1 August 2006

# TRAVIS PERKINS PLC

## INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2006

Highlights

- Turnover up 9.3% to £1,411.7m
- Profit before tax increased by 0.4% to £110.4m
- Operating profit up by 1.3% to £139.2m
- Basic earnings per share improved by 2.4% to 63.3p
- Free cash flow up 54.8% to £161.3m
- Interim dividend per share increased by 10% from 11p to 12.1p
- Targeted year 2 synergies and buying gains from Wickes integration £55m secured
- 19 New branches opened taking total to 1,002
- Benchmarx launched – a new brand serving the small specialist joiner

Geoff Cooper, Chief Executive, said:

"Against a background of improving yet still challenging market conditions, we have delivered improved Group operating profits, profits before tax, earnings per share and cash flow. Both our merchant and retail divisions have achieved increases in market share, profit before tax and productivity. We have secured our targeted year two synergy and buying gains from the Wickes transaction, with those targets some £20 million in excess of the estimated for synergies made when the transaction was commenced.

"We maintain our view that there will be a gradual recovery in market activity in the second half and we are well positioned to benefit from this."

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Interim Results

| | 6 Months 30 June 2006 £m | 6 Months 30 June 2005 £m | Increase |
|---|---|---|---|
| Turnover | 1,411.7 | 1,291.2 | 9.3% |
| Operating profit | 139.2 | 137.4 | 1.3% |
| Profit before taxation | 110.4 | 110.0 | 0.4% |
| Free cash flow (note 12) | 161.3 | 104.2 | 54.8% |
| Basic earnings per ordinary share | 63.3p | 61.8p | 2.4% |
| Interim dividend per share | 12.1p | 11.0p | 10.0% |

Overview

Our results for the six months to June show good progress in improving, yet still challenging market conditions.

As expected, our markets are recovering gradually from the poor trading conditions experienced in 2005. The rate of the recovery in the retail market is being held back by further pressures on consumers' disposable incomes. However, a stronger housing market over the past winter has boosted the trade market, where repair and maintenance activity has increased.

Although activity levels in both our markets were lower in the first half of 2006 than in the comparable period in 2005, we have achieved an improved financial performance on all main key indicators. A series of measures to further improve customer service, product ranges and operational performance have helped us grow market share on a like-for-like basis in both our divisions. This, together with the growth in our business derived from our branch expansion programme, has enabled us to continue capturing scale benefits.

Turnover, at £1,412 million, was up by 9% over the comparable period last year, mainly reflecting an extra 6 weeks trading at Wickes and the impact of our branch expansion programme. Group operating profits were up by 1.3% with the Group's operating margin decreasing from 10.6% to 9.9% - mainly reflecting the impact of Wickes' structurally lower margin, and the full year effect of the successful investment in trade pricing started at the end of the second quarter in 2005. Profit before tax increased by 0.4% to £110.4 million with a year-on-year improvement from both the Wickes related business and from the rest of the Group. Basic earnings per share increased by 2.4% to 63.3p.

In addition to improved profits, we have focussed on improving returns by generating an increased cash flow. Like-for-like free cash flow (as shown in note 12), calculated before expansionary capital expenditure, special pension contributions and dividends increased by 55%. Despite our continued expansionary capital expenditure and a special pension contribution, we generated £110 million of cash in the period. At 30 June 2006 net debt was £845.2 million. On a rolling 12 month basis our interest cover (shown in note 4) is 4.7 times and our net debt/EBITDA ratio (shown in note 13) has reduced to 2.6 times.

The integration of Wickes continues to progress smoothly. The first phase of rationalisation has been successfully completed, with a second and final phase expected to be largely complete in early 2007. We are particularly pleased that by the half way stage in the year, we have secured our targeted year two synergy and buying gains from the Wickes transaction, with those targets some £20 million in excess of the estimate for synergies made when the transaction was announced. Apart from the slow market recovery, all other aspects of the Wickes transaction have proceeded as expected and we have confirmed our plans to expand its estate.

Our network expansion programme has continued to deliver good growth to all our merchant and retail brands, with 19 new branches added in the first half. As a further development of our strategy, we entered the specialist trade joinery market in July, with the launch of our first “Benchmarx” store.

During the first half we made significant progress with the integration and funding of the Group’s two final salary pension schemes. On 3 July 2006, the Wickes’ pension scheme was merged into the Travis Perkins’ scheme whilst maintaining the benefit profiles of the predecessor schemes. A top-up payment of £8.5 million was made to bring the funding level of the Wickes’ scheme in line with that of the TP scheme. Agreement has been reached with the Trustees for a payment schedule which is aimed at eliminating the deficit of the newly combined scheme over a period of nine years. At the end of June 2006, the pension deficit net of tax was £70 million, a reduction of £30 million since December reflecting higher corporate bond yields and a special contribution into the TP and Wickes pension schemes over the six month period of £3.3 million.

With gradually recovering markets, an internal strategy which is delivering improved performance and a proven expansion strategy, the Board is increasing the interim dividend by 10% from 11p to 12.1p reflecting our strong cash generation and continued confidence in the prospects of the Group.

Markets

The progress of our market so far this year has broadly followed the pattern we expected for 2006, but with the recovery in our trade market running ahead of the recovery in retail.

Conditions in both our markets in the first half year improved compared to the trends seen at the end of 2005. Trading conditions in the second quarter were stronger than the first. In particular the activity in the trade market, where material supply is related more to repairs and maintenance, held up better than in the more discretionary retail market, where activity is driven more by improvement projects.

The 2005 trend of high product cost inflation caused mainly by rising energy and raw material costs continued. This has had most impact on heavy building materials and plumbing and heating products. Overall weighted average product cost inflation was 3.1% in the trade business but zero in the retail business, reflecting deflation in lightside products.

As we predicted, there has been a marked slowdown in the rate of space expansion in both the trade and retail sectors, with retail space contracting for the first time for many years. Trade capacity has grown by an estimated 3% - 1% below the growth experienced in 2005 - and retail space reduced by an estimated 1% – compared with an expansion rate of 4% in 2005, with competitors closing and downsizing stores.

Operational Performance

Against a background of improving yet still challenging market conditions, we have continued the strategies implemented in 2005 to drive volumes profitably, to exceed buying gain targets and to manage tightly both costs and cash. These actions, despite the fact that markets have shrunk since the first half of 2005, have delivered improved Group operating profits, profits before tax, earnings per share and cash flow. Both our merchant and retail divisions have achieved increases in market share, profit before tax and productivity.

Turnover at £1,412 million was 9.3% ahead of last year mainly reflecting contributions of 7.1% from an additional one and a half months of Wickes trading, 3.1% from other acquisitions and brown field expansion, and 0.6% from one additional trading day. Like-for-like sales per trading day for the Group were lower by 1.6%, an improvement on the trend seen at the end of 2005.

Like-for-like sales per trading day in merchanting improved by 0.2%, with our specialist business 1.8% ahead and general merchanting lower by 0.7%. The specialist division performance was driven by continued strong performance at CCF and an improving trend in City Plumbing following management's successful implementation of our recovery plan. In general merchanting, growth continues to be strongest in the South East. All seven of our merchanting businesses showed improved trading in the second quarter compared to the first.

Our retail business reported overall like-for-like performance of minus 7.0%, the core business was 7.8% lower and showroom 2.8% lower. However, we have achieved a significant improvement in like-for-like trends in the second quarter. Total like-for-like turnover on a delivered basis has been lower by 4.4% in the last four weeks compared with last year and 1.6% on an ordered basis. The relative strength of showrooms reflects gains made in our refreshed kitchen range. Around one third of our retail business is from trade customers with a higher bias towards trade in the South East. This is reflected in the relative strength of both trade related products and the South East division. Market data shows that we gained a small amount of like-for-like and overall market share during the first half, as competitors' aggressive promotions were scaled back from levels seen in the fourth quarter of 2005.

Merchanting gross margin before synergies is 1.3% lower than last year, reflecting the full year effect of the selective margin investment we made from the second quarter of 2005 onwards. Like-for-like sales growth, which had previously been lagging the market, was brought up to market levels in the second half of 2005 and is now ahead of the market for the first six months of 2006. Overall we continue to make a net positive profit contribution from this investment.

Our retail business has improved pre-synergy gross margins by more than 1.5% over the period. This has been achieved by a combination of positive mix as we continue to invest in the breadth and depth of our ranges, together with other buying improvements including gains on shrinkage. On average we anticipate increasing the number of SKUs in our extra stores by around 1,500 to 9,000 this year. This will benefit the rest of our estate as the most successful products are rolled out. In total, some 15% of our retail sales are now generated from the new products introduced since the acquisition of Wickes. This is enabled by several other initiatives to improve space utilisation, including the selective reallocation of showroom display areas in favour of faster selling products and the twinning of showrooms in adjacent stores in single catchments.

Our continued robust controls on costs have been successful in driving improved efficiency. Overall productivity per employee is 4.9% ahead in the trade business reflecting a like-for-like reduction in employees of over 400, and 6.6% ahead on the retail side, a like-for-like reduction in employee numbers of over 500 since June 2005. Our original projections for 2006 showed 4% inflation on our like-for-like overhead base. We have saved £20 million against this projection. In addition to productivity and other improvements, we have been able to mitigate inflationary increases by several initiatives, which include combining non-brand facing central support functions in merchanting and retail, notably in finance and IT, the tight control of discretionary capital and revenue expenditure and the improvement of procurement processes. Our senior management team in addition to its functional responsibilities is tasked with improving efficiency in specific areas of the whole business, for example by improving distribution productivity. These 'best practice' projects have already delivered good results.

Overall the merchanting business (including synergies but not property profit) shows a sector leading earnings before interest, tax and amortisation margin ("EBITA") of 11.0%.

Similarly, the retail business (including synergies but not property profit) is delivering a sector leading EBITA margin of 6.2%.

Development of the Group

The Group went through the 1,000 site milestone during June reaching 1,002 branches by the end of the month, an increase of 19 in the period. To celebrate this achievement we launched a major community initiative to help deliver "1,000 projects in 1,000 places in 1,000 days". This is designed to engage all our colleagues, working collaboratively with suppliers and customers in upgrading community facilities in the places where we trade.

The merchanting business added a net 16 new branches being 5 acquisitions and 12 brownfields less one consolidation. The pipeline for new openings continues to be strong.

We are making good progress against our objective of driving additional value from our trade freehold property portfolio. We are progressing a modest sale and leaseback of a small number of sites, and will be reinvesting the proceeds, not expected to be more than £40 million, in business expansion. We continue to search for alternative locations for sites with a high alternative use value. We have also approved several projects to develop a multi brand presence in selected sites.

The retail business has added 3 stores including 1 small store and 2 standard stores. In addition we have converted 1 standard store to an extra store. This has added 3.8% space to the business. There are an additional 7 stores and 5 conversions to extras committed which will open in the next 18 months. Net of consolidations, this will add 7% space to the business. The largest proportion of these stores are expected to open in the first quarter of 2007, with some 2006 launch costs and nearly a full year of extra revenue occurring next year.

Following a strategic review in 2005 which examined new opportunities in specialist distribution, we determined the specialist small joiner market to be the most attractive in terms of our current activities, scale and potential for future expansion.

In early July we launched an additional brand, Benchmarx, to serve the specific needs of specialist trade joiners, who install kitchens, doors and windows in new and existing homes and other buildings. Our research shows that this group of tradesmen do not often have their supply needs fully met by current providers. Our first branch was opened in Croydon on 10 July 2006. We expect to have at least 6 branches trading by the year-end. We already supply all the required products to retail and general trade customers through our existing businesses, and anticipate synergies with our existing supplier base as we quickly establish a national presence, starting in the South East. The Managing Director of this, our eighth division is Rob Gladwin who has been promoted to Retail Director of Wickes.

Health, Safety and Environment

We remain committed to the achievement and maintenance of the highest standards in health and safety. Accident frequency and severity rates have shown a small improvement during the first half of 2006.

We have updated our Environmental Management System to be compliant with revisions to the International Standard (ISO 14001 (2004)) and we continue to develop our environmental management approach. Our core environmental objectives are to continue to; manage down carbon emissions, decrease the amount of waste going to landfill and have zero notifiable environmental incidents across the estate.

People and Organisation

We were delighted to welcome Andrew Simon and Stephen Carter to our Board in February and April respectively as Non-executive Directors. Andrew previously held roles as Chairman and Chief Executive of Evode plc and holds a number of other non-executive positions. Stephen is Chief Executive of Ofcom and was previously Managing Director and Chief Operating Officer for UK and Ireland for NTL.

We continue to strengthen our senior management team. Carol Kavanagh will be joining us as Group Human Resources Director in September from a FTSE 100 retailer. In addition Robin Proctor will join us in September as Group Supply Chain Director. His previous role was with a FTSE 250 retailer and trade supplier. We are making good progress in our search for the Managing Director of Wickes following the announcement of Richard Bird's retirement as planned, at the end of 2006.

This period has also seen improvements in a number of central functions. We have created a Group risk and assurance function, including audit and security, together with new Group property and IT structures. We have also appointed a new Group toolhire director and a new health and safety director. We will increasingly leverage best practice across the Group. It is our intention to continue to run those elements of the organisation delivering the Wickes' brand proposition separately, reporting to the Wickes' Managing Director.

We have initiated a campaign to reduce employee turnover across the Group by a series of initiatives starting with a rigorous induction programme. Turnover has now fallen to 21.5% having reduced to 24.6% in the full year 2005.

Outlook

The overall progress of the market so far this year has been in line with our original expectations, although trade has been stronger and retail weaker. We still expect a gradual improvement in the second half of the year. Our July sales performance is in line with the improving trend experienced in the last quarter. The majority of lead indicators continue to exhibit a positive trend including property transactions, house price inflation, new house starts, consumer confidence and mortgage equity withdrawal. These need to be balanced with some uncertainty about unemployment levels and interest rate expectations.

Against this overall background, we have, in both our merchant and retail divisions, gained market share, extended our branch network, lowered the cost of products for resale, raised productivity and cost performance and across the Group we have strengthened both our organisational structure and senior management team. We are well placed to take advantage of the anticipated market growth.

# Consolidated income statement

| | Six months 30 June 2006 (Reviewed) | | | Six months 30 June 2005 (Reviewed) | | | Year 31 December 2005 (Audited) | | |
|---|---|---|---|---|---|---|---|---|---|
| | Non-Wickes related £m | Identified impact of Wickes (Note below) £m | Total £m | Non-Wickes related £m | Identified impact of Wickes (Note below) £m | Total £m | Non-Wickes related £m | Identified impact of Wickes (Note below) £m | Total £m |
| **Revenue** | **987.2** | **424.5** | **1,411.7** | 938.5 | 352.7 | 1,291.2 | 1,881.0 | 759.8 | 2,640.8 |
| **Operating profit before property profits** | **101.8** | **33.4** | **135.2** | 106.2 | 31.2 | 137.4 | 208.3 | 59.7 | 268.0 |
| Property profits | **-** | **4.0** | **4.0** | - | - | - | - | - | - |
| **Operating profit** | **101.8** | **37.4** | **139.2** | 106.2 | 31.2 | 137.4 | 208.3 | 59.7 | 268.0 |
| Finance income (Note 4) | **0.7** | **0.9** | **1.6** | 0.3 | - | 0.3 | 0.4 | - | 0.4 |
| Finance costs (Note 4) | **(0.6)** | **(29.8)** | **(30.4)** | (4.9) | (22.8) | (27.7) | (10.8) | (50.9) | (61.7) |
| **Profit before taxation** | **101.9** | **8.5** | **110.4** | 101.6 | 8.4 | 110.0 | 197.9 | 8.8 | 206.7 |
| Tax (Note 5) | **(32.2)** | **(1.7)** | **(33.9)** | (32.3) | (3.2) | (35.5) | (61.9) | (4.0) | (65.9) |
| **Profit for the period** | **69.7** | **6.8** | **76.5** | 69.3 | 5.2 | 74.5 | 136.0 | 4.8 | 140.8 |
| **Earnings per ordinary share (Note 6)** | | | | | | | | | |
| Basic | | | **63.3p** | | | 61.8p | | | 116.8p |
| Diluted | | | **62.8p** | | | 61.0p | | | 115.6p |
| **Proposed dividend per ordinary share (Note 7)** | | | **12.1p** | | | 11.0p | | | 34.0p |

All results relate to continuing operations.

**Note**

The column headed “Identified impact of Wickes” includes the post acquisition result of Wickes, together with the synergies that have arisen from specific projects and the additional finance related costs incurred by the group, as a result of the acquisition.

# Statement of recognised income and expense

| | **Six months 30 June 2006 (Reviewed) £m** | Six months 30 June 2005 (Reviewed) £m | Year 31 Dec 2005 (Audited) £m |
|---|---|---|---|
| Actuarial gains and losses on defined benefit pension scheme | **39.6** | (8.6) | 2.4 |
| Gains/(losses) on cash flow hedges | **5.0** | - | (5.0) |
| Tax on items taken directly to equity | **(14.4)** | 1.7 | 10.1 |
| Net income/(expense) recognised directly in equity | **30.2** | (6.9) | 7.5 |
| Transferred to income statement on cash flow hedges | **0.6** | - | 0.5 |
| Tax on items transferred from equity | **(0.2)** | - | (0.1) |
| Profit for the period | **76.5** | 74.5 | 140.8 |
| **Total recognised income and expense for the period** | **107.1** | 67.6 | 148.7 |

# Consolidated balance sheet

| | **As at 30 June 2006 (Reviewed) £m** | As at 30 June 2005 (Reviewed) £m | As at 31 Dec 2005 (Audited) £m |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | **439.2** | 452.3 | 445.2 |
| Goodwill | **1,279.9** | 1,239.2 | 1,273.8 |
| Other intangible assets | **162.5** | 162.5 | 162.5 |
| Derivative financial instruments | **-** | - | 1.3 |
| Investment property | **4.0** | 4.0 | 4.1 |
| Deferred tax asset | **30.0** | 53.8 | 42.9 |
| **Total non-current assets** | **1,915.6** | 1,911.8 | 1,929.8 |
| **Current assets** | | | |
| Inventories | **270.1** | 277.2 | 263.2 |
| Derivative financial instruments | **0.3** | - | - |
| Trade and other receivables | **393.4** | 361.8 | 322.4 |
| Cash and cash equivalents | **130.8** | 26.1 | 56.1 |
| **Total current assets** | **794.6** | 665.1 | 641.7 |
| **Total assets** | **2,710.2** | 2,576.9 | 2,571.5 |

# Consolidated balance sheet (continued)

| | **As at 30 June 2006 (Reviewed) £m** | As at 30 June 2005 (Reviewed) £m | As at 31 Dec 2005 (Audited) £m |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Capital and reserves** | | | |
| Issued capital | **12.2** | 12.1 | 12.1 |
| Share premium account | **168.2** | 161.8 | 165.6 |
| Revaluation reserves | **26.2** | 26.5 | 26.3 |
| Own shares | **(8.1)** | - | (8.1) |
| Hedging reserve | **0.7** | (5.3) | (3.2) |
| Accumulated profits | **643.0** | 496.9 | 565.3 |
| **Total equity** | **842.2** | 692.0 | 758.0 |
| **Non-current liabilities** | | | |
| Interest bearing loans and borrowings | **965.2** | 1,025.8 | 1,027.4 |
| Retirement benefit obligation | **99.9** | 179.5 | 142.8 |
| Long-term provisions | **11.9** | 7.6 | 13.2 |
| Deferred tax liabilities | **73.2** | 79.0 | 72.6 |
| Derivative financial instruments | **25.4** | - | - |
| **Total non-current liabilities** | **1,175.6** | 1,291.9 | 1,256.0 |
| **Current liabilities** | | | |
| Interest bearing loans and borrowings | **2.8** | 5.3 | 2.9 |
| Unsecured loan notes | **8.0** | 8.9 | 8.2 |
| Derivative financial instruments | **-** | - | 5.1 |
| Trade and other payables | **609.8** | 490.3 | 482.3 |
| Tax liabilities | **39.2** | 61.2 | 33.3 |
| Short-term provisions | **32.6** | 27.3 | 25.7 |
| **Total current liabilities** | **692.4** | 593.0 | 557.5 |
| **Total liabilities** | **1,868.0** | 1,884.9 | 1,813.5 |
| **Total equity and liabilities** | **2,710.2** | 2,576.9 | 2,571.5 |

The interim financial statements were approved by the board of directors on 31 July 2006.

Signed on behalf of the board of directors.

G. I. Cooper )

P. N. Hampden Smith ) *Directors*

# Consolidated cash flow statement

| | **Six months 30 June 2006 (Reviewed) £m** | Six months 30 June 2005 (Reviewed) £m | Year 31 Dec 2005 (Audited) £m |
|---|---|---|---|
| **Operating profit** | **139.2** | 137.4 | 268.0 |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | **26.9** | 26.8 | 54.5 |
| Other non cash movements | **1.7** | 1.3 | 2.4 |
| (Gain)/loss on disposal of property, plant and equipment | **(4.3)** | (0.1) | 0.7 |
| **Operating cash flows before movements in working capital** | **163.5** | 165.4 | 325.6 |
| (Increase)/decrease in inventories | **(6.0)** | (3.9) | 12.4 |
| Increase in receivables | **(67.9)** | (44.0) | (1.5) |
| Increase in payables | **130.8** | 42.0 | 2.8 |
| Cash payments to the pension scheme in excess of the charge to income statement | **(3.3)** | (1.5) | (28.5) |
| **Cash generated from operations** | **217.1** | 158.0 | 310.8 |
| Interest paid | **(28.9)** | (14.7) | (38.6) |
| Income taxes paid | **(28.9)** | (26.7) | (47.0) |
| **Net cash from operating activities** | **159.3** | 116.6 | 225.2 |
| **Cash flows from investing activities** | | | |
| Interest received | **0.7** | 0.2 | 0.4 |
| Proceeds on disposal of property, plant and equipment | **5.1** | 3.1 | 1.4 |
| Purchases of property, plant and equipment | **(21.0)** | (39.7) | (71.6) |
| Acquisition of businesses net of cash acquired | **(8.9)** | (1,020.7) | (1,045.5) |
| **Net cash used in investing activities** | **(24.1)** | (1,057.1) | (1,115.3) |
| **Financing activities** | | | |
| Proceeds from the issue of share capital | **2.7** | 2.6 | 6.4 |
| Purchase of own shares | **-** | - | (8.1) |
| Payment of finance lease liabilities | **(2.4)** | (1.1) | (2.3) |
| Repayment of unsecured loan notes | **(0.2)** | (0.1) | (0.8) |
| (Decrease)/increase in bank loans | **(32.8)** | 873.6 | 872.7 |
| Dividends paid | **(27.8)** | (25.3) | (38.6) |
| **Net cash (used in)/from financing activities** | **(60.5)** | 849.7 | 829.3 |
| **Net increase/(decrease) in cash and cash equivalents** | **74.7** | (90.8) | (60.8) |
| Cash and cash equivalents at beginning of period | **56.1** | 116.9 | 116.9 |
| **Cash and cash equivalents at end of period** | **130.8** | 26.1 | 56.1 |

# Notes to the interim financial statements

### 1 General information and accounting policies

The Interim Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted for use in the European Union.

**Basis of preparation**
The Interim Financial Statements have been prepared on the historic cost basis, except that derivative financial instruments are stated at their fair value. The Interim Financial Statements include the accounts of the company and all its subsidiaries.

The financial information for the six months ended 30 June 2006 and 30 June 2005 is unaudited and does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. This information has been reviewed by Deloitte & Touche LLP, the group's auditors, and a copy of their review report appears on page 22 of this Interim Report. A copy of the statutory accounts for the year ended 31 December 2005 as prepared under IFRS has been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified.

The principal accounting policies applied in preparing the Interim Financial Statements are set out below.

**Revenue recognition**
Revenue is recognised when goods or services are received by the customer and the risks and rewards of ownership have passed to them. Revenue is measured at the fair value of consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and value added tax.

**Business combinations and goodwill**
All business combinations are accounted for using the purchase method. The cost of an acquisition represents the cash value of the consideration and/or the fair value of the shares issued on the date the offer became unconditional, plus expenses. At the date of the acquisition an assessment is made of the aggregate fair value of the net assets acquired. It is this fair value, which is incorporated into the consolidated accounts.

Goodwill represents the excess of the cost of acquisition over the share of the aggregate fair value of identifiable net assets (including intangible assets) of a business or a subsidiary at the date of acquisition. Goodwill is initially recognised as an asset and allocated to cash generating units, then at least annually, is reviewed for impairment. Any impairment is recognised immediately in the income statement and is not subsequently reversed, as such, goodwill is stated in the balance sheet at cost less any provisions for impairment in value.

**Intangible assets**
Intangible assets identified as part of the assets of an acquired business are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition. Intangible assets are amortised to the income statement on a straight-line basis over a maximum of 20 years except where they are considered to have an indefinite useful life. In the latter instance they are reviewed annually for impairment.

**Property, plant and equipment**
Property, plant and equipment is stated at cost or deemed cost less accumulated depreciation and any impairment in value. Assets are depreciated to their estimated residual value on a straight-line basis over their estimated useful lives as follows:

- Buildings - 50 years or if lower, the estimated useful life of the building or the life of the lease.
- Plant and equipment - 4 to 10 years.
- Land is not depreciated.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or where shorter the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds net of expenses and the carrying amount of the asset in the balance sheet and is recognised in the income statement. Where appropriate, the attributable revaluation reserve remaining in respect of properties revalued prior to the adoption of IFRS is transferred directly to accumulated profits.

**Investment properties**
Investment properties, which are held to earn rental income or for capital appreciation or for both, are stated at deemed cost less depreciation. Properties are depreciated to their estimated residual value on a straight-line basis over their estimated useful lives, up to a maximum of 50 years.

Rental income from investment property is recognised in the income statement on a straight-line basis over the term of the lease.

## 1 General information and accounting policies (continued)

**Leases**
Finance leases, which transfer to the group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases.

Operating lease rental payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Reverse lease premia and other incentives receivable for entering into a lease agreement are recognised in the income statement over the life of the lease.

**Impairment of tangible and intangible assets excluding goodwill**
The carrying amounts of the group's tangible and intangible assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such an indication exists, the asset's recoverable amount is estimated and compared to its carrying value. Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash generating unit ("CGU") to which the asset belongs. Where the carrying value exceeds the recoverable amount a provision for the impairment loss is established with a charge being made to the income statement.

For intangible assets that have an indefinite useful life the recoverable amount is estimated at each annual balance sheet date.

Impairment losses recognised in respect of a CGU are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

**Inventories**
Inventories, which consist of goods for resale, are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price less the estimated costs of disposal.

**Financial instruments**
Financial assets and liabilities are recognised in the balance sheet when the group becomes a party to the contractual provision of the instrument.

**Trade receivables**
Trade receivables are measured at amortised cost which is carrying amount less provision for irrecoverable amounts. Allowances for the estimated irrecoverable amounts are made in the income statement when the receivable is considered to be uncollectable.

**Cash and cash equivalents**
Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less.

**Bank and other borrowings**
Interest bearing bank loans and overdrafts and other loans are recognised in the balance sheet at amortised cost. Costs associated with arranging a bank facility are recognised in the income statement over the life of the facility. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

**Trade payables**
Trade payables are measured at amortised cost.

**Foreign currencies**
Transactions denominated in foreign currencies are recorded at the rates ruling on the date of transaction. At the consolidated balance sheet date, unhedged monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

**Derivative financial instruments and hedge accounting**
The group uses derivative financial instruments to hedge its exposure to interest rate and foreign exchange risks arising from financing activities. The group does not enter into speculative financial instruments. In accordance with its treasury policy, the group does not hold or issue derivative financial instruments for trading purposes.

**Derivative financial instruments and hedge accounting (continued)**
Derivative financial instruments are stated at fair value. The fair value of derivative financial instruments is the estimated amount the group would receive or pay to terminate the derivative at the balance sheet date, taking into account current interest and exchange rates and the current creditworthiness of the counterparties.

Changes in the fair value of derivative financial instruments, that are designated and effective as hedges of the future variability of cash flows, are recognised directly in equity and the ineffective portion is recognised immediately in the income statement.

For an effective hedge of an exposure to changes in the fair value of a hedged item, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in the income statement.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken to the income statement as they arise.

Derivatives embedded in commercial contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the underlying contracts, with unrealised gains or losses being reported in the income statement.

**Taxation**
The tax expense represents the sum of the tax currently payable and the deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items which are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. This is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

**Pensions and other post-employment benefits**
For defined benefit schemes, operating profit is charged with the cost of providing pension benefits earned by employees in the period. The expected return on pension scheme assets less the interest on pension scheme liabilities is shown as a finance cost within the income statement.

Actuarial gains and losses arising in the period from the difference between actual and expected returns on pension scheme assets, experience gains and losses on pension scheme liabilities and the effects of changes in demographics and financial assumptions are included in the statement of recognised income and expense.

Recoverable pension scheme surpluses and pension scheme deficits and the associated deferred tax balances are recognised in full in the period in which they occur and are included in the balance sheet.

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

**Employee share incentive plans**
The group issues equity-settled share-based payments to certain employees (long term incentives, executive share options and Save As You Earn), which do not include market related conditions. These payments are measured at fair value at the date of grant by use of the Black Scholes option-pricing model taking into account the terms and conditions upon which the options were granted. The cost of equity-settled awards is recognised on a straight-line basis over the vesting period, based on the group's estimate of the number of shares that will eventually vest. No cost is recognised for awards that do not ultimately vest.

**Provisions**
A provision is recognised in the balance sheet when the group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

**Equity instruments and own shares**
Equity instruments represent the ordinary share capital of the group and are recorded at the proceeds received, net of directly attributable incremental issue costs.

**Notes to the interim financial statements**

**1 General information and accounting policies (continued)**

**Equity instruments and own shares (continued)**
Consideration paid by the group for its own shares is deducted from total shareholder equity. Where such shares vest to employees under the terms of the group's share option or the group's share saving schemes or are sold, any consideration received is included in shareholder equity.

**Dividends**
Dividends proposed by the board of directors and unpaid at the period end are not recognised in the financial statements until they have been approved by shareholders at the annual general meeting.

**2 Business segments**

For management purposes, the group is currently organised into two operating divisions – Builders Merchanting and DIY Retailing. These divisions are the basis on which the group reports its primary segment information. Segment results include items directly attributable to segments as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate expenses.

**Segment information**

**Six months ended 30 June 2006**

| | Builders Merchanting £m | DIY Retailing £m | Eliminations £m | **Consolidated £m** |
|---|---|---|---|---|
| **Revenue** | 988.3 | 424.5 | (1.1) | **1,411.7** |
| **Result** | | | | |
| Segment result | 110.0 | 30.4 | - | **140.4** |
| Unallocated corporate expenses | | | | **(1.2)** |
| Finance costs | | | | **(28.8)** |
| Profit before taxation | | | | **110.4** |
| Taxation | | | | **(33.9)** |
| Net profit | | | | **76.5** |

**Six months ended 30 June 2005**

| | Builders Merchanting £m | DIY Retailing £m | Eliminations £m | Consolidated £m |
|---|---|---|---|---|
| **Revenue** | 938.5 | 352.7 | - | 1,291.2 |
| **Result** | | | | |
| Segment result | 107.0 | 31.2 | - | 138.2 |
| Unallocated corporate expenses | | | | (0.8) |
| Finance costs | | | | (27.4) |
| Profit before taxation | | | | 110.0 |
| Taxation | | | | (35.5) |
| Net profit | | | | 74.5 |

There were no inter-segment sales or charges.

## 2. Business segments (continued)

**Year ended 31 December 2005**

| | Builders Merchanting £m | DIY Retailing £m | Eliminations £m | Consolidated £m |
|---|---|---|---|---|
| **Revenue** | 1,881.0 | 759.8 | - | 2,640.8 |
| **Result** | | | | |
| Segment result | 213.3 | 55.9 | - | 269.2 |
| Unallocated corporate expenses | | | | (1.2) |
| Finance costs | | | | (61.3) |
| Profit before taxation | | | | 206.7 |
| Taxation | | | | (65.9) |
| Net profit | | | | 140.8 |

There were no inter-segment sales or charges.

## 3 Pension scheme

| | Builders Merchanting £m | DIY Retailing £m | **Total** **£m** |
|---|---|---|---|
| Gross deficit 1 January 2006 | (100.8) | (42.0) | **(142.8)** |
| Current service costs | (6.8) | - | **(6.8)** |
| Contributions | 9.3 | 1.2 | **10.5** |
| Other finance income/(costs) | 0.3 | (0.7) | **(0.4)** |
| Actuarial gains and losses | 29.2 | 10.4 | **39.6** |
| Gross deficit at 30 June 2006 | (68.8) | (31.1) | **(99.9)** |
| Deferred tax asset | 20.7 | 9.3 | **30.0** |
| Net deficit at 30 June 2006 | (48.1) | (21.8) | **(69.9)** |

## 4 Finance costs

| | Year 30 June 2006 £m | Six months 30 June 2006 £m | Six months 30 June 2005 £m | Year 31 Dec 2005 £m |
|---|---|---|---|---|
| Loan and other bank interest | **(57.6)** | **(27.9)** | (23.8) | (53.5) |
| Interest on obligations under finance leases | **(1.9)** | **(1.2)** | (1.3) | (2.0) |
| Other finance costs – pension schemes | **(1.9)** | **(0.4)** | (2.2) | (3.7) |
| Unwinding of discounts in provisions | **(1.5)** | **(0.6)** | - | (0.9) |
| Net loss on re-measurement of derivatives at fair value | **(0.6)** | **-** | - | (0.6) |
| Amortisation of issue costs of bank loans | **(0.9)** | **(0.3)** | (0.4) | (1.0) |
| Finance costs | **(64.4)** | **(30.4)** | (27.7) | (61.7) |
| Interest on bank deposits | **0.8** | **0.7** | 0.3 | 0.4 |
| Net gain on re-measurement of derivatives at fair value | **0.9** | **0.9** | - | - |
| Finance income | **1.7** | **1.6** | 0.3 | 0.4 |
| Net finance costs | **(62.7)** | **(28.8)** | (27.4) | (61.3) |
| Interest cover finance costs (see below) | **(58.3)** | **(27.8)** | (23.5) | (54.0) |
| Operating profit | **269.8** | **139.2** | 137.4 | 268.0 |
| IFRS adjustment | **4.1** | **5.4** | 3.6 | 2.3 |
| 2005 UK GAAP operating profit | **273.9** | **144.6** | 141.0 | 270.3 |
| Interest cover (times) per chairman's statement | **4.7** | **-** | - | 5.0 |

Interest cover is calculated by dividing 2005 UK GAAP operating profit by the combined value of interest on bank loans, discounts and interest on bank deposits. Interest cover for 2005 has been restated to reflect this methodology.

## 5 Tax

| | Six months 30 June 2006 £m | Six months 30 June 2005 £m | Year 31 Dec 2005 £m |
|---|---|---|---|
| **Current tax** | | | |
| UK corporation tax | | | |
| - current year | **34.5** | 36.0 | 59.1 |
| - prior year | **-** | - | (0.4) |
| | **34.5** | 36.0 | 58.7 |
| **Deferred tax** | | | |
| - current year | **(0.6)** | (0.5) | 7.0 |
| - prior year | **-** | - | 0.2 |
| Total deferred tax | **(0.6)** | (0.5) | 7.2 |
| Total tax charge | **33.9** | 35.5 | 65.9 |

## 5 Tax (continued)

Tax for the interim period is charged at 31.9% on profits before tax and property profits (Year to 31 December 2005: 31.9%), representing the best estimate of the weighted average annual corporation tax rate expected for the full financial year. Profits on property disposals will be offset against previously unprovided capital losses.

## 6 Earnings per share

| | **Six months 30 June 2006 £m** | Six months 30 June 2005 £m | Year 31 Dec 2005 £m |
|---|---|---|---|
| **Earnings** | | | |
| Earnings for the purposes of basic and diluted earnings per share being net profit attributable to equity holders of the parent | **76.5** | 74.5 | 140.8 |
| **Number of shares** | **No.** | No. | No. |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | **120,942,231** | 120,657,659 | 120,542,092 |
| Dilutive effect of share options on potential ordinary shares | **896,273** | 1,538,168 | 1,205,748 |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | **121,838,504** | 122,195,827 | 121,747,840 |

## 7 Dividends

Amounts were recognised in the financial statements as distributions to equity shareholders in the following periods:

| | **Six months 30 June 2006 £m** | Six months 30 June 2005 £m | Year 31 Dec 2005 £m |
|---|---|---|---|
| Final dividend for the year ended 31 December 2005 of 23.0 pence (2004: 21.0 pence) per ordinary share | **27.8** | 25.3 | 25.3 |
| Interim dividend for the year ended 31 December 2005 of 11.0 pence per ordinary share | **-** | - | 13.3 |

The proposed interim dividend of 12.1 pence per ordinary share in respect of the year ending 31 December 2006 was approved by the Board on 31 July 2006 and in accordance with IFRS has not been included as a liability as at 30 June 2006. It will be paid on 2 November 2006 to shareholders on the register on 6 October 2006. The shares will be quoted ex-dividend on 4 October 2006.

**Notes to the interim financial statements**

## 8 Borrowings

At 30 June 2006 the group had the following borrowing facilities available:

| | **30 June 2006 £m** | 30 June 2005 £m | 31 Dec 2005 £m |
|---|---|---|---|
| **Drawn facilities** | | | |
| US guaranteed senior notes | **231.2** | - | - |
| 5 year term loan | **270.0** | 500.0 | 500.0 |
| 5 year revolving credit facility | **460.0** | 500.0 | 494.0 |
| | **961.2** | 1,000.0 | 994.0 |
| **Undrawn facilities** | | | |
| 5 year revolving credit facility | **240.0** | 200.0 | 206.0 |
| Bank overdrafts | **25.0** | 25.0 | 25.0 |
| | **265.0** | 225.0 | 231.0 |

## 9 Share capital

| | **Authorised** | | **Allotted** | |
|---|---|---|---|---|
| **Ordinary shares of 10p** | **No.** | **£m** | **No.** | **£m** |
| At 1 January 2006 | 135,000,000 | 13.5 | 121,309,889 | 12.1 |
| Allotted under share option schemes | - | - | 282,895 | 0.1 |
| At 30 June 2006 | **135,000,000** | **13.5** | **121,592,784** | **12.2** |

## 10 Acquisition of businesses

During the period the group has acquired 5 new businesses with 5 branches for a combined value of £8.9m (after adjusting for cash acquired at the date of acquisition) that resulted in goodwill of £6.1m.

## 11 Net debt reconciliation

| | **30 June 2006 £m** | 30 June 2005 £m | 31 Dec 2005 £m |
|---|---|---|---|
| Net debt at 1 January | **(982.4)** | (30.7) | (30.7) |
| Increase/(decrease) in cash and cash equivalents | **74.7** | (90.8) | (60.8) |
| Cash flows from debt | **35.4** | (878.9) | (871.9) |
| Fair value of derivatives | **27.4** | - | (1.3) |
| (Decrease)/increase in finance charges netted off bank debt | **(0.3)** | 6.5 | 2.3 |
| Finance leases acquired | **-** | (20.0) | (20.0) |
| Net debt at 30 June / 31 December | **(845.2)** | (1,013.9) | (982.4) |

The presentation of the reconciliation for 30 June 2005 is restated to agree to that applied at 31 December 2005.

## Notes to the interim financial statements

### 12 Free cash flow

| | **Six months 30 June 2006 £m** | Six months 30 June 2005 £m | Year 31 Dec 2005 £m |
|---|---|---|---|
| Cash generated from operations | **217.1** | 158.0 | 310.8 |
| Special pension contributions | **3.3** | 1.5 | 28.5 |
| Net interest paid | **(28.2)** | (14.5) | (38.2) |
| Income taxes paid | **(28.9)** | (26.7) | (47.0) |
| Replacement capital expenditure | **(7.1)** | (17.2) | (29.4) |
| Disposal proceeds | **5.1** | 3.1 | 1.4 |
| Free cash flow | **161.3** | 104.2 | 226.1 |

### 13 Earnings before interest, tax and depreciation

Earnings before interest, tax and depreciation ("EBITDA") as referred to in the chairman's statement is derived as follows:

| | **Year 30 June 2006 £m** | **Six months 30 June 2006 £m** | Six months 30 June 2005 £m | Year 31 Dec 2005 £m |
|---|---|---|---|---|
| Profit before taxation | **207.1** | **110.4** | 110.0 | 206.7 |
| Net finance costs | **62.7** | **28.8** | 27.4 | 61.3 |
| Depreciation and impairments | **54.6** | **26.9** | 26.8 | 54.5 |
| EBITDA under IFRS | **324.4** | **166.1** | 164.2 | 322.5 |
| Reversal of IFRS adjustments and Wickes' pre-acquisition EBITDA | **2.8** | **4.7** | 6.3 | 4.4 |
| EBITDA as defined in UK banking agreements | **327.2** | **170.8** | 170.5 | 326.9 |
| Net debt under 2005 UK GAAP – see below | **841.1** | **-** | - | 950.7 |
| Net debt to EBITDA | **2.6** | **-** | - | 2.9 |

| | **30 June 2006 £m** | 30 June 200 £m | 31 Dec 2005 £m |
|---|---|---|---|
| Net debt | **(845.2)** | (1,013.9) | (982.4) |
| IAS 17 Finance leases | **32.2** | 33.3 | 32.7 |
| Fair value of derivatives | **(26.1)** | - | 1.3 |
| Finance charges netted off bank debt | **(2.0)** | (6.5) | (2.3) |
| Net debt under 2005 UK GAAP | **(841.1)** | (987.1) | (950.7) |

# Independent Review Report to Travis Perkins plc

**Introduction**

We have been instructed by the company to review the financial information for the six months ended 30 June 2006 which comprises the income statement, the balance sheet, the cash flow statement, the statement of recognised income and expense and related notes 1 to 13. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with Bulletin 1999/4 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

**Directors' responsibilities**

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures are consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

**Review work performed**

We conducted our review in accordance with the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

**Review conclusion**

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2006.

**Deloitte & Touche LLP**
**Chartered Accountants**
**Birmingham**

31 July 2006