many of the segments still down rather than deflation. The majority of our product range is not subject to deflation and we don't expect that. Obviously on the commodity side of the business which is usually 10-15% of the product range, there can be a little bit of deflation there, there was in the previous year but there's been no significant effect to commodities in the first quarter, so it's coming from competitive pricing. Where we're seeing it most is the industrial and commercial segment generally whether it's in the US or the UK and it's not surprising in a way because as you all know that's where we have to quote for jobs, we have to tender for jobs and the pricing, the competitive tendering is extremely severe at the moment to get the work so that is coming from the market place throughout in the industrial and commercial segment. We're also seeing some margin pressure in France particularly in the Brossette business and also in the UK which is a combination of light side and industrial and commercial.

Nicolas Godet: It's France, UK, US. Is that challenging your view that to an extent earnings should go up?

Steve Webster: Obviously whatever you think is going to happen to the earnings is whatever you think is going to happen to the earnings Nicolas. I think all we can do is describe the market conditions and help you with the trends, but not give you specific ...

Nicolas Godet: I'm just referring to an indication that you had during the last presentation that in 2010 the performance should improve. My question is: is this pricing pressure scenario challenging your view that 2010 earnings should improve?

Steve Webster: I think we actually said we expected the gross margin, if you're talking about pricing pressure to come under further pressure in 2010, so what we're seeing is entirely consistent with what we said back in September which as I say is not surprising particularly in the industrial and commercial segment and the fact that volumes in many other segments are still down, so what we are seeing is what we expected to see in that sense.

Nicolas Godet: Ok, thank you very much.

Operator: The next question comes from Tom Sykes from Deutsche Bank. Please go ahead.

Tom Sykes: Good morning everybody. I just wondered if on the residential side you could give us a little bit more clarity as to what you mean in terms of the stabilisation, when perhaps heaven forbid we might actually get into some growth in that business, and also perhaps if you could give the exit rates which presumably are lower than the 20% for the quarter, but also if you could split that out and give us some idea of residential, non-residential, RMI, maybe the civils business if you could do?

Steve Webster: Yes, what we're saying is if you take the new residential markets in most places we operate Tom, they've probably pretty well stabilised already and everyone is beginning to see house building again and the segment improving, but I think a note of caution there, we don't think any of the new residential markets will improve massively and dramatically and quickly

because of the lag effect of unemployment, high unemployment and mortgage financing is still not easy to get, of course in the USA you've still got very, very high levels of foreclosures hitting the market which is still putting a lot of extra inventory on the new res market. So new res broadly will probably stabilise, likely to pick up very slowly. RMI markets, you can probably see from the disclosure different rates of like for like sales decline, we're seeing different things there but these markets are moving towards stabilisation. It probably won't be until some time in the new year before they reach stabilisation but we're getting there and you can see from the quarter on quarter numbers that I quoted that there is that gradual trend of improvement across most of the businesses. It's really the commercial industrial market just to be clear that is still declining at a faster rate more so in the US than the UK, but the US one is the one that's going down most. What we can't do Tom unfortunately, because our customers operate in different segments, they may be in the residential segment one day and they may be in the industrial commercial segment or the new res another day, we can't split out the like for like sales decline for you by segment.

Tom Sykes: Ok, but in terms of the run rate that you're seeing across the residential RMI markets then, are you saying that you think probably in the new year that will be year on year flat?

Steve Webster: Who knows to be honest, it'll be different things for different markets but as a broad perspective it should be moving towards that flat thing early in the new year on the residential side, but different markets will behave at different rates depending on what's going on in the local economy and in relation to local unemployment.

Tom Sykes: Right ok, that's great. Thank you.

Operator: Next question comes from Andrew Gardner from MF Global, please go ahead.

Andrew Gardner: Good morning. Just a couple of points following on from what you mentioned on the commodity side. Firstly in terms of the copper and pipe, how that's going to affect your position on stock and your thoughts going into working capital inflows during the year, whether or not you're having to restock at the higher commodity prices we're seeing in copper and plastics? Then secondly relating to that point is further down the P&L I suppose, with stock

whether the recent jump that we've seen in the lumber futures should be helping that business at all?

Steve Webster: Ok. The first thing to remember when I talk about commodity prices, as I mentioned earlier, they're generally between 10% and 15% of the product range rather than any higher. You do see a little bit of deflation as I mentioned in the previous year. So far it's been pretty neutral in the first quarter and we're not expecting a significant effect from commodity price fluctuation on the results for this year, but we'll obviously have to see how commodity prices do move in the future, so we haven't seen a significant effect in the first quarter and we are not expecting that. As far as lumber and stock goes, you probably remember Andrew that we have entered into a joint venture in this. Lumber prices have improved a little bit of late but they're still well below the historic norm and of course we end up only consolidating about 44% of the stock results as a share of profit or loss from the associated company, so the lumber price fluctuations haven't had much of an impact on this quarter's portion of the stock results taken in to Wolseley's numbers.

Andrew Gardner: Ok, thank you.

Operator: Next question comes from Howard Seymour from Numis. Please go ahead.

Howard Seymour: Morning gents. First question please, just on the US Steve, you mentioned the acceleration in the commercial decline if I can put it that way, and it was always going to be big numbers, is it worse or accelerating more than you would have expected?

Steve Webster: It's in line with our expectations this stage Howard, so in that sense we're on budget, that's the good news. So it's in line with our expectation, something we've flagged before and of course within industrial and commercial we talk about the segment as though it's one, of course it isn't, you've got different things going on in the sub-segments where you talk about retail or leisure and generally things to do with infrastructure and government spending are holding up marginally better than the other segments, but anyway it's in line with our expectations at this stage.

Howard Seymour: Sure, thanks Steve. Second question, you alluded before to market share gains, is it possible to tell us where you are gaining market share, firstly I suppose if this is material in terms of the businesses or whether it's relatively small and whether you'd expect market share gains to continue in those markets?

Steve Webster: What we are trying to achieve as I made clear in the statement, is the right balance here going forward between market share and margins. It's very important that we look at the two together rather than in isolation. On the pleasing side I think Howard, very pleased that we've gained market share back if you like in the UK light side business and to some extent the UK heavy side business so that's good news, a reversal of the situation that we were in about a year ago. We've certainly improved our position in the French heavy side business now as well, where we're either in line with the market or marginally in excess of. Ferguson continues to gain market share. The one disappointing feature if you like where we have to acknowledge we've been losing market share is Brossette, but the good news is there we're not losing market share at the same rate we were six months ago and we are attending there to the product issues and the customer service issues. So there's been no dramatic change here, it's just I think by concentrating on the basics here of customer service, inventory availability, we've been able to restore and improve the market positions in most of the businesses.

Howard Seymour: Great, thanks Steve.

Operator: The next question comes from Clyde Lewis from Citigroup. Please go ahead.

Clyde Lewis: Morning Steve, morning Derek, it's Clyde at Cit. Two US ones if I may. You touched on stock a little bit earlier Steve in terms of the lumber prices but could you say a little bit about the profitability of that business, obviously given the a) change in ownership and b) the drive to take out a big part of the operating leases and other costs? That was the first question, and the second one is again coming back to Ferguson and the comments about the visibility and the order book that you can see, it's not great I know but what are your expectations for the next three months in terms of turnover levels there?

Steve Webster: As far as stock goes you probably remember there are two components of this just to be clear, one is whatever their trading result is and we consolidate 44% of that; the other bit is

the construction loans. As far as the stock business itself goes, we're certainly pleased with the actions that the new board has taken to curtail the cost base of the business, we were successful in that Chapter 11 process, there was a lot of cost taken out and a lot of lease obligations eliminated. The profitability or at least the run rate of losses is beginning to improve but I think we said in September Clyde that we were looking at a run rate of loss at around £2 million a month and that's still there or thereabouts so that's the current run rate of losses for the trading operations of stock and we would obviously hope that will improve over the year but we will have to see. In terms of the construction loan business, the run rate of loss there is in the kind of £1-1.5 million a month range. The big issue there of course is what the bad debt provisions are going to be going forward, but as we mentioned in September there are signs there of a stabilisation of the position, so run rate of loss £1-1.5 million a month, but remember of course there is interest income on the interest line that is a net benefit which is running at the rate of £7-8 million a year. So those are the component parts which hopefully will give you the bits of the jigsaw you need.

Clyde Lewis: And what were all those numbers, sterling, dollars, combination of the two?

Steve Webster: Sterling.

Clyde Lewis: All sterling, ok.

Steve Webster: Coming back to your point about Ferguson, visibility is difficult. We do have an order book to some extent, I'm talking about the industrial and commercial market in particular here. We do have an order book to some extent but realistically we expect the conditions in this segment to remain challenging for pretty well all of this fiscal year right through to the summer because there is no sign really of the financing side of the equation, the project financing side of the equation getting a lot better yet and that's the critical point. There's demand out there for projects but people just can't get finance. Right now I think we would expect this acceleration of the decline in the market to continue, it'll obviously begin to tail off and of course we start to have a better comparator position once we get to probably December but it's too early yet to call when the stabilisation of that market segment's going to be.

Clyde Lewis: Thanks very much.

Operator: The next question comes from Mark Stockdale from UBS.

Mark Stockdale: Morning Steve, morning Derek, Mark Stockdale from UBS. Can I just go back to gross margin if I may please. You obviously kindly told us the group was down 0.5 percentage points with the UK down two. I wonder if you could just flesh out the broad trends, obviously focus on Canada as the interesting one, and then at Ferguson you said there was still some price pressure, is the gross whatever it is if you're going to disclose it actually still deteriorating as an exit run rate as we come out of Q1? Then secondly if you just actually give us by region the actual like for like exit run rates at the end of Q1 also please?

Steve Webster: Gosh, I think you'd ask me for the daily run rate there Mark if you could...

Mark Stockdale: I'll have that as well if you're happy, and the management accounts.

Steve Webster: First of all as a shape or a trend, we are seeing increasing margin pressure in most businesses, it really is there. What we've been able to do of course in the previous fiscal year and to some extent in the first quarter is do a pretty good job of negating the effect of that in some of the businesses by concentrating very hard on product mix and maximising that, on customer mix in some cases and maximising getting with the profitable customers. Private label of course helps the equation and we've also been successful in a lot of areas of renegotiating rebate terms with vendors to give us a better position. So that's kind of what happened in the year to 31st July 2009 and all those things continue to happen, it's just that I think the pricing pressure particularly in the industrial commercial segment in the US and the UK has got more severe with, you could probably quote a rule of thumb that when people are quoting for jobs they're probably quoting at a margin of 200-300 basis points less than they were probably a year ago just to give you some idea. I think that pressure in the industrial and commercial segment is increasing. We've seen it most apparent as I mentioned I think earlier in the UK business, that's a combination of the industrial and commercial segment I've just mentioned but also the light side business, so that's where those two areas gave rise to 2% deterioration in the UK margin. The margin trends in the UK have been better of late so that's one area where the margin trend is improving so the results of the management actions are definitely working but it still remains a very competitive market. I think putting all that together realistically we do expect this gross

margin pressure to continue. You can see in the first quarter we're down 50 basis points on the prior year and we will work extremely hard to mitigate the effects of that but I think you have to expect that margin pressure to continue for most of this fiscal year.

Mark Stockdale: Can I just push you a little bit further on Ferguson? Is that down half a point and sliding further and obviously you've got cost reduction that was going to work through because there's a big hit this year Steve, but is that half a point down on the gross or more or am I too....?

Steve Webster: Not a lot less actually Mark.

Mark Stockdale: Ok.

Steve Webster: It's a smidgeon, nothing more than a smidgeon.

Mark Stockdale: Right, good. Then if you can give us the exit run rate like for like sales would just be useful to see how that trend's progressing Steve as you came out of the October period?

Steve Webster: Yes, I'll just grab them. You probably remember the numbers I gave you back in July in response to your question Mark so I'll compare them with July. For UK we were down 12% like for like in July, overall we're up 0.5% in the month of October but I should caution you and everybody else on the call that one month's numbers are one month's numbers and no more. Anyway, you can see the improvement there. Nordic was down 14% in July, it's down 18% in October but we've certainly seen better trends in August and September so I wouldn't place too much emphasis on that, it reflects the Danish market being the most difficult in the region. France back in July was down 13%, we're now looking at down 12%. Central and Eastern Europe was down 8%, we've now looking at 2%. Ferguson was 26%, now looking at 20% and Canada was 12%, now 10%. So you can see that gradual improvement in the exit rates but just be careful taking one month's numbers alone.

Mark Stockdale: Excellent, that's great. Thanks very much Steve.

Operator: The next question comes from Jessica Flounders from Morgan Stanley, please go ahead.

Jessica Flounders: Morning, a couple of questions. First of all just going back to the cost cutting that you spoke about earlier, given that the rate of decline is improving are you therefore happy that the cost cutting that you've done to date is now going to be enough if things continue with that same trend, just given the comments that you said about the fact that the US for example, the decline there is in line with your expectations, I'm just wondering why there is this incremental cost saving on a period by period basis?

Steve Webster: What we said back in September is that we tried to position the business at the end of the previous fiscal year to have a cost base in line with our budget for the following year and therefore in line with the activity levels that we were expecting for the following year, i.e. the year to 31st July 2010. Inevitably we won't get that guess right as it were in every case so we continue to look very hard at the cost base every month and take out costs where necessary. You can see from the numbers that I quoted before that the run rate of these cost reductions and the size and significance of them is now much lower than it was a year ago, so we're trying to create the picture that we feel we've done most of the heavy lifting in the previous year. We are very conscious of the need to protect the infrastructure and the branch network but be assured we will take out further costs if we need to do so and the markets deteriorate more than we expect. So those numbers are quoted in relation to the first quarter of a head count reduction of 500. That compares with 10,000 in the previous year, so you can see the point I'm mentioning about the heavy lifting and further costs taken out of around 20 million in the first quarter is relatively small. So I think you can expect us to do more because there's bound to be situations where on a location by location basis which is the granular level we have to look at this, we do need to take further action but don't expect it to be radical or significant as it was in the previous year.

Jessica Flounders: As we look ahead 6-12 months and hopefully in some areas you start to see positive revenue growth again, how much spare capacity do you have because obviously the focus has been on cutting costs as much as possible but at some point that capacity for incremental growth is going to be completely taken up?

Steve Webster: It's difficult to give you an easy answer to that question. The level of capacity varies a lot but a number of points I think I can make. First of all we are absolutely determined to hold

on to the upside operational leverage. We have seen the downside operation leverage on the business and we want to make sure we take advantage of the upside operation leverage. We will not relax the discipline on cost control and cash management but of course we will ensure that our businesses have the right inventory to take advantage of any market upturn and to make sure that customer service is maximised as well, so we're very conscious of the need to hold on to that upside operation leverage and of course we do have plenty to staff in the DC network although we have reduced capacity in certain areas, not least the UK. Remember we built that capacity almost to then double the size of the business over the following five years, so we still have a lot of spare capacity there and you can't generalise but it's perfectly possible that for the first kind of 10% upturn in sales we can absorb that relatively easily whilst not improving the cost base. That's a horrible generalisation, it will vary business by business. We'll ensure that we get upside operational leverage.

Jessica Flounders: Ok, thanks very much.

Steve Webster: Thanks.

Operator: The next question comes from Andy Murphy from Singer Capital Markets.

Andy Murphy: Good morning gentlemen, two questions if I may. On the working capital, could you give us a bit of a steer for what you think the inflow I assume in the first half is going to be for the first half and a flavour for what the net effect might be for the full year? Secondly on France, do you get the impression that there are structural problems there that are going to be extremely difficult to fix that may well result in perhaps either restructuring it further or even exiting that market?

Steve Webster: On the capital for the first half you should expect an outflow of working capital which is our normal seasonal experience, we normally have an outflow in the first half and I mentioned earlier we've got a partial reversal of the favourable working capital position that we have pushed very hard to achieve at 31 July 2009, so do expect an outflow in the first half but there will be an inflow for the second half such that for the year as a whole we expect a modest inflow, and modest in my book means less than 100 million, so a modest inflow for the year. Of course the working capital inflow-outflow is hugely dependent upon the activity levels in the

final month, so year end will depend heavily on July because that's largely the inventory bill period, the receivables period, the payables period and so on, so this can be affected by different activity levels. In France I think it's important here to distinguish between the heavy side business that's doing pretty well and maintaining or improving market share versus the light side business Brossette which is the one that is incurring losses and we have been restructuring and repositioning in the market which is part of your question relating to trust share. We used to be heavily involved with fossil fuel heating and that market has dropped away significantly in France so we're moving it towards renewable energy products which is not an easy thing to do overnight. So what we said back in September is that we expect to continue to restructure the Brossette business. This is not a quick fix or an easy win. This is a kind of 2-3 year journey because it involves finding new customers and changing some things internally within the business. What we are looking to do of course is improve the performance of Brossette over that period.

Just going back to your point about cash by the way, I think you might have asked about debt. We said in the statement that we do expect the net debt position at 31 January 2010 to be lower than the position you've seen in the statement at 31 October. We expect the debt position at 31 July 2010 to be lower than the half year at 31 January 2010.

Andy Murphy: Thank you.

Operator: The next question comes from John Messenger from RBS.

John Messenger: Good morning Steve, Derek, just two if I could. The first one was just coming back to those like for like sales data points you gave there Steve. When I compare them obviously with the comments in the statement about like for like pre-FX effects, obviously there are quite big deltas. I assume this is just I guess branch closures in terms of when we look at those various numbers that you're quoting, between 4-8% is the delta. Is that just the branch dynamics in terms of closing coming through?

Steve Webster: Exactly that John, yes. Of course once you take sales days it may vary a little bit as well, but predominantly it is closures that affect it.

John Messenger: The October exit versus the figures you gave for the first quarter, those are absolutely comparable, yes?

Steve Webster: They are.

John Messenger: Brilliant. The second one was just in terms of the business change programme, obviously I completely understand given the difficult trading that you delay, the 140 million, what is the rationale in terms of having to impair it? Is it not something that you can carry on the basis that actually it's going to deliver the programme, you're going to roll it out. Why do you have to impair? Is it a step change in the expectations of what it can deliver or whether you're actually going to proceed with this?

Steve Webster: It's a good question John. First of all when you assess an impairment what you have to do is to look at the costs you're carrying on the balance sheet and then you look at the benefit side and the net present value of those benefits to see whether the NPV covers the carrying value or not. We are in the process of reviewing the implementation plans and the pilot plans for Ferguson. Of course there are a number of options there and I won't go over all of them. There are a number of options there and depending on which ones we go down, which ones we choose to adopt, it will almost certainly have an impact on the benefits equation either in quantum or timing or whatever, so we just need to go through the process, decide what we're going to do, re-evaluate the MPV of the benefits, compare it with the carrying value and see whether any impairment is required. It's no more sinister than that. It's not as though there's any change in the expectation of what the system will do. This is really trying to be sensible, Ferguson in particular is still in challenging markets which is clear. We want to minimise the destruction of the business. We want to minimise the additional costs we'd have to take on in the short term to implement, so this is all about timing and affordability and that's why we just need to reassess when we've made the decision.

John Messenger: Just finally a cheeky but almost a point of clarification question. When we look at the trading profit number, the 104 and we come back out for 176 for Q1 last year, when we think about the first half number obviously we all have last year first half reported which had stock in there and we had the group generating 182 million of trading profit. Just so we all

understand the dynamics of Q1 and Q2 Steve, is that basically an add back of 80 and then some modest loss in stock, just so we're all at a base level of Q1 and Q2 just to understand?

Steve Webster: You've got to start off with a run rate last year, you've got to adjust for the change in the cost base, adjust for the stock, adjust for the further deterioration in the sales line since then and adjust for the different gross margin for the different businesses.

John Messenger: I'm just thinking of the absolute number that we're going to see for the first half, last year it was reported at the 182 level. Clearly we've got to go through all those dynamics as you rightly point out but as our base level to be shooting from from last year's first half, is it of the order of 262 would be the straight add back of all of stock but I assume we need to then deduct 20 odd million of overhead run rate in stock that you are consolidating, just so we all have...is it something you've worked out yet in terms of comparables?

Steve Webster: Remember at the year end we gave you the run rate of cost and benefits excluding stock, so you can get at that side of the equation excluding stock John. Obviously you have to do your own sums but to help and I think it's stating the obvious, the first half is going to be challenging, you can see that from the numbers you've seen so far. You can see that from the fact that the industrial and commercial market continues to decline in the short term, but as we said before we're expecting a better second half but that's highly dependent upon the market conditions at the time. If you want further detail on the numbers it's probably better to have a chat with Derek offline just to re-collaborate that.

John Messenger: I just mean the absolute...I don't want any view at all on this year's number. I'm just thinking what will be the first half last year reported number that we are all going to be comparing with because we only know the 182 trading profit last year and clearly that number is going to be restated for a couple of factors to get to the underlying number. I'll chat with Derek later. Thanks very much.

Steve Webster: Alright, thank you.

Operator: The next question comes from Kevin Cammack from Cenkos. Please go ahead.

Kevin Cammack: Good morning Steve, Derek. Just actually one from me which relates to the debt working capital. Can you just say, the movement in the debt, is that broadly equalled by the movement in the working capital in the period and if that's the case then I just wonder if it's possible to flesh out a bit more what the regular and irregular movements have been in the working capital because it just seems a mighty large figure if you get that equation on the debt through the working capital, it's a big number and I would just be interested to hear a bit more about it. Within that could you actually give any indication particularly in view of what you've said about commercial industrial, has this definitely put your sort of bad debt position in weakness or have you enhanced the provisions within that as well?

Steve Webster: On the first part of the question Kevin, obviously the main components of any movement in debt are that the profitability which of course is lower in the first quarter a year ago, Capex and all that sort of stuff is not massively different so there's no big effect there. You've got the exceptional items to take into account where there's a cash cost in the first quarter relating to P&L charges last year if you like, so you've got to take them into account but it's probably in the order of 50 million rather than more. So the majority of the movement does relate back to working capital and that's two things realistically. One is the normal seasonal outflow. Normal our debt levels at 31 January are amongst the highest in the year. That's been a pattern in many years so it's not unusual. Also this year I think we made it very clear, we pushed very hard and very effectively for all the businesses to get a very strong working capital performance in the final month of the year to 31 July and we did expect some of that tremendous achievement to outflow in the first quarter of the financial year, so that is what we're seeing. We're seeing the normal seasonal reversal there, an outflow relating to the particularly favourable position we achieved but it's perfectly in accordance with our expectations if you like and that's why I made the point of reminding you and everybody that we do expect those debt levels to come down by 31 January 2010 and come down further by 31 July 2010 and expect for the year as a whole a small net working capital inflow.

Kevin Cammack: Right. So as a seasonality it would not be unusual for say 200 million?

Steve Webster: No, it wouldn't. The second part of the question Kevin, whilst the market conditions remain challenging we're not seeing a huge tick-up in the rate of the bad debt provisions. Why is that? It relates again to something I've talked about before. Quite often when markets get

difficult, the receivables start ageing and therefore the bad debt provisions start triggering and very quickly you get to a level of provision on the balance sheet that is appropriate almost for that particular level of activity. So for that reason if you follow my drift there's been no big tick-up in the rate of the bad debt charge in the first quarter, because if you look at it in balance sheet terms, the balance sheet provisions at 31 October 2009 are significantly higher than the balance sheet provisions at 31 October 2008.

Kevin Cammack: Yes. What I was getting at is the actual incidence of bad debt rising in comparison with the increase in the provisioning that you've made?

Steve Webster: Not massively. Again we need to distinguish it between a P&L impact and a cash impact. When we've made the bad debt provisions from a P&L point of view, obviously if you've had bad debt, you've had to take it off and you may charge it against that particular provision. But I wouldn't say there's a significant tick-up on the real rate of bad debts now.

Kevin Cammack: Alright, thank you.

Operator: The last question comes from Joel Spungin from Merrill Lynch. Please go ahead.

Joel Spungin: Good morning guys. Just a quick one from me, I was just wondering if I could just ask you for just a little bit more detail on the performance of the UK business. Obviously the cost cutting has helped substantially there. What are your sort of feelings looking into the second quarter and beyond in terms of how that pans out? Were you up against a relatively easy comp in the profit level Q1 last year?

Steve Webster: The shape of the UK in the previous year is that we and everybody else start to see a little bit of deterioration in the UK market in May, the mortgage funds drying up but the real move down in activity levels in the UK occurred in October-November actually, so we haven't yet hit the most favourable comparable period in the UK business. I think the UK management team has done a great job in winning back market share in both the light side and the heavy side business. We've got some very good plans to achieve that and I mentioned the focus on the customer mix there and the product mix. Service levels have been very good and very high, so there's a real improvement in the relative position of the UK business in the market which is

good to see. Remember of course the light side businesses even in the year to 31 July 2009 achieved a trading margin of over 6%, so in that sense a continuation of a very good performance in light side. It was the other businesses in the UK that dragged that overall margin down in the previous year. So I think this reflects in the main businesses a good performance compared to the market helped a little bit by comparators but it will be helped more going forward and those cost reductions that we've flagged before have definitely come through and helped the bottom line.

Joel Spungin: So you're confident that you can hold onto the sort of growth in profits going forward?

Steve Webster: We would expect a similar trend going forward Joel, yes. A lot depends on the markets. We're happy with the upward trend in the UK business generally.

Joel Spungin: Ok, thank you.

Steve Webster: Alright. I think that was the last question according to the operator, so thank you very much indeed for your attention today. Hopefully that's helpful and we'll catch up with you all again soon. Thank you.

Operator: Thank you. That will conclude today's conference call. Thank you for your participation ladies and gentlemen, you may now disconnect.