## PART VII

## LETTER FROM THE CHAIRMAN OF WOLSELEY

WOLSELEY

(Incorporated and registered in England and Wales
with registered number 00029846)

Wolseley plc
Parkview 1220
Arlington Business Park
Theale
Reading
Berkshire RG7 4GA

9 March 2009

Dear Shareholder,

**Proposed Placing of 225,000,000 Existing Shares at 120 pence per Existing Share**

**Proposed Capital Reorganisation**

**Proposed 11 for 5 Rights Issue (taking into account the Capital Reorganisation) at 400 pence per New Ordinary Share**

### 1. Introduction

As part of the Half Year Announcement released on 6 March 2009, the Company announced the following:

- *Proposed Capital Reorganisation and Share Issue to raise net proceeds of £1,001.5 million.* The Directors intend to use the net proceeds to reduce the Group's financial indebtedness in order to provide appropriate headroom under the covenant levels in the Existing Facilities and result in a structurally lower level of indebtedness for the Group.
- *€1 billion of committed two-year banking facilities.* The Company has entered into a Forward Start Facility agreement with Barclays Capital, BNP PARIBAS, Calyon, Lloyds TSB Bank plc, Capital Markets and The Royal Bank of Scotland plc (as mandated lead arrangers) pursuant to which, from 1 August 2011, and subject to certain conditions being met, including the completion of the Share Issue, the Company will have access to committed available funds of up to €1 billion.
- *Strategic focus on the Group's core businesses.* The future strategic focus for the Group will be on North American Plumbing and Heating (Ferguson and Wolseley Canada), UK and Ireland, Nordic and France, where the Board believes Wolseley has built sufficient scale and can deliver an appropriate financial return.
- *Decision to dispose of, or otherwise exit, Stock by 1 August 2009.* The Group has decided to dispose of, or otherwise exit, the US Building Materials business, Stock, by 1 August 2009 with the aim of conserving cash and strengthening the Group's overall financial position during the current economic downturn, which will assist in compliance with the financial covenant in the Group's Existing Facilities.
- *Strategic review of Central and Eastern Europe.* The Group's business in Central and Eastern Europe is currently under strategic review, which is expected to be concluded by 31 July 2009 and which could indicate that further or more extensive restructuring actions are required, or that part or all of this business segment should be exited.

The purpose of this letter is to provide you with further details of the Share Issue.

### 2. Background to and reasons for the Share Issue

***Background to the Share Issue***

Wolseley is the world's largest specialist trade distributor of plumbing and heating products to professional contractors and a leading supplier of building materials to the professional markets. The Group operates a number of well known businesses that hold leading positions in their local markets. Through organic and acquisition-led

growth, Wolseley has increased its scale significantly between 2002 and 2007, from revenues of £7.9 billion in the year ended 31 July 2002 to £16.2 billion in the year ended 31 July 2007.

From early 2007 onwards, a continuing deterioration in the US housing market has had an impact on the Group's US Building Materials business and consequently on the Group's trading performance and financial results. The recent weakening in the Group's trading environment has intensified over the past few months as a result of the turmoil that continues to affect global capital markets and the severe impact of this on the wider economy. In particular, the Group's performance has been affected by the continued significant deterioration of the US residential housing market, price deflation in lumber, worsening consumer sentiment arising from global credit restrictions and the consequential weakening of the UK and European construction markets for building materials. In addition, recent weakness of sterling against the euro and the US dollar has also had an adverse impact on the Group's net debt position.

To address the difficult trading conditions in this challenging environment, the Directors have taken actions since 1 August 2007 to reduce the Group's cost base, maximise cash generation and reduce the impact of currency volatility on the balance sheet. By 31 January 2009, the following actions had been taken:

- Restructuring of Group operations, by closing branches and reducing headcount, which incurred restructuring charges of £338 million but resulted in cost savings of £47 million in the year ended 31 July 2008 and £160 million in the six months ended 31 January 2009. Actions announced in the year ended 31 July 2008 are expected to result in Annualised savings of £176 million, and actions announced in the six months ended 31 January 2009 are expected to result in Annualised savings of £396 million;
- Suspension of dividends in 2008, resulting in an annualised cash saving of approximately £225 million;
- Improving working capital cash to cash days by 12% between 31 July 2007 and 31 July 2008, from 52 to 46 days, and a further 7 days or 16%, on a constant currency basis, by 31 January 2009 which has resulted in additional cash generation of £789 million in the 18 months ended 31 January 2009;
- Reducing capital expenditure to a maximum spend of approximately £180 million for the year ending 31 July 2009, in constant currency (compared to actual capital expenditures of £317 million in the year ended 31 July 2008 and £396 million in the year ended 31 July 2007);
- Entering into receivables funding arrangements in the UK and France, which together have reduced net debt at 31 January 2009 by £217 million;
- Disposing of assets including property, plant and equipment since 31 July 2007 (sold for £179 million, realising a profit of £33 million);
- Disposing of five non-core businesses for consideration of £26 million since 31 July 2007;
- Hedging a significant proportion of the Group's debt against further sterling depreciation since late 2008; and
- Suspension of acquisitions since February 2008.

Despite taking these actions, the worsening macroeconomic environment continues to have an adverse effect on the Group's recent financial results. For the six months ended 31 January 2009, revenue increased by 3.2%, and trading profit decreased by 42.7%, compared to the comparable period in the prior year. Net debt increased by £17 million (0.7%) since 31 July 2008 to £2,486 million after taking into account an adverse currency translation effect of £409 million. A restrictive financial covenant contained in the Group's Existing Facilities requires net debt not to exceed 3.5 times the value of the Group's Annualised Adjusted EBITDA on a trailing 12 month basis at two points during the year, 31 January and 31 July. As at 31 January 2009, this ratio stood at 3.1 times. The Group had committed and undrawn banking facilities available of £1.6 billion as at 31 January 2009 and has no need for additional facilities until after the year ending 31 July 2011. In the event that the Share Issue does not proceed, there is a risk that the Group will breach its financial covenants as at 31 January 2010, which could result in a significant proportion of the Group's borrowings becoming repayable immediately (see paragraph 16 of this Part VII ("—Importance of the Resolutions and the Share Issue to the Group")).

The Group expects macroeconomic conditions to deteriorate further in the short term, and until conditions stabilise, Wolseley is unlikely to see any meaningful improvement in its financial results. There are no signs of any immediate upturn in Wolseley's principal markets and the Directors believe that the outcome of government intervention to stimulate economic growth remains uncertain and is likely to take time to take effect.

Despite this unfavourable short term outlook, the Directors believe that the Group remains well positioned in the medium to longer term once GDP growth returns in its local markets. Wolseley is a market leader in a highly fragmented industry and has a strong customer franchise, international operations and strategic positions in its core

markets. It is the world's largest specialist trade distributor of heating and plumbing products to the professional market and a leading supplier of building materials.

The Group has historically created value for shareholders and the Directors remain committed to ensuring that it emerges from the current economic cycle ready to capitalise on the recovery, which the Directors expect to be led by a recovery in the US economy. The Directors believe that scale advantages such as Wolseley's distribution network, particularly in the US, are key competitive advantages and differentiators in the marketplace. The Directors also believe that sourcing continues to be a major competitive advantage, which has been supplemented through initiatives such as the launch of own branded products in key geographical regions. The Group has a long track record of acquiring and integrating businesses and intends to resume selective acquisitions when appropriate opportunities arise and when the Group has available funds to effect these acquisitions.

The markets in which the Group operates are typically fragmented, with a few large players and a significant portion of the market supplied by small local operations. In the shorter term, the Directors believe the pressure on margins and cash flow favours the larger and better capitalised businesses, which are expected to gain market share from weaker competitors. In the medium to longer term, the Directors believe that the opportunities for organic and acquisitive growth in these fragmented markets are substantial, which they believe will lead to significant value creation for the Group and its Shareholders.

***Reasons for the Share Issue***

Given the severity and breadth of the global macroeconomic crisis and the current uncertain outlook for the Group's business, the Directors have determined that it is appropriate that the Group should recapitalise its business now, through an issue of equity in order to strengthen the Group's capital base, to create a more stable position from which to grow and to position the Group to take advantage of a future recovery in its markets. The Share Issue is intended to position Wolseley to withstand current market conditions and benefit from the eventual recovery. Specifically, the Share Issue should enable Wolseley to:

- *Substantially strengthen its balance sheet and overall financial position.* The proceeds of the Share Issue will allow the Group to reduce its level of financial indebtedness which the Directors believe will constitute an immediate and long-term benefit to the Group. This will assist the Group to operate within its existing financial covenants.

- *Allow the Group to focus on investment in its core businesses.* Following the Share Issue, the Group will be well positioned to maintain appropriate levels of investment in its core businesses, which the Directors believe present the best opportunities for return on investment over the long term. These businesses may also be able to exploit opportunities that emerge from competitors' weakness within the fragmented markets in which they operate.

- *Return to a profitable, focussed growth strategy as markets recover.* The Directors believe that reinforcing the balance sheet will provide Wolseley with the opportunity, when the appropriate market conditions return, to resume its practice of acting as an industry consolidator, by pursuing the selective acquisition of assets, including bolt-on acquisitions at potentially depressed valuations, within those markets where the Group has a strong, established presence.

- *Improve future access to sources of capital.* The revised capital structure should ensure that Wolseley maintains access to cost effective sources of funding and should give the Group a platform to establish a sound credit rating and thereby broaden its funding options.

The Directors have considered a range of alternative options to raising equity, including the negotiation of amendments to the financial covenants in the Group's Existing Facilities (though this would be less cost effective than raising equity and lenders may impose additional constraints on the business which may not be in the Shareholders' interests) and the possibility of further disposals of businesses. The Board will continue its programme of cost savings and efficiency improvements. Whilst the Board will continue to pursue appropriate actions to have a beneficial effect on its ability to continue to comply with its financial covenants, as set out below under the heading of "Importance of the Resolutions and the Share Issue to the Group", there is a material risk that such actions may not be successful. Consequently the Board has determined that, notwithstanding the dilutive impact on the number of Shares in issue, the Share Issue is necessary to provide the clearest path to achieving financial stability for the Group within an appropriate timeframe and in a manner that best preserves long term shareholder value.

The Directors expect that the Share Issue should make a positive contribution to total earnings in the year to 31 July 2009 as a result of lower interest payments arising from lower average levels of financial indebtedness. However,

the Directors expect that the increased number of Shares in issue following the Share Issue will have a negative effect on the Group's earnings per share for the same period.

***Use of proceeds***

The Directors intend to use the net proceeds of the Share Issue, amounting to £1,001.5 million, to reduce the Group's financial indebtedness in order to provide appropriate headroom under the covenant levels in the Existing Facilities. This will result in a structurally lower level of indebtedness for the Group, and the Directors believe that this will constitute an immediate and long-term benefit of the Share Issue for the Group.

## 3. Structure of the Share Issue and the Capital Reorganisation

The Company proposes to raise £1,050.5 million (before expenses) by way of the Share Issue. The Share Issue comprises both the Placing and the Rights Issue, and will take place in conjunction with a Capital Reorganisation. As a result, the Share Issue and the Capital Reorganisation will involve the following:

- **Placing:** following the passing of the Resolutions at the General Meeting, the subscription by the Placees for an aggregate of 225,000,000 Existing Shares of 25 pence nominal value at a subscription price of 120 pence per Placing Share;
- **Capital Reorganisation:** on the dealing day following the General Meeting, the Capital Reorganisation will become effective, under which:
  - each Existing Share of 25 pence nominal value (including the Placing Shares) will be subdivided and converted into one Interim Share of 1 penny nominal value and one Deferred Share of 24 pence nominal value; and
  - immediately thereafter, the Interim Shares will be consolidated on a one for 10 basis into 10p Ordinary Shares;
- **Rights Issue:** following the Capital Reorganisation becoming effective and subject to the conditions to the Rights Issue being satisfied, Qualifying Shareholders (other than, subject to certain exceptions, Qualifying Shareholders with registered addresses in any of the Excluded Territories) will be offered New Ordinary Shares by way of rights at a price of 400 pence per New Ordinary Share on the basis of 11 New Ordinary Shares for every 5 10p Ordinary Shares held.

Further details on each of the Placing, the Capital Reorganisation and the Rights Issue are set out below.

## 4. Details of the Placing

Whilst the Company sought indications of interest from major shareholders and others to raise the gross proceeds of the Share Issue through a fully pre-emptive rights issue, a number of Wolseley's major shareholders, whilst confirming they were able and willing to participate in the Placing and were supportive of the Rights Issue, indicated that they were unable to sub-underwrite due to capacity constraints and, in certain cases, particularly where they were based in the USA, their own internal restrictions. In these circumstances, the Directors believed it appropriate to include the Placing alongside the Rights Issue in order to enable Wolseley to procure an appropriate level of support from major shareholders in raising the appropriate amount of gross proceeds.

Placees will subscribe for the Placing Shares at an issue price of 120 pence per Placing Share. The Placing comprises in aggregate 225,000,000 Placing Shares (representing approximately 34% of Wolseley's existing issued ordinary share capital) and will therefore raise £270 million (before expenses). The Placing Shares will represent approximately 25% of the Company's issued ordinary share capital immediately following completion of the Placing.

The price at which the Placing Shares will be issued to Placees of 120 pence per Placing Share represents a 27% discount to the closing price of 165.4 pence per Existing Share on 5 March 2009 (the last Business Day before the announcement of the Share Issue). The size of the placing discount reflects recent market volatility and the conditional nature of the Placing. The price per Placing Share is not directly connected to the Issue Price of the Rights Issue. The Placing Shares will, when issued and fully paid, rank pari passu in all respects with the Existing Shares and Placees will also be Qualifying Shareholders for the purpose of the Rights Issue. The price per Placing Share has been set at a discount to the closing price of the Existing Shares on the last Business Day before the Share Issue was announced to the market. The Issue Price per New Ordinary Shares under the Rights Issue has been set at a deep discount to the theoretical ex-rights price under the Rights Issue.

The Placing and the obligations of Placees to subscribe for the Placing Shares are conditional only on the Resolutions being duly passed at the General Meeting and the Underwriting Agreement not having been terminated by the time at which the Resolutions are passed. Assuming the Resolutions are passed, the Placing Shares will be issued to Placees following the General Meeting and registered in their names before the Record Date.

Applications will be made for the Placing Shares to be admitted to listing on the Official List and to trading on the London Stock Exchange's main market for listed securities. It is expected that Placing Admission will become effective and dealings in the Placing Shares will commence at 8.00 a.m. on 2 April 2009.

The Placing Shares will, when issued and fully paid, rank pari passu in all respects with the Existing Shares, including the right to receive all dividends or other distributions declared, made or paid after the date of their issue. As a result, the Placing Shares will be subject to the Capital Reorganisation and Placees will also be Qualifying Shareholders for the purposes of the Rights Issue.

The Placing Shares will be in registered form and capable of being held in certificated form or uncertificated form in CREST.

The Placing is fully underwritten by Deutsche Bank, UBS and RBS Hoare Govett. A summary of the material terms of the Underwriting Agreement is set out in paragraph 16 of Part XVI ("Additional Information — Material contracts").

## 5. Details of the Capital Reorganisation

As at 5 March 2009, the last Business Day before the announcement of the Share Issue, the closing price of an Existing Share was 165.4 pence. If the Capital Reorganisation was not implemented, it would be necessary to issue new Existing Shares at 40 pence per share in order to raise the Rights Issue proceeds at an equivalent discount to the theoretical ex-rights price at which the Rights Issue is being made. In order to seek to reduce volatility in the price of the Company's Ordinary Shares which may have arisen as a result and to seek to ensure that, following the Share Issue, the price of the Ordinary Shares, and their nominal value, are appropriate for a company of Wolseley's size in the UK market, the Directors propose to implement the Capital Reorganisation in conjunction with the Share Issue.

Under the proposed Capital Reorganisation, which comprises both the Subdivision and the Consolidation:

- each Existing Share of 25 pence nominal value (including the Placing Shares) will be subdivided and converted into one Interim Share of 1 penny nominal value and one Deferred Share of 24 pence nominal value; and
- immediately thereafter, the Interim Shares will be consolidated on a one for 10 basis into 10p Ordinary Shares.

The effect of the Capital Reorganisation will be that Shareholders on the Company's register of members at the Record Date (which will include Placees) will, on implementation of the Capital Reorganisation, hold:

**one 10p Ordinary Share and 10 Deferred Shares for every 10 Existing Shares**

and so in proportion for any other number of Existing Shares then held. The proportion of the issued ordinary share capital of the Company held by each Shareholder immediately following the Capital Reorganisation will, save for fractional entitlements, remain unchanged. In addition, apart from having a different nominal value, each 10p Ordinary Share following the Capital Reorganisation will carry the same rights as set out in the Articles that currently apply to the Existing Shares.

To effect the Capital Reorganisation, it may be necessary to issue an additional number of Ordinary Shares so that the Company's issued share capital following the Capital Reorganisation is rounded up to the nearest whole 10 pence.

Any fractional entitlements arising on the Capital Reorganisation will be placed in the market on behalf of the relevant Shareholders so entitled save that when the net proceeds are less than £5 per entitled shareholder the net proceeds of such placing will be retained by the Company and donated to charity.

New share certificates in respect of the 10p Ordinary Shares are expected to be posted at the risk of Shareholders by 9 April 2009 to those Shareholders who, at the Record Date, hold their shares in certificated form. These will replace existing certificates which should then be destroyed. Pending the receipt of new certificates, transfers of 10p Ordinary Shares held in certificated form will be certified against the register of members of the Company. All uncertificated 10p Ordinary Shares will be credited to stock accounts in CREST at 8.00 a.m. on 2 April 2009.

The Deferred Shares created on the Capital Reorganisation becoming effective will have no voting or dividend rights and, on a return of capital, will have the right to receive the amount paid up thereon only after the holders of the 10p Ordinary Shares have received, in aggregate, the amount paid up thereon plus £10 million per 10p Ordinary

Share. No share certificates will be issued in respect of the Deferred Shares, nor will CREST accounts of Shareholders be credited in respect of any entitlement to Deferred Shares, nor will they be listed on the Official List or admitted to trading on the London Stock Exchange or any other investment exchange. It is the Board's intention, at the appropriate time, to effect a repurchase of the Deferred Shares or to make an application to the High Court for the Deferred Shares to be cancelled. The Interim Shares created as part of the Capital Reorganisation will, immediately after they arise, be consolidated on a one for 10 basis into 10p Ordinary Shares and no share certificates will be issued in respect of the Interim Shares.

The Rights Issue is conditional upon, among other matters, the completion of the Capital Reorganisation.

A request will be made to the UK Listing Authority and to the London Stock Exchange to reflect, on the Official List and the London Stock Exchange's main market for listed securities respectively, the subdivision of the Existing Shares into Interim Shares and the consolidation of the Interim Shares into 10p Ordinary Shares.

## 6. Principal terms and conditions of the Rights Issue

The Rights Issue is intended to raise gross proceeds of £780.5 million. The Rights Issue has been fully underwritten (other than in respect of the Directors' entitlements and those relating to unexercised options) by Deutsche Bank, UBS, RBS Hoare Govett, BNP PARIBAS, ING and Calyon. A summary of the material terms of the Underwriting Agreement is set out in paragraph 16 of Part XVI ("Additional Information — Material contracts"). Deutsche Bank, UBS, RBS Hoare Govett and BNP PARIBAS are acting as Joint Bookrunners to Wolseley in relation to the Rights Issue. ING and Calyon are acting as Joint Lead Managers, Rothschild is acting as Financial Adviser and Deutsche Bank and UBS are acting as Joint Sponsors to Wolseley in relation to the Rights Issue.

Subject to the fulfilment of, amongst others, the conditions described below, the Company will offer New Ordinary Shares by way of rights at 400 pence per Share, payable in full on acceptance. The Rights Issue will be on the basis of:

**11 New Ordinary Shares for every 50 Existing Shares**

held by and registered in the names of Qualifying Shareholders (other than, subject to certain exceptions, Qualifying Shareholders with registered addresses in any of the Excluded Territories) on the Record Date and so in proportion to the number of Existing Shares then held and otherwise on the terms and conditions set out in this document and, in the case of Qualifying Non-CREST Shareholders (other than, subject to certain exceptions, Qualifying Non-CREST Shareholders with registered addresses in any of the Excluded Territories) only, the Provisional Allotment Letter. Holdings of Shares in certificated and uncertificated form will be treated as separate holdings for the purpose of calculating entitlements under the Rights Issue.

In effect, taking into account the Capital Reorganisation, the Rights Issue is being made on the following basis:

**11 New Ordinary Shares for every 5 10p Ordinary Shares**

that a Qualifying Shareholder will hold and at the Issue Price of 400 pence per New Ordinary Share. Placees will be Qualifying Shareholders for the purposes of the Rights Issue. The Issue Price of 400 pence per New Ordinary Share, which is payable in full on acceptance by no later than 11.00 a.m. on 21 April 2009, represents, in effect:

- a 38% discount to the theoretical ex-rights price (calculated by reference to the issue price of 120 pence per Placing Share);
- a 49% discount to the theoretical ex-rights price (calculated by reference to the closing price of 165.4 pence per Existing Share on 5 March 2009, the last Business Day prior to the announcement of the Share Issue);
- a 47% discount to the theoretical ex-rights price (calculated by reference to the closing price of 165.4 pence per Existing Share on 5 March 2009, as adjusted to take account of the Placing at 120 pence per share); and
- a 76% discount to the closing price of 165.4 pence per Existing Share on 5 March 2009.

Fractions of New Ordinary Shares arising under the Rights Issue will not be allotted to Qualifying Shareholders and, where necessary, fractional entitlements will be rounded down to the nearest whole number of New Ordinary Shares. Such fractions will be aggregated and, if possible, placed in the market as soon as practicable after commencement of dealings in the New Ordinary Shares, nil paid. The net proceeds of such placings (after deduction of expenses) will be retained by the company and donated to charity.

Applications will be made for the New Ordinary Shares to be admitted to listing on the Official List and to trading on the London Stock Exchange's main market for listed securities. It is expected that Admission will become effective and dealings will commence (nil paid) in the New Ordinary Shares at 8.00 a.m. on 3 April 2009.

The latest time and date for acceptance and payment in full under the Rights Issue will be 11.00 a.m. on 21 April 2009, unless otherwise announced by the Company via a Regulatory Information Service.

The Rights Issue is conditional, amongst other things, upon:

(i) the passing, without amendment, of the Resolutions at the General Meeting;

(ii) Admission becoming effective by not later than 8.00 a.m. on 3 April 2009 (or such later time and date as the parties to the Underwriting Agreement may agree, but such Acceptance Date is not later than 29 April 2009); and

(iii) the Underwriting Agreement having become unconditional in all respects, save for the condition relating to Admission, and not having been terminated in accordance with its terms.

The New Ordinary Shares will, when issued and fully paid, rank pari passu in all respects with the 10p Ordinary Shares, including the right to receive all future dividends and other distributions declared, made or paid after the date of their issue. Assuming no further Shares are issued as a result of options being exercised under any Wolseley Employee Share Schemes between 6 March 2009 and the Record Date, the Rights Issue will result in the issue of 195,137,478 New Ordinary Shares, which will form approximately 69% of the Shares in issue immediately following the Rights Issue.

Further information on the Rights Issue, including the terms and conditions of the Rights Issue and the procedure for acceptance and payment and the procedure in respect of rights not taken up is set out in Part IX ("Terms and Conditions of the Rights Issue") and, where relevant, will be set out in the Provisional Allotment Letter.

Overseas Shareholders should refer to paragraph 2.5 of Part IX ("Terms and Conditions of the Rights Issue — Action to be taken — Overseas Shareholders") for further information on their ability to participate in the Rights Issue.

## 7. Structure of the Rights Issue

The Rights Issue has been structured in a way that is expected to have the effect of realising distributable reserves approximately equal to the net proceeds of the Rights Issue less the par value of the New Ordinary Shares issued by the Company, although the structure will have no impact on Qualifying Shareholders and their right to participate in the Rights Issue. The structure involves the Company and the Newco Subscriber agreeing to subscribe for ordinary shares in Newco. The Newco Subscriber will pay monies that the Underwriters receive from Qualifying Shareholders or renouncees taking up New Ordinary Shares under the Rights Issue, after deducting commissions, to an account with the Receiving Agent, which proceeds will be used to subscribe for redeemable preference shares in Newco.

The Company will allot and issue the New Ordinary Shares to those persons entitled thereto in consideration of the Newco Subscriber transferring its holding of ordinary shares and redeemable preference shares in Newco to the Company. Accordingly, instead of receiving cash as consideration for the issue of the New Ordinary Shares, at the conclusion of the Rights Issue the Company will own the entire issued share capital of Newco whose only asset will be its cash reserves, which will represent an amount equivalent to the net proceeds of the Rights Issue. The Company should be able to utilise this amount by redeeming the redeemable preference shares it will then hold in Newco.

The realisation of distributable reserves will facilitate any potential return of capital to Shareholders by way of dividend. For a description of the Rights Issue structure, see paragraph 16.2 of Part XVI ("Additional Information — Material contracts — Subscription and Transfer Agreements").

## 8. Current trading and prospects

Overall, Wolseley continues to trade in line with its expectations against the backdrop of deteriorating macro-economic conditions, which continue to adversely affect the Group's markets. The Board believes that the downturn in the UK, Irish and Nordic economies is likely to be generally more severe than that experienced in continental Europe.

## 9. Dividend Policy

In light of prevailing economic conditions, Wolseley announced on 16 July 2008 that it did not intend to pay a final dividend for the financial year ended 31 July 2008, and consequently no final dividend was paid. As a result of this decision, the Group improved its annualised cash flow by approximately £225 million. In the Half Year Announcement, the Directors also announced that they would not pay an interim dividend for the year ending 31 July 2009.

The Board remains committed to a progressive dividend policy and Wolseley will resume dividend payments when markets stabilise and it is prudent to do so. Following the Share Issue, the Directors' decision as to when to declare a dividend and the amount to be paid will take into account the Group's underlying earnings, cash flows and capital investment plans, the requirement to maintain an appropriate level of dividend cover and the then prevailing market outlook.

## 10. Governance and Management

Throughout the year ended 31 July 2008 and during the period from 1 August 2008 to 6 March 2009 (being the latest practicable date prior to publication of this document), the Company complied with all of the provisions of the Combined Code.

## 11. Further Information

Your attention is drawn to the further information set out in Parts II to VI and VIII to XVII of this document. Shareholders and potential investors should read the whole of this document and not rely solely on the information set out in this letter. In particular, you should consider the risk factors set out in Part II ("Risk Factors") of this document.

## 12. Overseas Shareholders

The attention of Overseas Shareholders who have registered addresses outside the United Kingdom, or who are citizens or residents of or located in countries other than the United Kingdom, is drawn to the information in paragraph 2.5 of Part IX ("Terms and Conditions of the Rights Issue — Action to be taken — Overseas Shareholders") of this document.

New Ordinary Shares will be provisionally allotted (nil paid) to all Shareholders on the register at the Record Date, including Overseas Shareholders. However, Provisional Allotment Letters will only be sent to Qualifying Non-CREST Shareholders (other than, subject to certain exceptions Qualifying Non-CREST Shareholders with registered addresses in any of the Excluded Territories) and the CREST stock accounts of Qualifying CREST Shareholders (other than, subject to certain exceptions, Qualifying CREST Shareholders with registered addresses in any of the Excluded Territories), will be credited.

Notwithstanding any other provision of this document or the Provisional Allotment Letter, the Company reserves the right to permit any Shareholder on the register at the Record Date to take up his rights if the Company in its sole and absolute discretion is satisfied that the transaction in question will not violate applicable laws.

The provisions of paragraph 2.3 of Part IX ("Terms and Conditions of the Rights Issue — Action to be taken — Procedure in respect of rights not taken up (whether certificated or in CREST) and withdrawal") will apply generally to Overseas Shareholders who cannot or do not take up the New Ordinary Shares provisionally allotted to them.

## 13. UK and US taxation

Certain information about UK and US taxation in relation to the Rights Issue is set out in Part XV ("Taxation") of this document. If you are in any doubt as to your tax position, or you are subject to tax in a jurisdiction other than the United Kingdom or the United States, you should consult your own independent tax adviser without delay.

## 14. General Meeting

On the date hereof, Shareholders were sent the Circular containing the General Meeting Notice. The General Meeting will be held on 1 April at 9.00 a.m. at Deutsche Bank, Winchester House, 1 Great Winchester Street, London EC2N 2DB. The General Meeting is being held for the purpose of considering and, if thought fit, passing six resolutions, all of which are conditional on each other. These will be (i) to increase the Company's authorised ordinary share capital, (ii) to approve the terms of the Placing, (iii) to effect the Subdivision, (iv) to effect the Consolidation, (v) to grant the Directors authority to allot Ordinary Shares, and (vi) to approve the implementation

of the Rights Issue on the terms set out in the Circular. A form of proxy was enclosed with the General Meeting Notice. To be effective, forms of proxy must be completed and received by the Receiving Agent's office at Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA by 9.00 a.m. on 30 March 2009.

## 15. Action to be taken in respect of the Rights Issue

If you are a Qualifying Non-CREST Shareholder (other than, subject to certain exceptions, a Qualifying Non-CREST Shareholder with a registered address in any of the Excluded Territories), you will be sent a Provisional Allotment Letter giving you details of your Nil Paid Rights by post on 2 April 2009. If you are a Qualifying CREST Shareholder (other than, subject to certain exceptions, a Qualifying CREST Shareholder with a registered address in any of the Excluded Territories), you will not be sent a Provisional Allotment Letter. Instead, you will receive a credit to your appropriate stock accounts in CREST in respect of the Nil Paid Rights as soon as practicable after 8.00 a.m. on 3 April 2009.

If you sell or have sold or otherwise transferred all of your Existing Shares (other than ex-rights) held in certificated form before 3 April 2009, please forward this document, together with any Provisional Allotment Letter, if and when received, at once to the purchaser or transferee, or the bank, stockbroker or other agent through whom the sale or transfer was effected, for delivery to the purchaser or transferee, except that such documents should not be sent to any jurisdiction where to do so might constitute a violation of local securities laws or regulations, including, but not limited to, the United States, and the other Excluded Territories.

If you sell or have sold or otherwise transferred all or some of your Existing Shares (other than ex-rights) held in uncertificated form before the Ex-Rights Date, a claim transaction will automatically be generated by Euroclear UK & Ireland which, on settlement, will transfer the appropriate number of Nil Paid Rights to the purchaser or transferee.

If you sell or have sold or otherwise transferred only part of your holding of Existing Shares (other than ex-rights) held in certificated form before the Ex-Rights Date, you should refer to the instruction regarding split applications in Part IX ("Terms and Conditions of the Rights Issue") and in the Provisional Allotment Letter.

**The latest time and date for acceptance and payment in full in respect of the Rights Issue is expected to be 11.00 a.m. on 21 April 2009, unless otherwise announced by the Company. The procedure for acceptance and payment is set out in Part IX ("Terms and Conditions of the Rights Issue") of this document and, in respect of Qualifying Non-CREST Shareholders (other than, subject to certain exceptions, Qualifying Non-CREST Shareholders with registered addresses in any of the Excluded Territories), in the Provisional Allotment Letter.**

For Qualifying Non-CREST Shareholders (other than, subject to certain exceptions, Qualifying Non-CREST Shareholders with registered addresses in any of the Excluded Territories), the New Ordinary Shares will be issued in certificated form and will be represented by definitive share certificates, which are expected to be despatched by no later than 29 April 2009 to the registered address of the person(s) entitled to them.

For Qualifying CREST Shareholders (other than, subject to certain exceptions, Qualifying CREST Shareholders with registered addresses in any of the Excluded Territories), the Registrars will instruct CREST to credit the stock accounts of the Qualifying CREST Shareholders with their entitlements to New Ordinary Shares. It is expected that this will take place by 8.00 a.m. on 22 April 2009.

Qualifying CREST Shareholders who are CREST sponsored members should refer to their CREST sponsor regarding the action to be taken in connection with this document and the Rights Issue.

If you are in any doubt as to the action you should take, you should immediately seek your own financial advice from your stockbroker, solicitor, accountant or other independent financial adviser authorised under FSMA or, if you are outside the United Kingdom, by another appropriately authorised independent financial adviser.

## 16. Importance of the Resolutions and the Share Issue to the Group

If the Share Issue completes, irrespective of whether the disposal of or exit from Stock occurs, the Directors expect that the Group will continue to comply with the net debt to Annualised Adjusted EBITDA financial covenant in the Existing Facilities when it is tested at 31 July 2009 and 31 January 2010. However, if the Resolutions are not approved at the General Meeting, the Company will be unable to complete the Share Issue. In these circumstances, the Directors expect that the Group will continue to comply with this covenant when it is tested at 31 July 2009. If the Share Issue is not completed but Stock is disposed of or exited from by 1 August 2009, the Directors expect that the Group will continue to comply with this covenant when it is tested at 31 January 2010. In the highly unlikely scenario that the exit of Stock does not occur by 31 January 2010, and the Share Issue is not completed, the Directors may be required to pursue alternative courses of action in order to avoid breaching this covenant. Such courses of

action may include (a) implementing further restructuring measures, and/or (b) seeking to obtain a sufficient amount of alternative debt or equity funding from other sources, and/or (c) finding alternative ways of reducing the Group's debt levels such as by way of disposals of selected assets and/or businesses, and/or (d) reducing capital expenditure, and/or (e) reducing inventory.

The ability of the Group to successfully implement any or all of the above actions or to realise its expectations in the above scenarios where the Share Issue is not completed successfully is dependent on a number of factors, including general economic, political, equity and debt capital market conditions as well as credit availability. Accordingly, while the Directors believe that pursuing the alternative courses of action set out above would be successful in avoiding any covenant breach in circumstances where the Share Issue has not completed, it is not possible for the Directors to be certain of this fact. Consequently, the Directors believe that if the Share Issue is not successfully completed there remains a material risk that the Company could breach the net debt to Annualised Adjusted EBITDA financial covenant in the Existing Facilities when it is tested at 31 January 2010. If this happened, it could result in a significant proportion of the Group's borrowings becoming repayable immediately.

If such circumstances looked likely to occur, the Directors might also seek to renegotiate the terms of the Existing Facilities. While the Directors believe that they would be successful in such negotiations, the Directors cannot be sure of this and, in addition, believe that in the current financial and economic environment, such amendments would be likely to require significant upfront fees as well as impose significantly more onerous obligations and restrictions on the Company than those that currently apply under the Existing Facilities. In the highly unlikely and extreme circumstances in which the above alternative courses of action and the renegotiation of the Existing Facilities fail altogether such that the Group is unable to comply with the financial covenant in its Existing Facilities as at 31 January 2010, the Group ultimately may have to cease trading at that time unless further alternative measures are available at such time.

For these reasons, the Company wishes to proceed with the Share Issue and is seeking Shareholder approval for the Resolutions at the General Meeting. Accordingly, it is very important that Shareholders vote in favour of the Resolutions at the General Meeting.

## 17. Directors' intentions

Each of the Directors intends to take up in full his rights to acquire New Ordinary Shares under the Rights Issue in respect of his direct registered holdings.

Yours sincerely



**John W. Whybrow**
***Chairman***