TRAVIS PERKINS PLC

2005

ANNUAL REPORT & ACCOUNTS

A Leader in Builders' Merchanting and Home Improvement Retailing

TRAVIS PERKINS PLC ANNUAL REPORT & ACCOUNTS 2005

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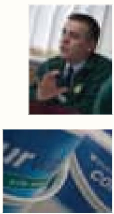
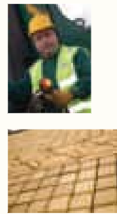


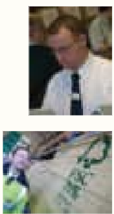
Our Group Mission

"Continue to deliver better returns by . . .

putting in place and growing the best businesses, with outstanding people providing comprehensive building material solutions, to everyone creating, maintaining, repairing or improving the built environment,

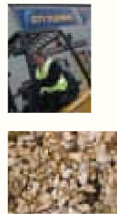
. . . helping to build Britain"





Our Group Vision

"To ensure that anyone in Britain who wants to access any kind of building materials through any form of supply channel will have a Travis Perkins' group operation as their first or first alternative choice"



Our Group Values

"At Travis Perkins, we:

- **know our customers** – we understand their needs, beat their expectations, treat them with respect, and know our major customers personally.
- **talk and listen** – we say what we mean clearly and honestly, we listen carefully; we respond objectively, we explain our decisions.
- **are with you, not against you** – we seek mutual benefits with all stakeholders; we think about the impact of our actions; we search for similarities, not differences.
- **know how to do our jobs** – not just today, but for the next job; we equip ourselves with the skills needed to perform and be confident we can perform.
- **like to deliver** – we enjoy being the best; we know exactly what each of us is expected to achieve; we focus on getting results, simply.
- **work together** – we actively work with each other; when something goes wrong, the first thing we will do is fix the problem; not look for someone to blame.
- **always try to get better** – we constructively challenge how we work; we look for fresh ideas that are different; we only have rules where they are necessary because we use our common sense.
- **are proud to be here** – this is a great company; everyone working with us is welcome; we make work enjoyable for everyone."

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TRAVIS PERKINS PLC

2005

ANNUAL REPORT & ACCOUNTS

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Financial highlights

For the year ended 31 December 2005

£m	**2005**	2004
Turnover	**2,640.8**	1,828.6
Operating profit	**268.0**	217.7
Profit before taxation	**206.7**	206.5
Profit after taxation	**140.8**	142.1
Free cash flow	**226.1**	150.7
Basic earnings per ordinary share	**116.8p**	124.4p
Total dividend per ordinary share	**34.0p**	30.5p

Turnover up 44.4%

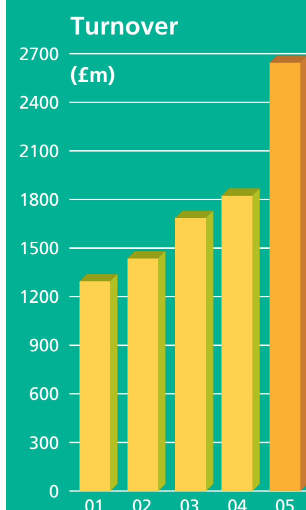
Operating profit up 23.1%

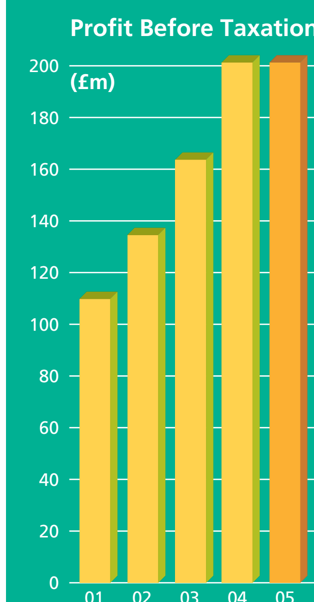
Profit before taxation up 0.1%

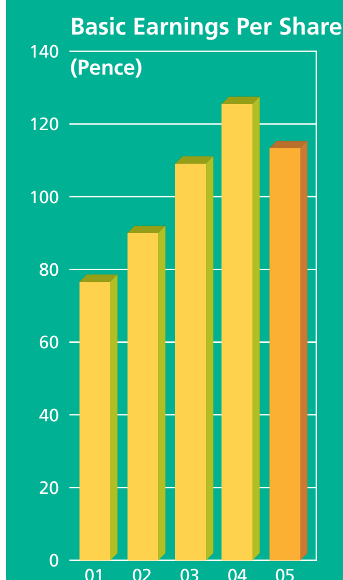
Free cash flow (note 35) up 50.0%

Basic earnings per share down 6.1%

Total dividend per share up 11.5%







Chairman's statement For the year ended 31 December 2005

Results Compared to the previous long run of many years which saw steady annual market growth, conditions in 2005 were more challenging. In response, our management teams have focused on maximising profits from our existing branch network, through cost reduction and productivity improvement, as well as continuing to grow our business through brown field developments and selected acquisitions including Wickes.

The Wickes acquisition is profit enhancing in 2005, reflecting excellent progress in management integration and above target improvements in procurement and in overhead costs.

Considerable progress has been made operationally in 2005; our business is now some 50 per cent larger; we have added a record number of new branches and stores; productivity gains have been made in merchanting; the Wickes acquisition, our largest ever, has been integrated successfully and debt on a proforma basis has been reduced by over £70 million following completion of the acquisition of Wickes (see note 33). We continue to enjoy sector leading operating margins in merchanting and have improved Wickes relative performance so that it now enjoys the highest operating margin amongst its peers.

Dividend The group continues to be highly cash generative. As a result of this and our confidence in the future prospects of the group, the board is recommending a final dividend of 23.0 pence per share. Taken together with the interim dividend of 11.0 pence, this represents a total dividend of 34.0 pence, an increase of 11.5 per cent on the previous year.

Board of directors Andrew Simon became a non-executive director of the company in February 2006. Following a 23 year career successfully developing a building materials manufacturer as its Chief Executive and then Chairman, he has developed considerable experience as a non-executive director from a diverse portfolio of companies.

Corporate governance During the year the board has continued to review actively all of the major areas of risk to the group. Further details of the governance controls can be found under the corporate governance section of the annual report and accounts.

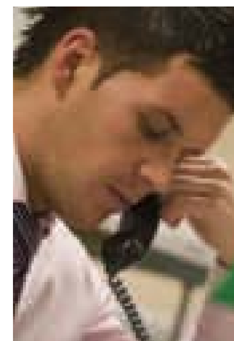
Outlook We have made a satisfactory start to 2006 with merchanting volumes ahead of expectations. Although there are signs that our markets are likely to recover, we expect the first half year to remain challenging, with any recovery coming in the second half year.

We have recently seen gradually improving trends in lead indicators; consumer confidence is rising, although continued inflation in non-discretionary living costs will mean any recovery in spending by consumers, particularly for home improvement projects, will be gradual. The overall housing market shows some improving trends, although these are not yet well established.

There has been a recent slow down in the expansion of capacity in both DIY and trade markets. Some competitor DIY stores have closed, and the appetite of merchants to expand their networks has waned. Whilst expansion in 2005 added about 3 to 4 per cent of new capacity to each market, we expect this to come down to 1 to 2 per cent in the next two years. This should have a beneficial effect on the performance of like-for-like stores and branches. The work we have done to reduce costs and capture synergy benefits and buying gains leaves us well positioned to benefit from any improvement in volumes in both merchanting and retailing. Our cash flow remains strong and we expect to continue to expand our networks and further reduce our net debt.

We are approaching the important Easter trading period for both our divisions and it is too early to change expectations for the year as a whole. Looking ahead, we expect that improving market conditions will mean that our profit performance will be stronger in the second half of 2006 than the corresponding period in 2005.

In 2005 we strengthened our business, both strategically and operationally, and look forward with confidence to 2006 and beyond.



T. E. P. Stevenson Chairman

7 March 2006

Chief executive's review

For the year ended 31 December 2005

Introduction Although 2005 has been more challenging than recent years, our businesses have performed well in relative terms against sector peers and significant progress has been made in the strategic development of the group. We faced two key challenges in 2005; integrating the Wickes acquisition, which enabled the group to enter a substantial new market for building materials, and coping with the first decline in trade market volumes experienced since 1990.

The integration programme for Wickes has gone well, with all key integration milestones and combined targets for synergy and buying gains exceeded.

Previously, with strong and rising demand for building materials, the group had been able to increase trading and operating margins whilst growing its like-for-like turnover below market rates. Early in 2005 we decided to adapt our trading stance to a market with weaker demand.

Performance In 2005 we focussed our efforts on tight management of cash and costs, achievement of synergy and buying gains and more active management of profitable sales at each of our merchanting and retailing branches.

In merchanting, we selectively made a margin investment in some branches and brought our like-for-like sales growth up to market levels by the end of the third quarter. This market relative performance has been sustained, our gross margin is stable, and we are making a net positive profit contribution from this investment. Despite lower like-for-like sales volumes, action on costs has meant that productivity increased over the level achieved in 2004.

At Wickes, through sharp cost reductions and active management of gross margins, we have improved operating margin to become the highest in the sector. Price competition increased in the fourth quarter in the DIY market, and our market share gains made in the first nine months were reversed. We have, however, held on to our gains in gross margin and yet have maintained our pricing advantage against our DIY competitors. This performance reflects the resilience of Wickes' low assortment model and the loyalty it engenders amongst its core customers.

The acquisition of Wickes and our continued successful programme of expansion in our merchanting network has meant our revenue base is now about 50 per cent larger than in 2004. This expansionary growth, a feature of the group's progress over many years, adds further scale benefits through improved buying terms and operational gearing of overheads.

This increased scale meant we set an ambitious target, comprising synergies and stretched buying gains, for lowering our costs of goods sold and overhead costs. We exceeded our overall target despite lower than anticipated purchase volumes from weaker like-for-like sales trends.

Our focus on cash generation meant we were able to continue to fund our expansion programme and reduce the proforma debt level in the year by over £70 million (see note 33).

Overall, weaker market conditions meant that like-for-like sales and profit performance were below our expectations. Management actions helped offset much of the shortfall in profit contribution, and the group's profits before tax ended up just ahead of the prior year.

Markets The long term market trends for both trade and retail continue to be strong; the UK needs more new dwellings than it is building; much of the existing housing stock needs upgrading and public sector infrastructure also requires significant investment.

These trends give us confidence that we can continue to expand our networks in the UK to meet rising demand. However, conversion of these long term trends into current spending depends on a number of cyclical factors, particularly conditions in the housing market and general consumer confidence.

Both consumer confidence and consumer spending were weak throughout 2005 reflecting pressure on consumers' disposable incomes as non-discretionary spending increased and lower mortgage equity withdrawal as house price inflation weakened. In addition, the housing market experienced lower transaction levels and weaker inflation than in 2004.

These trends initially adversely affected retail sales in 2005 and then trade sales from spring onwards, particularly on improvement projects. Turnover related to repair and maintenance activities remained stable. Overall we experienced stronger performance in those divisions with a higher penetration of commercial, industrial and government work, and the weakest in those most closely allied to the consumer.

Market presence With the acquisition of Wickes, Travis Perkins is serving two segments of a market worth around £28 billion; builders merchants (£12 billion) and DIY (£16 billion). Our estimated market share of the trade market is 16 per cent and of DIY is 5 per cent. Our overall market share is around 10 per cent.

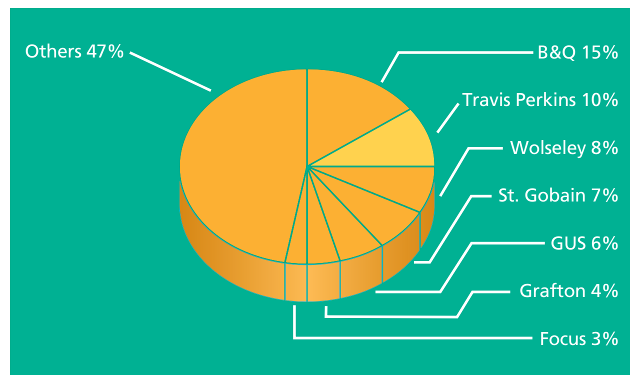
The Travis Perkins' group has a number one position in the supply of heavy building materials and timber and forest products and a strong number two position in both domestic plumbing and heating and in lightside products.

The core customer of the trade business is the jobbing builder and contractor representing an estimated 36 per cent of group turnover between Trade and DIY, other DIY customers represent 21 per cent and National Housebuilders 10 per cent.

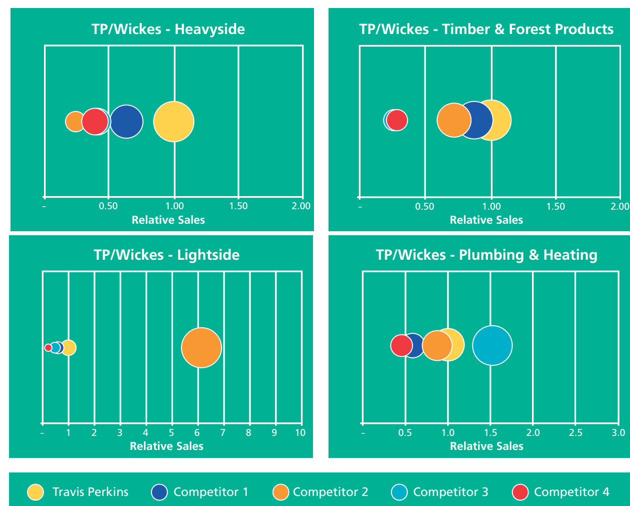
In terms of geographic presence, both divisions are strongest in London and the South East and have pursued an expansion strategy increasing share in all other regions of Great Britain in recent years.

Overall the group has a good spread of business by product, customer type and geographic region.

Market share Share of the DIY & builders merchants market based on company estimates - total market size of £28.7bn

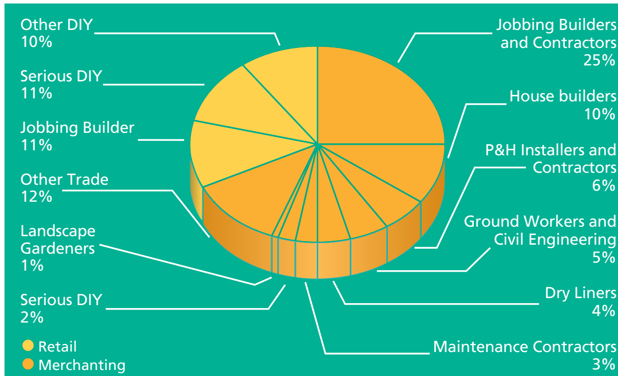


Market position



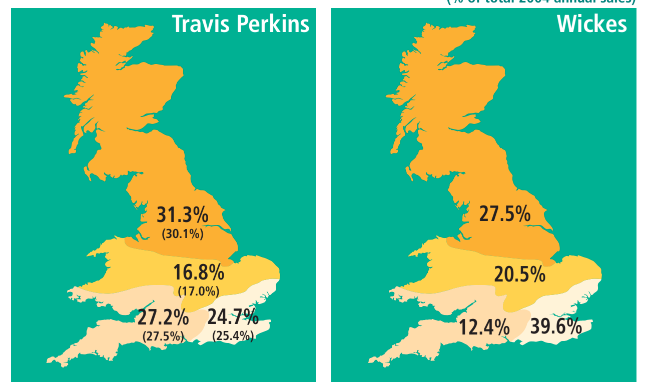
All our businesses enjoy distinct and strong competitive positioning in their respective markets. Our trade businesses offer superior service levels, product quality and availability with flexibility in commercial terms to match customers' requirements. Our retail business, Wickes, operates a low assortment model, where its concentrated stock range drives low operating costs and strong gross margins from a high penetration of own label product. This enables us to offer the best value for money to DIY consumers.

Customer split by spend



Geographic sales

% of total 2005 annual sales
(% of total 2004 annual sales)



Strategy The group's mission and vision are set out at the front of this annual report; we aim to develop and operate businesses dedicated to meeting the specific needs of distinct customer groups seeking to source all types of building materials in this country. Our strategy to achieve this aim is designed to generate superior shareholder returns through the execution of three key programmes:

1. CONTINUE TO DRIVE SCALE BENEFITS

Acquisition growth There is significant scope to add "bolt-on" acquisitions in the merchant industry where around one third of the market is owned by around 3,200 independent merchants.

The group has maintained a comprehensive database of operators both in the general builders' merchant market and in other specialist merchanting sectors that also distribute products for the built environment. Acquisitions have provided an excellent platform for growth for the group over the past decade and we have a good pipeline of businesses under negotiation. We maintained our disciplined stance to acquisition prices based on stringent return on capital criteria.

Brown field expansion In catchments where no attractive acquisition targets are available, we have been successful in recent years in acquiring brown field sites and opening new stores. We continue to seek suitable properties to fill gaps in our national coverage of our merchant and retail brands and with a current pipeline potential of around 100 branches, we are confident of continuing growth through this strategy in the future.

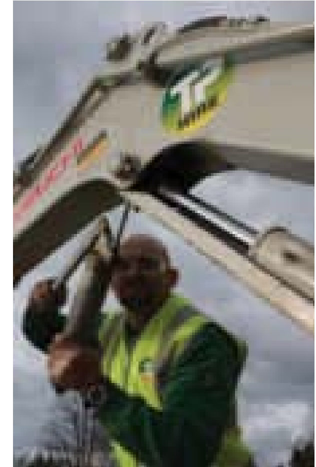
Adaptable trading in merchanting Our approach is to seek to maximise profits by adapting our trading stance in terms of range and price to the conditions we experience in each of our catchments. This approach is operated within an environment of financial controls and incentives that ensures standards are maintained and return on capital employed is maximised. We continually monitor the success of the trading stance adopted at each merchant branch, and seek to refine our approach further to improve performance.

Refresh our service offer and gain market share We aim to stretch our lead on service criteria in merchanting where external survey data has shown our relative positioning to be above average.

There is always room to improve and we have an established set of performance indicators in place at all outlets of both the merchant and retail operations.

Review our category presence in each outlet We intend to extend the application of best practice category management techniques across all brands. Improved merchandising techniques and use of space will enable us to deepen and extend some of the ranges available in Wickes whilst maintaining a low cost, low assortment approach.

Develop or acquire specialist channels in selected categories We currently serve markets worth £28 billion. In addition there are building material markets totalling around £8 billion where the group has a limited presence. We are examining the scope for entering one or more of these markets on a selective basis in the latter part of 2006.



2. SEEK FURTHER GROSS MARGIN EXPANSION

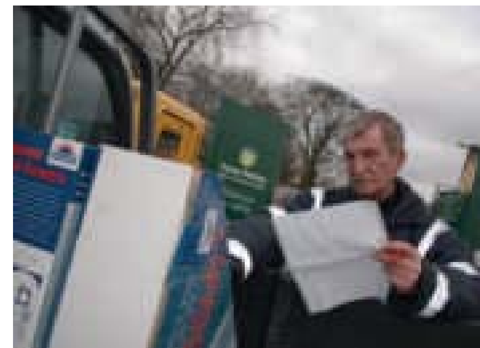
We have further scope to improve our synergies and buying gains. The 2006 synergy programme has already made good progress in the area of timber milling. Our major projects in 2006 include range harmonisation, in particular kitchens and bathrooms in both trade and retail.

We have now established a global sourcing capability. We have refreshed our Quality Assurance capability with a permanent presence in China and expanded our central warehousing capacity.

3. DRIVE FURTHER PRODUCTIVITY AND RETURNS ON CAPITAL

With a network of almost one thousand outlets we have many opportunities to continue to reduce operating costs by reviewing our targets and performance using benchmarking techniques. Labour productivity has improved during 2005 in part driven by these analyses. We are confident that applying these techniques will facilitate cost reduction and productivity in labour, distribution, sales, marketing and information management.

Overall productivity in merchanting has increased by 2.1 per cent. Like-for-like headcount in merchanting and retail are 4.6 per cent and 10.6 per cent lower respectively in 2005 compared to 2004.



Merchanting productivity per employee

The business continues to be focused on return on capital with variable pay for all management teams (from branch to plc board) having a significant return on capital element. This culture is important in driving the working capital improvements that we have seen in 2005 with improvements in both stock turn and debtor collection.

We continue to maximise the efficeincy of our property portfolio, pursuing relocation opportunities and surplus property sales which maximise value.

Development of the group Following the gross addition of a record 241 branches (of which 171 is represented by the Wickes acquisition) at 31 December 2005 we traded from 5 brands across 983 locations. The table demonstrates our continued expansion in early 2006. There is significant scope for expansion across all 5 brands – 4 in merchanting and 1 in DIY retail. In 2005 we continued the expansion of the 4 brand networks in our merchanting division.

Growing and improving the network

	31 Dec 2004	Acquisition	Brown field	Consolidation	31 Dec 2005	Net 2006 movement to date	7 March 2006
TP	492	18	25	(2)	533	6	539
Keyline	72	1	2	(2)	73	1	74
CCF	21	-	2	-	23	-	23
City Plumbing	166	-	17	(5)	178	-	178
Wickes	-	171	5	-	176	-	176
Total branches	751	190	51	(9)	983	7	990

The acquisition of Wickes represented a major strategic move for the group, opening a further channel for the distribution of building materials. This market is worth some £16 billion, involving groups of customers not previously well served by the group. Subsequent to the acquisition we have, as expected, found Wickes to be an excellent business, with a robust and attractive business model, an experienced and capable management team and significant potential to expand. In the more difficult than expected trading conditions experienced in 2005, Wickes' profits have held up more strongly than all other DIY chain operators. This underlines the resilience of the business and its attractive position in the market.

In acquiring Wickes, we estimated that the DIY Market would turn down, but not by as much as the eventual out turn. With the prospect of further synergies, attractive operational gearing and expansion potential, and prospects for a return of normal market growth we are confident of generating attractive returns from this investment.

Environment The group recognises its corporate responsibility to carry out its operations whilst minimising environmental impacts. We continue to maintain accreditation of our Environmental Management System to the ISO 14001 standard. No significant changes were made to our environmental policy during 2005; we aim to comply with applicable environmental legislation; prevent pollution and minimise the extent of environmental damage and continuously improve our environmental performance.

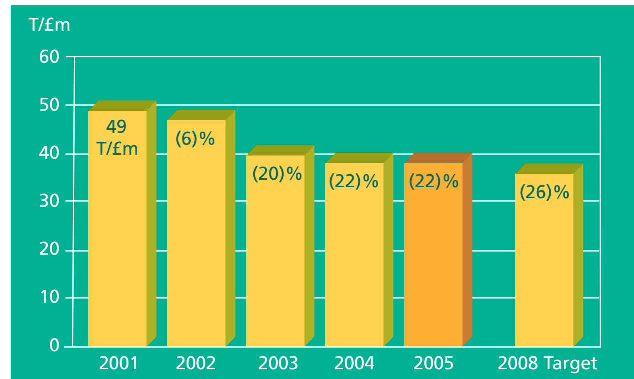
Environmental improvement plan We have continued the implementation of our Environmental Improvement Plan. Where our targets and performance data are based on a measure of output per £ of relevant sales, the sales figure is inflation adjusted to relate our progress to the volume of business transacted. The charts presented show data from a combination of specific measurements and some estimates for the group excluding Wickes, though Wickes figures for the full year of 2005 are described in the text for information. Wickes data will be integrated into the total group figures in future years.

Carbon dioxide ("CO_2") emissions Our CO_2 emissions arise from fuel usage by commercial vehicles and forklift trucks, consumption of fuel oil for heating, gas and electricity consumption and, as from 2004, car drivers' business miles. Total emissions are estimated at 63,800 tonnes in 2005. In the past three years we have transferred electricity supply for our largest consumption sites (including our head office buildings) and a majority of our branches to carbon neutral sources. We now estimate that about ninety five per cent of our total electricity demand is satisfied from these carbon free sources – this has been the main reason for our reduction in CO_2 emissions. For Wickes we estimate the emissions to have amounted to a further 40,800 tonnes for the full year of 2005, giving a total annual emission level of 104,600 tonnes. Our new target is to achieve a reduction of five per cent in CO_2 emissions per £ of sales for the group by the end of 2008.

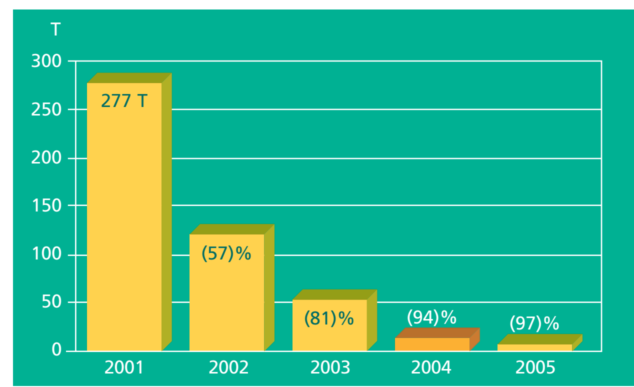
Volatile organic compound ("VOC") emissions Over the past four years we have achieved a major reduction in emissions of VOCs through a programme of replacement of organic solvent-based treatment fluids with aqueous based solutions. We have reduced this in absolute terms to less than 10 tonnes in 2005, a reduction of 97 per cent compared to 2001. Only one plant now remains with organic solvent-based treatment.

Timber certification We have made excellent progress over four years, increasing the proportion of the raw material content of our purchases of timber and timber products that is certified – although we face significant commercial pressure from competitors with less exacting standards, who aim to sell cheaper, non certified products. By the end of 2005 estimated certification levels had increased to 70 per cent, with 36 per cent from FSC sources and with the balance mainly from PEFC sources with a small volume from sources certified to a variety of other national standards in use elsewhere. We continue to challenge all suppliers who are not currently providing certified material to work towards certification and as a minimum we ask all suppliers to certify that timber supplied has been handled in accordance with all relevant legislation. Wickes have implemented a similar plan in recent years and increased the certified percentage from 71 per cent in 2004 to 87 per cent in 2005 of which 55 per cent is from FSC sources. Given our good progress over recent years we have revised our target for the overall group from 75 per cent by the end of 2006 to 85 per cent by the end of 2008.

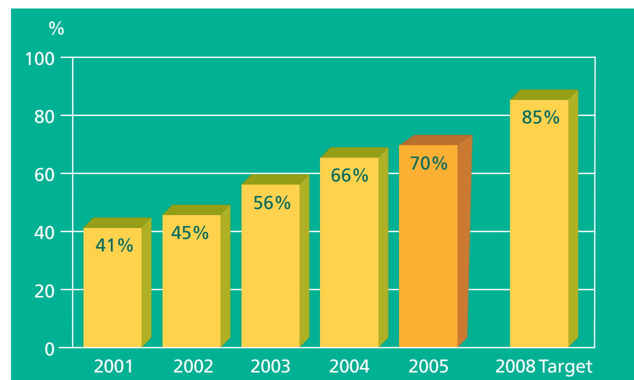
CO_2 emissions
(Tonnes per million £ of Sales - inflation adjusted)



VOC emissions
(Tonnes)

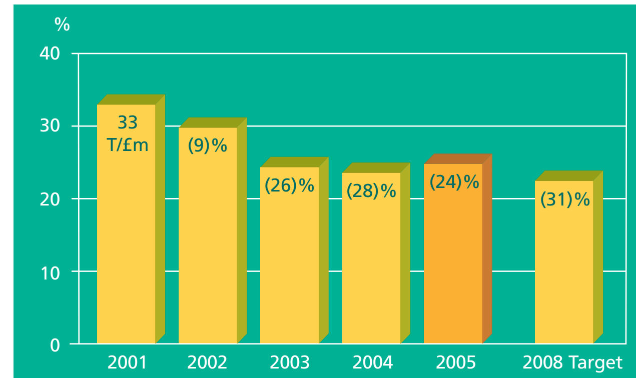


Timber and timber product certification
(Content of certified material as a % of total purchases)



Waste sent to landfill Our main emphasis is on the avoidance of waste, as well as the segregation of waste streams, to enhance recycling opportunities and so reduce the cost of waste disposal. In total we estimate our waste sent to landfill in 2005 was just over 57,000 tonnes of which 23,000 tonnes was in Wickes. Our target is to achieve a five per cent reduction in the group tonnage per £ of sales by the end of 2008.

Waste sent to landfill
(Tonnes per million £ of yard sales - inflation adjusted)



Fuel consumption and vehicle emissions As we reported last year, a number of filters fitted to our transport fleet in the first year of our programme failed during 2004 and 2005. 241 vehicles, or 12 per cent of our total fleet (2004: 17 per cent) now have the phase two filter systems fitted – these continue to operate satisfactorily. During 2006 we expect to see the first Euro IV compliant vehicles supplied by the manufacturers with these filtration systems fitted as standard. In the meantime we have sent vehicles with filters fitted to the most sensitive locations, in particular within central London.

Complaints and notifiable events We investigate any complaint received and endeavour to rectify the causes promptly. During 2005 only two complaints were received in our merchanting businesses relating to environmental matters (2004: 10). Both related to noise from forklift bleepers and both were resolved through the fitting of less obtrusive white noise warning devices. Within Wickes there were eight incidents, four relating to waste issues, two to noise pollution, one to housekeeping and the final one relating to the inappropriate discharge of sewage to a controlled body of water. All incidents were promptly rectified.

Our emergency procedures are designed to ensure that even relatively minor events are reported to the Environment Agency. There were two events within the merchant businesses that required us to contact the Agency during 2005, both relating to minor spillages of hydraulic fluid that were dealt with immediately on site. There were also two reportable incidents arising from Wickes' operations relating to minor spillages from ruptured vehicle fuel tanks. No further action is expected from the relevant authorities. Our target remains to have zero complaints or notifiable events. We are pleased to report that we had no prosecutions for environmental matters during 2005.

Community relations

With 990 branches in a wide variety of locations throughout Great Britain, we recognise our role in, and responsibilities towards, the community. Our branches are encouraged to support their local community through involvement in local affairs, such as sponsoring organisations or donating materials.

In our merchanting business we raised more than £350,000 for charities during the year. At a national level, we support three particular charities, the NSPCC, Children First (Scotland) and MacMillan Cancer Relief. The Charity Committee is chaired by the company chairman. During the course of the year our staff take part in a variety of activities to support our chosen charities. These activities encourage donations from

Travis Perkins' Group Chief Executive Geoff Cooper presents cheques totalling more than £281,000 to representatives of the NSPCC, Children 1st (Scotland) and Macmillan Cancer Relief.

customers and suppliers as well as our own workforce. Included above are direct donations made by the group to these and other charities which, in the year amounted to £53,794 (2004: £124,534). In addition, we operate a payroll giving scheme through which staff donated £16,713 (2004: £18,147) to charity during the year.

Our retail business supports a variety of organisations through a Charities Aid Foundation account and our colleagues are also able to make a donation to their chosen charities through a corporate Gift Aid scheme.

Travis Perkins has been the main sponsor of Northampton Saints rugby club for the last five years.

People and organisation Following the acquisition of Wickes, we have implemented a series of changes to our management arrangements and strengthened our management capabilities. A new executive committee of the board has been constituted, comprising the executive directors together with selected managing directors from the group's eight businesses and central functions. The executive committee formalises pre-exisiting arrangements and facilitates more effective management of the wider span of activities now represented in the group. In addition, the Wickes' board members have joined the pre-existing group trading board.

We have strengthened our property management through the appointment of Martin Meech as Group Property Director, who joined us in September from a FTSE 100 retailer. This will help us in an important aspect of our plans for the further development of the group through network expansion. We replaced the head of our plumbing and heating business, with John Frost, the Managing Director responsible for building our highly successful Travis Perkins' business in the South West. Norman Bell, an external appointee with experience in both the trade and retail sectors, including a brief period at Wickes, has taken over responsibility for the South West.

The group has been able to deal with the challenges it has faced in 2005 through the dedication and hard work of its people. I visit our branches, stores, distribution centres, mills and other locations through the year via a regular cycle of visits. I am constantly struck by the commitment, skill and enthusiasm displayed by colleagues throughout our business and I would like to thank all of them for their dedication in what has been a significant year in the group's development.

G. I. Cooper Chief Executive
7 March 2006

Chief operating officer's report For the year ended 31 December 2005

Review of operations Our markets for both the retail and merchanting operations have been weaker during 2005 than we have seen for a number of years. These conditions have meant that a major focus of our efforts during the year has been on efficiency and cost reduction programmes. However we have also maintained our strategy to grow the businesses through new product introduction and network expansion through acquisitions and brown field site openings.

We made further progress on improving our merchanting operational capability in 2005, particularly in productivity, management information and relationships with customers.

In our retail division we continued, and refined, our branch network expansion and developed initiatives aimed at improving the sales performance and staff productivity of like-for-like stores.

Throughout the business we have seen high inflationary costs on commodity products, particularly affecting the heavy building materials and plumbing and heating categories. We have been able to take advantage of cost increases by buying stock whenever practical prior to cost increases taking effect. Although distribution costs have come under pressure with increases in oil prices during the year, we have offset much of this increase by investing in our Brackmills distribution facility, extending the range of products distributed centrally and by obtaining better buying terms. This investment creates a good platform for our planned expansion of global sourcing.

The Travis Perkins' branch network was expanded during the year with 18 branches acquired and 25 opened on brown field sites. Two branches were consolidated during the year leaving our Travis Perkins branded network operating from 533 branches by the end of the year. In addition, major refurbishment and enhancement programmes were completed at Wycombe, Bristol Clifton, Hemel Hempstead, Peterborough, Brackmills distribution centre in Northampton, Ashton-in-Makerfield and Vauxhall. In the tool hire sector we now have 156 units up from 155 last year. We have recently appointed a senior category director for tool hire and we intend to develop this part of our business vigorously in future. Our strategy of new branch openings continues to serve us well.

Within Keyline, our specialist heavy-side merchant, the focus during 2005 has been on both deepening and widening our category focus. In addition we have continued to grow the network through the integration of one acquired branch at Haddington near Edinburgh, and through the opening of the first two brown field sites for this brand at Kilmarnock and Castle Douglas in the Borders. Two branches were closed during the year; in both locations the sales were transferred to other branches, leaving this brand with 73 locations by the end of year.

Our City Plumbing Supplies business ("CPS") had a difficult year in 2005 following the major programme of re-organisation of the Jayhard and B&G acquisitions integrated in 2004. During 2005 we changed the management of the division and the new team

has made good progress with a recovery plan to improve pricing, product range availability and branch administration. Towards the end of the year we took the opportunity to consolidate a number of stores that were in poor locations and 5 branches were closed. In addition we opened 17 new brown field sites during the year giving a total network of 178 branches for CPS by the end of 2005.

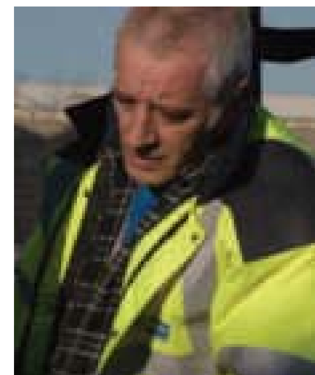
CCF, our dry-lining and insulation specialist business performed very well during the year as the market continued to grow and the CCF branches continued to increase their supply to our generalist merchanting network. During the year we opened two new branches at Carlisle and Plymouth and both are performing ahead of expectations. We also re-sited our Liverpool branch to larger premises with sales and profits improving as a result. We ended the year with a total of 23 branches.

Within our Wickes' operations we have had a similar dual focus on cost reduction and business growth. Cost reduction gains have come primarily from procurement of goods for resale, but also from headcount reduction in stores, a number of back office functions and from lowering the cost of bought-in-goods and services such as mechanical handling equipment and waste services. We have recently introduced more than 1,400 additional products into the Wickes' range in the Extra stores through a programme of space optimisation and have also added significantly to the range breadth in the standard stores, removing a limited number of poorer performing product categories without losing the benefits of our low assortment model.

Since the acquisition we have converted two stores from the Standard to the Extra format in Aylesbury and Swansea, and opened five new Standard stores at Salisbury, Lowestoft, Bexhill, Bicester and Wakefield. Wickes was trading from 176 stores at the end of 2005, including a total of seven Extras. Taking advantage of our tool hire merchanting expertise we introduced tool hire in three Extra stores during the year – the early indications from this new initiative are encouraging.

Continuous improvement We introduced a substantially improved merchanting management information system during 2005 that provides succinct information in a number of key result areas ("KRAs") to branch managers as well as to regional and senior management. The system is intranet based and can be interrogated to provide specific information for each branch as the underlying reasons for a particular level of performance on each KRA.

The measures are monitored continuously and management review all performances on an exceptions basis every month. KRA's include sales and profit performance, labour and distribution costs, stock levels, trading customer numbers, staff turnover and administration standards. A range of customer service performance parameters are also included within the new KRA system.



Our successful delivery of the anticipated procurement savings as forecast at the time of the Wickes acquisition has led to a further significant lowering of our overall cost of goods sold ratio for the group.

Customers During 2005, we commenced a major programme of customer insight research. This initiative will assist us in developing a stronger understanding of the precise requirements of our wide range of customer segments and will help us to focus our product and service offer to each segment as well as to target growth with the most attractive segments.

Ongoing consolidation in the house building sector has presented us with some good opportunities for volume gains through our key account relationships.

Suppliers With the acquisition of Wickes we have taken the opportunity to review the majority of our supply base through both the retail and merchanting channels during this year. During the integration process we have aligned ourselves increasingly with those companies that have the greatest potential to be major strategic suppliers to the enlarged group for the long term.

A significant proportion of the products sold in Wickes are supplied via 3 intermediate warehouses, operated by us using a third party logistics contractor. One of these, at Hemel Hempstead, suffered an interruption to its warehouse operations in December as a result of the Buncefield oil terminal fire. Well practiced disaster recovery procedures were operated immediately and alternate supply arrangements were set up within a matter of hours. Despite the warehouse being out of operation until mid-February the impact on stock availability in stores was relatively low.

Towards the end of 2005 the quality assurance functions in the merchanting and retail divisions were merged into one group QA department with responsibility for both product and supplier quality across all group companies. One of the prime objectives of the new department for 2006 is to review all existing product and supplier assessment and approval processes and introduce formal common documented procedures. In addition to product quality, the supplier assessment process will also include social, ethical, health & safety and environmental issues, with a supplier grading structure that identifies the risk by these categories. At the end of 2005 we established a full time QA office in China.

During 2005 a revised Statement of Expectations and associated questionnaire was issued for new suppliers. This will be developed further to incorporate requirements into the revised group QA supplier assessment and approval process, with suppliers categorised as high risk being subjected to annual QA audits.

Non-responses to the August 2004 survey were actioned with the suppliers concerned during 2005. An updated categorisation of suppliers surveyed and assessed during 2005 is as follows:

Risk rating	Employment category	Number
Low	Employment (including key sub-suppliers) is wholly within the EU/OECD	196
Medium	There is employment outside the EU/OECD and monitoring systems are in place	65
High	There is employment outside the EU/OECD and monitoring systems are not in place	12
	There is employment outside the EU/OECD and compliance cannot be confirmed	2
		275

Employees In 2005, we took action to reduce headcount across both trade and retail divisions. Total employees in the merchant divisions reduced on a like-for-like basis from 9,487 to 9,029 at 31 December 2005 with total employees increasing to 9,533 when acquisitions and new brown fields are included. In Wickes there were a total of 4,227 employees at the end of the year, a reduction of 349 from the level at the date of the completion of the acquisition.

During 2005 we established corporate values which will underpin the behaviour of every colleague in our business from the Chief Executive to the yard assistant. It is our intention to inculcate these values during 2006 to ensure that the values reflect the way we go about our business. By including our values in our performance management systems, recruitment and selection processes and reward mechanisms, we can ensure that this objective is achieved.

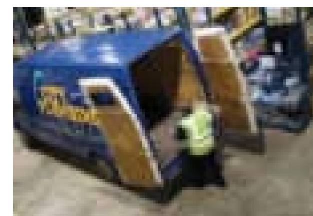
We recognise that our future growth and prosperity will continue to depend on our ability to attract and retain the very best employees. We believe passionately that the promotion of knowledgeable, experienced and capable management from within the organisation is the route to success. Consequently the following mechanisms are in place to enable our colleagues to maximise their potential:

- Our commitment to training and development at all levels in the organisation continues. There is a continued commitment at board level to ensure that new colleagues are effectively inducted into our group and given the necessary training to fulfil their role and develop their full capabilities.
- In merchanting particular emphasis is placed on customer service, health & safety and youth training. In 2005 alone we recruited more than 100 new management trainees onto our 2 year development programme, the successful completion of which will prepare them for their first management appointment. We also introduced computer based training in our merchanting business, providing all colleagues access to learning opportunities at their place of work or via their PC at home.
- In retailing we successfully launched the 'Master Programme' which is a new training framework for all store colleagues. The aim is to build skills and product knowledge through a comprehensive programme of on and off the job training including e-learning and self development activities. The Programme has five levels and Level 1 was launched in September 2005. Four thousand store colleagues have completed a 'backtrack' validation of their knowledge and new starters now complete a 16 week comprehensive induction to ensure they have all the necessary skills and product knowledge to do their job, which is validated through computer based tests.

  The Level 1 programme has been externally accredited by Edexcel and as a result of completing Level 1, colleagues qualify with a BTEC in DIY Retail, exclusive to Wickes.

  Our investment in management development at all levels has increased during the year and programmes are in place with the principal aim of ensuring consistent standards of management practice across the group and strong succession into senior appointments. In Wickes there is a programme that compliments the Master Programme and supports the transition to the next level.

- We continue to place great emphasis on performance management with an annual performance review taking place at all levels in the organisation, enabling: recognition of achievement; the opportunity for personal development and career progression and; effective succession planning.
- We regularly consult with our workforce. Throughout our merchanting branch network, staff meet with management on a formal basis to consult over matters such as health and safety and customer service. We also distribute a number of company newsletters and encourage wide use of our intranet, both providing valuable information and inviting feedback. Employees are regularly informed of the group's



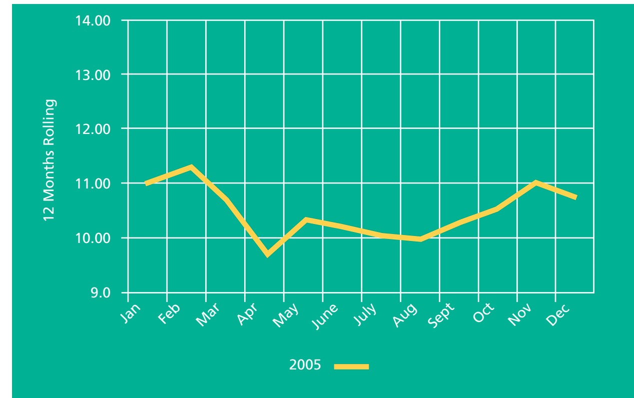
financial results and the market conditions in which it operates and are consulted regarding any changes in employment conditions. To encourage the involvement of employees in the group's performance, the group operates a Save As You Earn option scheme. In addition, the directors, managers and many other employees are members of discretionary bonus schemes.

In our retail division, Wickes, has two colleague representative forums: Operations Liaison Group and Support Centre Liaison Group who meet quarterly to inform and consult with representatives from across the business.

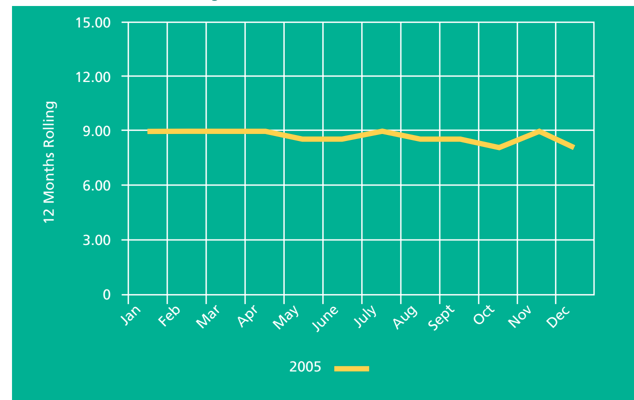
In Wickes we also run a number of communication events hosted by directors to provide information and celebrate success. One of these is the colleague suggestion scheme 'Bright Sparks' which generates an average of 1,000 suggestions each year with the best being put into practice and culminating in a lunch to recognise the winning contributions. There are plans to extend this programme across the group.

- The health of our 17,000 colleagues is important to us. Consequently our management are encouraged to undergo regular health screening and any colleagues who are unfortunate to be absent from work through illness on a long-term basis are provided with full medical support to enable rehabilitation and an early return to work. In 2005 we successfully trialled medical intervention for all work related absence and will seek to roll this out in 2006. Our employee assistance programme (for stress and other employee problems) continues to be provided for all colleagues.
- Labour turnover and absenteeism are key performance indicators for our business. I am pleased to report significant year-on-year improvements in labour turnover for both our merchanting and retail businesses (11 per cent improvement in merchanting and 9 per cent in retail). Management retention is a critical factor in our ongoing success and it was pleasing to see that our retention of managers continued to be strong in 2005 at less than 10 per cent turnover across the group.
- The group is firmly committed to ensuring that the manner in which it employs staff is fair and equitable. Our equal opportunities policy is designed to ensure that no person or group of individuals will be treated less favourably because of their race, colour, ethnic origin, gender or sexual orientation, age or disability.

Accident frequency rate 2005



Accident severity rate 2005



Health and safety Our commitment to the achievement and maintenance of the highest standards in health and safety management continues. During 2005 we have worked closely with our Lead Authorities to introduce improvements to our health and safety management systems. We are currently developing and implementing improvements in the management of, and compliance with, risk assessment, manual handling and traffic management controls.

An external health and safety consultant review during 2005 at Wickes has confirmed the suitability of many of the current health and safety management systems in place. We are continuing to improve the health and safety culture within the business including a review of existing risk assessment procedures and strengthening internal auditing arrangements.

We were pleased to achieve year-on-year improvements in our health and safety key performance indicators within Travis Perkins merchanting sites, with a 5 per cent improvement in accident frequency rates and a 10 per cent improvement in accident severity rates.

Full year accident frequency and severity rates are not available for Wickes during 2005, however RIDDOR reportable accident trends involving both customers and colleagues have reduced year-on-year during 2005. In 2005 there was one prosecution relating to an incident that occurred in the Wickes organisation, prior to the acquisition by the group. There were no workplace fatalities during 2005.

We were pleased to work closely with the Health and Safety Executive during 2005 on two initiatives; one to improve health and safety standards throughout the Builders Merchant industry and the other focusing on retail and warehouse transport and handling.

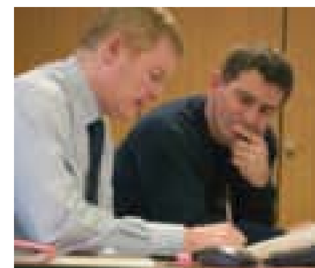
The Merchant Initiative (initially focusing on the Midlands) enables Travis Perkins to help set best practice in health and safety management for the industry as a whole by sharing our health and safety management systems with the smaller builders merchant businesses in the region. This initiative continues into 2006 with a series of workshops run in conjunction with the HSE throughout the Midlands.

The Retail initiative (focused in the London area) enabled Wickes to influence best practice management in retail and provided a benchmarking opportunity within the retail sector.

Our investment in health and safety training increased during 2005 and a comprehensive programme operates throughout the group.

Effective communication and consultation is critical to our success; branch based health and safety committee meetings take place on a regular basis within the existing Travis Perkins' sites and the Corporate Health and Safety and Environment Committee meet six times a year.

A similar arrangement exists within Wickes with a monthly health and safety satellite group meeting to consider all health and safety related issues within the business.



J. P. Carter Chief Operating Officer
7 March 2006

Finance director's report

For the year ended 31 December 2005

Introduction The accounts for 2005 are presented under International Financial Reporting Standards ("IFRS"). As a result the 2004 comparatives have been restated. A commentary on profits, cash flows and net assets is provided below. Whilst note 38 to the accounts includes detailed information about the reconciliation between IFRS and UK GAAP, a short summary is shown below. Additionally this report sets out further details of the financial aspects of the group's strategy, risks and policies.

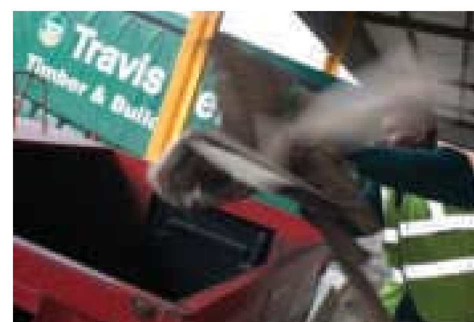
Financial objectives The directors of the company are committed to the long-term creation of shareholder value, which they believe is achieved through:

- Increasing the group's market share through a combination of like-for-like sales growth and targeted expansion through acquisitions, brown field openings and in-store development;
- Improving profitability with a medium term target for profit growth in percentage terms exceeding that for sales;
- Investing in projects and acquisitions where the pre-tax return on capital employed exceeds the weighted average cost of capital of the group by a minimum of four per cent;
- Generating sufficient free cash flow to enable the group to expand its operations whilst funding attractive returns to shareholders, reducing its debt and pension deficit;
- Operating an efficient balance sheet, by structuring sources of capital to minimise the group's weighted average cost of capital consistent with maintaining an investment grade financial profile with interest cover between four and six times EBITA; and
- Maintaining long-term dividend cover at between two and a half and three and a half times earnings.

To ensure the business is focused upon achievement of targets, a series of key financial performance indicators are monitored throughout the business:

	IFRS **2005**	IFRS 2004	UK GAAP 2003	UK GAAP 2002	UK GAAP 2001
Sales growth	**44.4%**	9.0%	18.4%	10.8%	8.3%
Profit before tax growth*	**0.1%**	16.0%	18.9%	23.7%	24.2%
Merchanting operating profit to sales	**11.3%**	11.9%	11.4%	11.2%	10.1%
Interest cover (note 10)	**4.9x**	25.9x	21.0x	18.0x	12.0x
Return on capital (note 36)	**14.4%**	25.0%	25.5%	24.0%	21.5%
Free cash generation (note 35)	**£226.1m**	£150.7m	£128.1m	£105.6m	£46.7m
Dividend cover	**3.4x**	4.1x	4.5x	4.7x	4.5x

*Excludes goodwill amortisation in 2001 to 2003.



Financial review Overall group turnover increased by 44.4 per cent to £2,640.8 million from £1,828.6 million in 2004 with Wickes contributing 41.6 per cent of the increase. Sales growth of 2.8 per cent in the merchanting business was due to a combination of sales from new branch openings of 4.1 per cent offset by one less working day, 0.4 per cent and lower like-for-like sales per working day of 0.9 per cent comprising 4.3 per cent of price inflation and 5.2 per cent decline in volume.

Like-for–like sales in Wickes' core products were down 6.8 per cent whilst showroom sales fell by 13.6 per cent. Overall like-for-like sales in Wickes were down 7.9 per cent.

Group operating profit rose 23.1 per cent to £268.0 million from £217.7 million in 2004. Group operating margin was 10.1 per cent, compared to 11.9 per cent for 2004. This reflects the dilutive effect of our continued merchanting expansion programme, the inclusion of Wickes, retail margins being traditionally lower than those enjoyed by the merchanting industry due to higher overheads, and the effect of weaker markets. Compared to 2004, merchanting operating margins were 0.6 per cent lower, whilst Wickes saw a fall of 1.4 per cent to 6.8 per cent for the 12 month period to 31 December 2005 compared to their underlying pre-acquisition performance in the year to 31 October 2004.

Earnings before interest, tax, depreciation and goodwill amortisation ("EBITDA") (as defined in note 37) were £322.5 million (2004: £251.1 million), an increase of 28.4 per cent.

Total net interest expense (before other finance costs of £3.7 million (2004: £2.8 million)) in 2005 was £57.6 million (2004: £8.4 million). The rise in interest expense is attributable to the additional borrowings arising from the acquisition of Wickes. Interest cover (as defined in note 10) is approximately 4.9 times (2004: 25.9 times).

Group profit before tax was just ahead of last year at £206.7 million (2004: £206.5 million).

The tax charge was £65.9 million (31.9 per cent) compared with £64.4 million (31.2 per cent) in 2004. The rate is higher than the UK corporation tax rate of 30 per cent principally because of the effect of non-qualifying property expenditure and other items which are not allowable for tax.

Basic earnings per share were 116.8 pence, compared with 124.4 pence in 2004, reflecting the impact of the issue of shares in connection with Wickes.

International Financial Reporting Standards reconciliation to UK GAAP The introduction of IFRS has had a limited impact upon the group's results and net assets and no impact on its cash flows. The principal differences have arisen from the:

- treatment of property leases, with some leases being capitalised in the balance sheet under IFRS;
- timing of recognition of proposed dividends in the accounts (no longer accrued at year end);
- non-amortisation of goodwill under IFRS;
- recognition of certain deferred tax liabilities under IFRS;
- valuation of the brand name; and
- treatment of interest rate derivatives.

Profit reconciliation

	£m
Profit before tax under 2005 UK GAAP*	210.2
Leases – IAS 17	(1.8)
Business Combinations – IFRS 3	(1.0)
Derivatives – IAS 39	(0.9)
Other	0.2
Profit before tax per the accounts under IFRS	206.7

*Excludes goodwill amortisation

Cash flow The group has also benefited from specific actions designed to generate cash from its larger scale. In 2005 the group has generated £310.8 million of cash from operations (2004: £222.9 million), an increase of 39.4 per cent. Free cash flow, calculated before expansionary capital expenditure, special pension contributions and dividends, as defined in note 35 was £226.1 million, up 50.0 per cent from 2004. The free cash generated by the group was used in part to fund expansion capital expenditure in the existing business and on new acquisitions, which, excluding Wickes, in total cost £84.7 million (2004: £68.3 million).

Pensions Improved asset returns offset by the effects of falling corporate bond rates and £26.0 million of company contributions in excess of the income statement charge (2004: £25.8 million) has reduced the gross pension scheme deficit for the Travis Perkins' final salary scheme at 31 December 2005 to £100.8 million (2004: £128.3 million). The net deficit, after allowing for deferred tax, was £70.5 million compared with £89.8 million at 31 December 2004. The company has closed the scheme to all new employees from 1 February 2006. New employees are offered a money purchase scheme.

In acquiring Wickes, the group adopted the Wickes' final salary scheme, which was closed to new members. After a £3.6 million special contribution in September 2005, the gross deficit on the Wickes' scheme at 31 December 2005 was £42.0 million, down by £3.4 million from the date of acquisition.

The actuary has recently performed a full valuation of the Travis Perkins' final salary scheme as at 30 September 2005 and the directors are now seeking to reach agreement with the Trustees on future contribution rates. It is the company's intention to apply this approach to the Wickes' scheme and consider merging the two schemes in due course.

Equity Total equity, after deducting the pension scheme deficit at 31 December 2005, was £758.0 million, an increase of £107.4 million on 31 December 2004.

In July 2005 the group's employee share ownership plan purchased 500,000 shares, of nominal value £50,000, for a total consideration of £8.1 million. The group's equity balances are stated net of these. The shares were acquired through an actively traded market and on an arms length basis to satisfy share options under the group's incentive plans. By 31 December 2005, 5,573 shares had been re-issued.

The group's return on capital in 2005 (as defined in note 36) was 14.4 per cent (2004: 25.0 per cent), which is substantially higher than the group's weighted average cost of capital.

At the year-end the share price was 1,400 pence (2004: 1,733 pence) and the market capitalisation £1,698 million (2004: £2,089 million), representing 2.2 times (2004: 3.2 times) shareholders' funds.

Goodwill The net book value of goodwill in the balance sheet is £1,273.8 million. Additions to goodwill and intangible assets in the year totalled £1,131.5 million of which £1,101.7 million, including £162.5 million in respect of the brand, related to Wickes.

Capital structure At 31 December 2005 the group had net debt of £982.4 million (2004: £30.7 million). On completion of the acquisition of Wickes on 11 February 2005 a new £1.2 billion credit facility was drawn from The Royal Bank of Scotland and Barclays Capital and, with the exception of £25 million of overdraft facilities, all other facilities previously advanced to the group were either repaid or withdrawn. The new facility was syndicated on 23 March 2005 to an additional 14 UK and overseas banks. The facility comprised a £500 million five-year term loan and a five-year £700 million revolving credit facility.

Included within the net debt of the group are £32.7 million of finance leases (2004: £18.6 million) capitalised under IFRS. These primarily relate to finance leases on properties for trading sites. In addition to the property leases the group had £3.6 million (2004: £nil) of finance leases associated with plant and equipment.

Borrowings also include £8.2 million (2004: £9.0 million) of unsecured loan notes, which are redeemable at six monthly intervals ending in June 2015. Interest on these loan notes is determined at 6 monthly intervals by reference to LIBOR. £0.8 million of loan notes issued during 2002 were settled during the year.

During 2005, two amortising interest rate swaps of £180 million and £171.5 million respectively and one amortising interest rate floor and one amortising interest rate cap of £171.5 million each have been entered into by the group to manage the interest rates associated with bank borrowings. The interest rate cap and floor arrangements act in unison to provide an interest rate "collar" for the borrowing element. The two interest rate swaps fix the interest rate at 4.935 per cent and 4.9575 per cent respectively and the collar derivative operates between a floor of 4.205 per cent and a cap of 5.7 per cent. The group's current hedging policy is to maintain the profile of borrowings in the approximate ratio of one third to one half at fixed interest rates, one third to one sixth within a collar of interest rates and the remainder at variable rates.

New borrowing facilities Following the acquisition of Wickes, which was financed from sources in the banking market in the United Kingdom, the group embarked upon a programme to diversify its debt sources and lengthen the maturity of debt repayments. In December 2005, the group raised $400 million through a private placement of fixed rate guaranteed unsecured notes (the "Notes") with a broad range of US financial institutions. As a result of strong demand for the Notes the group was pleased to raise $150 million more than its initial target.

The debt comprises of $200 million of the Notes repayable in 7 years and the remainder in 10 years resulting in bullet repayments becoming due in 2013 and 2016.

The net proceeds, which were received on 26 January 2006, have been swapped into Sterling at variable rates, and have been used to refinance approximately half of the group's existing £500 million term loan reducing it to £270 million. The term loan is now due to be repaid in four £43.2 million and two £48.6 million tranches six monthly commencing 30 June 2007, with the final payment due on 10 February 2010. The revolving credit facility is available to the group until 10 February 2010.

As part of the process of reviewing the terms and structure of its debt, the group has also reached agreement with its banking syndicate to bring the financial covenants on the remaining £970 million of its UK bank facility in line with those on the US private placement, increasing the group's flexibility.

The transaction exposes the group to interest rate and currency risks. To address these risks the group entered into five cross currency swaps on 2 December 2005. These fix the amounts receivable and payable under the private placement to a set Sterling value of £231 million and the interest rate swaps convert the fixed interest liability to a floating interest rate based upon the six month LIBOR rate. The overall effective borrowing cost of the group is slightly below six per cent.

Liquidity As at 31 December 2005 the group had bank borrowings totalling £994 million, consisting of a term loan of £500 million and £494 million of draw down on the revolving credit facility. The peak level of daily borrowings on a cleared basis in the year to 31 December 2005 was £1,117 million. Throughout the year the maximum month end cleared borrowings were £1,036 million.

The group's borrowings are subject to covenants set by the lenders that must be complied with. Covenant compliance is measured semi-annually using financial results prepared under UK GAAP extant at 31 December 2004. During 2005 there were no breaches of the covenant limits. The key financial covenants are the ratio of net debt to earnings before interest, tax, depreciation and amortisation "EBITDA" and the ratio of earnings before interest tax and amortisation "EBITA" to net interest. At 31 December 2005 under UK GAAP the group achieved net debt to EBITDA of 2.9x (see note 37) and interest cover 4.9x (see note 10).

In addition to these financial covenants the group's borrowing agreements include general covenants and potential events of default. The group has complied in all respects with the terms of its borrowing agreements at the date of this report.

Financial risk management Financial risk management is an integral part of the way the group is managed. In the course of its business, the group is exposed primarily to foreign exchange risk, interest rate risk, liquidity risk and credit risk. The overall aim of the group's financial risk management policies is to minimise potential adverse effects on financial performance and net assets. The group manages the principal financial risks within policies and operating parameters approved by the board of directors and does not enter into speculative transactions.

Treasury activities are managed centrally under a framework of policies and procedures approved by and monitored by the board. The objectives are to protect the assets of the group and to identify and then manage financial risk. In applying these policies, the group will utilise derivative instruments, but only for risk management purposes. Under the policies, derivative financial instruments may only be entered into for risk management purposes with A- or better rated financial institutions. A total of six such institutions have been identified as potentially suitable for this purpose.

The principal risk facing the group is an exposure to interest rate fluctuations. Having swapped out its US dollar Notes, the group is not exposed to significant foreign exchange risk as most purchases are invoiced in Sterling. These risks are described further below:

Interest rate risk The group finances its operations through a mixture of retained profits, bank borrowings, US dollar Notes and loan notes. The group borrows in Sterling at floating rates and, where necessary, uses interest rate swaps into fixed rates (see note 25) to generate the preferred interest rate profile and to manage its exposure to interest rate fluctuations.

Currency risk The group usually buys currency at spot rates. While this was the situation during 2005, forward contracts may be purchased where appropriate. As previously stated the group has borrowed $400 million. The US dollar denominated notes have fixed rates of interest. The borrowings have been converted to Sterling variable rates using currency swaps.

Liquidity risk The group's policy on liquidity risk is to ensure that sufficient cash is available to fund on-going operations without the need to carry significant net debt over the medium term. The group's principal borrowing facilities are provided by a group of core relationship banks in the form of a term loan and a revolving credit facility and by US institutions in the form of US dollar denominated Notes. The quantum of committed borrowing facilities available to the group is reviewed regularly and is designed to exceed forecast peak gross debt levels.

Credit risk Credit risk arises on financial instruments such as trade receivables, short-term bank deposits and foreign currency hedging transactions. Policies and procedures exist to ensure that customers have an appropriate credit history and account customers are given credit limits that are monitored. Short-term bank deposits and foreign currency hedging transactions are executed only with A - rated authorised counter parties based on ratings issued by the major rating agencies. Counter party exposure positions are monitored regularly so that credit exposures to any one counter party are within predetermined limits. Overall, the group considers that it is not exposed to a significant amount of credit risk.

Other risks and uncertainties

Market conditions and competitive pressures The group's products are sold to tradesmen and retail customers for a broad range of end uses in the build environment. The performance of the market is affected by general economic conditions and a number of specific drivers of construction activity, including key drivers, housing transactions, house price inflation, consumer confidence, interest rates and unemployment. The board conducts an annual review of strategy, which includes an assessment of likely competitor activity, market forecasts and possible future trends in products, channels of distribution and customer behaviour. Significant events including those in the supply chain that may affect the group are monitored by the group strategy director and reported to the board monthly by the group CEO. Market trends and competitor performance are also tracked on an ongoing basis and reported to the board each month.

Product availability and product prices Security of supply of products and product quality are monitored by product category directors in the merchant and retail businesses. Supplier financial strength, product quality and service levels are monitored on a continuous basis. An annual risk assessment with recovery plans is prepared for the major suppliers across the group. No supplier accounts for more than 7 per cent of total purchases in 2005. An established QA process is in place in the retail business and has been launched for the merchanting business during 2005.

The market price of products distributed by the group, particularly commodity products can vary significantly and affect operating results. The group's business actively takes steps to protect themselves from and maximise the opportunities for significant anticipated price rises.

Acquisitions and other expansion Growth by acquisition continues to be an important part of the strategy of the group. Significant risk can arise from acquisitions in terms of the initial valuation, the integration programme and the ongoing management of the acquisition. Detailed internal analysis of the market position of major acquisition targets is undertaken and valuations are completed using discounted cash flow financial models. Independent advisors are used to comment on the strategic implications and the assumptions in valuation models for larger acquisitions. A rolling programme of post acquisition audits is completed and reviewed at the board each year.

Human resources The ability to recruit and retain staff at all levels of the group is an important driver of our overall performance. Salaries and other benefits are benchmarked annually to ensure that the group remains competitive. A recruitment toolkit is available for both merchant and retail brand branches. A wide-range of training programmes are in place to encourage staff development and management development programmes are used to assist those identified for more senior positions. The HR director monitors staff turnover by job type and reports to the board annually. Succession plans are established for the most senior positions within the group and these are reviewed annually.

Information technology/business continuity The operations of the group depend on a wide range of IT systems to operate efficiently. An IT strategy committee reviews performance levels of the key systems and prioritises development work. Maintenance is undertaken on an ongoing basis to ensure resilience of the company systems and escalation procedures are in place to resolve any performance issues at an early stage. An IT disaster recovery plan exists and is tested regularly together with the business continuity plan with arrangements in place for alternative data sites for both merchanting and retail businesses. Off-site back-up routines are in place for both data centres and application code is also held off-site.

The group distributes products from five major warehouses in Great Britain. The loss of any single warehouse through fire or other major incident could have a material effect on the availability of product in the merchant and retail outlets. Each warehouse has fire detection and alarm systems and a business continuity plan is in place for each site.

Customer credit Within our merchanting businesses, one of the key service aspects is the provision of credit to customers and the group carries the associated credit risk. A detailed review of the credit risk of each customer is carried out using external credit risk services. Total exposures to all customers are monitored monthly with increased credit levels being approved by both operational and financial management. No one customer represents more than 1 per cent of sales and the bad debt charge has averaged below 0.5 per cent of sales in the last 10 years.

Pensions The risks in this area relate to the potential for contributions required to meet the benefits promised rising to a level that restricts other corporate activity. The schemes and the group obtain independent actuarial advice and formal valuations are carried out at least every three years. The Trustees receive reports on the investment performance quarterly. The Travis Perkins' final salary scheme has recently been closed to all new members. Recent actuarial valuations showed that on a continuing valuation basis the Travis Perkins' scheme and the Wickes' scheme to be 62 per cent and 83 per cent funded respectively.

P. N. Hampden Smith Finance Director
7 March 2006

Corporate responsibility statement

For the year ended 31 December 2005

The company has not produced a separate corporate responsibility statement in the report and accounts since it believes these matters are sufficiently important to receive the personal attention of individual directors rather than risking less focus through the exercise of collective responsibility. Instead full details of those areas normally covered by such a report are contained in the reports of the directors responsible for such matters:

- Environment – chief executive's review;
- Health and safety – chief operating officer's report;
- Supply chain – chief operating officer's report;
- Employees – chief operating officer's report;
- Community relations – chief executive's review.

The board takes account of the significance of social, environmental and ethical matters in its conduct of the company's business and, as part of the system of internal control, receives reports on the risks associated with the above matters.

Directors and professional advisers

Chairman

Tim Stevenson O.B.E. (aged 57), joined the board in September 2001 and became chairman on 1 November 2001. He is a barrister and held a number of senior positions in Burmah Castrol plc between 1975 and 2000, including chief executive from 1998. He is also a non-executive director of National Express plc. He is chairman of the Nominations Committee and a member of the Remuneration Committee.

Chief executive

Geoff Cooper (aged 52), joined the company in February 2005 and was appointed chief executive on 1 March 2005. He is a chartered management accountant and worked in management consultancy before joining Gateway (now Somerfield plc) as finance director in 1990. In 1994 he became finance director of UniChem plc (now Alliance UniChem plc), where he was appointed deputy chief executive in 2001. He is a non-executive chairman of Dunelm Group Ltd.

Finance director

Paul Hampden Smith (aged 45), qualified as a chartered accountant in 1985 and joined Sandell Perkins in 1988. Following the merger with Travis & Arnold, he was appointed regional finance director. In 1992, he became finance director of Travis Perkins Trading Company Limited and was appointed finance director of Travis Perkins plc in 1996. He is a non-executive director of DX Services plc.

Chief operating officer

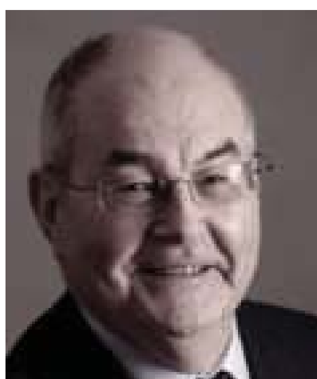
John Carter (aged 44), joined Sandell Perkins as a management trainee in 1978. Having held posts as regional sales director and regional managing director for London, he was appointed as managing director, operations in 1996, and became a director of Travis Perkins plc in July 2001. He was appointed chief operating officer on completion of the acquisition of Wickes in February 2005.

Non-executive director

Chris Bunker (aged 59), was appointed as a non-executive director in January 2004. He is a chartered management accountant and was finance director of Thames Water plc, now a division of RWE A.G., from 2000 until March 2004. He was previously finance director of Tarmac PLC and Westland Group PLC. He is a non-executive director of D S Smith Plc and formerly was a non-executive director of Mowlem plc and Baltimore Technologies plc. He is chairman of the Audit Committee and a member of the Nominations Committee.

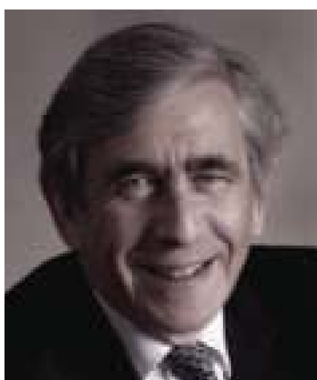
Non-executive director

John Coleman (aged 53), was appointed as a non-executive director in February 2005. He is a chartered management accountant and has been chief executive of House of Fraser plc since 1996. He was previously chief executive of Texas Homecare and of a number of businesses within Burton Group PLC.



Non-executive director

Michael Dearden (aged 63), was appointed as a non-executive director in November 2000. He held a number of senior posts with Burmah Castrol plc from 1980 until his retirement at the end of 2000. He was a member of the group board from 1995, most recently as chief executive of Castrol International. He is chairman of Minova International Limited and a non-executive director of Johnson Matthey plc and of The Weir Group plc. He is the senior independent director, acting chairman of the Remuneration Committee and a member of the Audit Committee.



Non-executive director

Andrew Simon O.B.E. (aged 60), was appointed as a non-executive director on 20 February 2006. He is non-executive deputy chairman of Dalkia Plc and a non-executive director of Associated British Ports Holdings PLC, Finning International Inc and Brake Bros Ltd. He was previously chairman and/or chief executive of Evode Group plc from 1980-93, and has also held non-executive directorships with Severn Trent Plc, Ibstock PLC and Laporte Plc. He is a member of the Remuneration Committee.

Secretary

A. S. Pike

Audit Committee

C. J. Bunker (Chairman),
M. B. Dearden.

Remuneration Committee

M. B. Dearden (Chairman),
T. E. P. Stevenson,
A. H. Simon.

Nominations Committee

T. E. P. Stevenson (Chairman),
C. J. Bunker.

Executive Committee

G. I. Cooper (Chief Executive and Committee Chairman),
R. S. Bird (Managing Director Wickes),
J. P. Carter (Chief Operating Officer),
I. R. Goldsmith (Group Strategy and Corporate Development Director),
P. N. Hampden Smith (Finance Director),
M. R. Meech (Group Property Director),
A. S. Pike (Company Secretary & Lawyer).

Registrars

Capita Registrars,
The Registry,
34 Beckenham Road,
Beckenham, Kent, BR3 4TU

Investment Bankers

HSBC Bank plc

Corporate Brokers

HSBC Bank plc,
Dresdner Kleinwort Wasserstein

Bankers

The Royal Bank of Scotland plc;
Barclays Bank plc

Solicitors

Clifford Chance LLP, London;
Hewitsons, Northampton;
Linklaters, London

Auditors

Deloitte & Touche LLP, Birmingham

Corporate governance For the year ended 31 December 2005

Combined code In June 1998, the Combined Code on Corporate Governance was issued by the London Stock Exchange, and this was revised in July 2003 ("the Code"). Section 1 of the Code is applicable to companies. A statement on how the company has applied the principles and a statement explaining the extent to which it has complied with the provisions of the Code appear below. The Code contains fourteen main principles of governance, which are divided into the following four areas:

1. DIRECTORS

The company is controlled through a board of directors, which presently comprises the chairman, three executive and four non-executive directors. Tim Stevenson is chairman and Geoff Cooper is chief executive. Michael Dearden is the senior independent non-executive director. Chris Bunker, John Coleman, and Andrew Simon are also independent non-executive directors. Appointments of new directors are made by the board on the recommendation of the Nominations Committee. All directors will submit themselves for re-election at least every three years.

The board has a formal schedule of matters reserved to it and meets at least ten times a year. It is responsible for overall group strategy, policy on corporate governance issues, acquisition policy, approval of major capital expenditure and consideration of significant financial and operational matters. It monitors the exposure to key business risks and reviews the strategic direction of the trading subsidiaries, their annual budgets and progress towards the achievement of those budgets and their capital expenditure programmes. It also considers legislative, environmental, health and safety and employment issues. The board has approved a written statement of the division of key responsibilities between the chairman and the chief executive.

The chairman leads the board, ensuring that each director is able to make an effective contribution. He also monitors the information provided to the board to ensure it is sufficient, timely and clear, and from time to time the board reviews the adequacy of this information.

The board held eleven meetings during 2005. Peter Maydon missed one meeting because of illness. John Coleman missed two meetings because of prior commitments, one of these following a change of date of the meeting. Otherwise, all meetings were attended by all directors. One meeting dealt with consideration of the company's long-term strategy and eight meetings were either combined with visits to parts of the company's operations or included presentations by senior executives on their areas of responsibility. Individual visits to operational sites by non-executive directors also occurred. In addition to the regular board meetings, key financial information is circulated to directors outside of meetings. The chairman has regular direct contact with the executive directors and keeps the non-executive directors informed of material developments between board meetings.

All directors have direct access to the company secretary and are able to take independent professional advice in the furtherance of their duties if necessary. The company maintains directors & officers' insurance in respect of the risk of claims against directors.

The chairman held one meeting during the year with all the non-executive directors, without the executive directors being present and several meetings with some of the non-executive directors, also without the executive directors being present. The senior independent director held two meetings during the year with the other directors, without the chairman being present, to review the chairman's role and salary. He also held individual discussions with the other directors to evaluate the chairman's performance, as described in more detail below.

The board has adopted an induction process for new directors and this is facilitated by the company secretary. The chairman ensures that all directors receive appropriate training on appointment and then subsequently as needed, taking into account their need to update their skills and their knowledge of the company's business.

The board has established four standing committees, the Audit Committee, the Remuneration Committee, the Nominations Committee, and the Executive Committee, which operate within defined terms of reference. Details are available on the company's website or may be obtained from the company secretary. The minutes of committee meetings are available to all the directors. During the year, the Remuneration Committee met seven times, the Nominations Committee once, and the Audit Committee four times. All these meetings were attended by all members of the relevant committee, except that Peter Maydon did not attend a Nominations Committee meeting because of illness. The reports of the Audit Committee, Remuneration Committee, and the Nominations Committee are on pages 34 and 35, 36 to 44 and 45 respectively.

The Executive Committee was established in June 2005. Its members are described on page 29. Other executives are invited to attend from time to time in relation to specific issues. The principal purpose of the Committee is to assist the executive directors in the performance of their duties in relation in particular to:-

- Strategy, operational plans, policies, procedures and budgets
- The monitoring of operational and financial performance
- The assessment and control of risk
- The prioritisation and allocation of resources

The committee met six times and all meetings were attended by all members.

During the year the board undertook an evaluation of its performance and the performance of its committees and the individual directors. The process took the form of interviews by the chairman (except in regard to his own performance) with each other director and the company secretary separately, focussing on a number of statements about the operation of the board, its committees and each director. These interviews formed the basis of a report by the chairman that was the subject of a discussion by the board and the committees. The chairman also gave individual feedback to each director on his own performance. The board was satisfied that the process showed that the board and its committees worked effectively. Nevertheless, the board and the committees agreed a number of specific measures aimed at further enhancing their performance, in particular in the following areas:

- The training of directors through briefings on current issues and presentations by management;
- The presentation of information to the board and its committees;
- Establishment of corporate values;
- The communication of board decisions and policies throughout the group

In addition, during the year, the senior independent director led a process for appraisal of the performance of the chairman. Each director responded to a questionnaire relating to aspects of the chairman's role, and the responses were the subject of a discussion between the senior independent director and the other directors without the chairman being present. The senior independent director subsequently reported to the full board. A board evaluation process will be carried out in 2006.

2. DIRECTORS' REMUNERATION

The Remuneration Committee consists of the chairman and two independent non-executive directors, and meets at least four times a year. Its responsibilities include a review of the performance of executive directors and other senior executives prior to determining their remuneration. The remuneration of the non-executive directors is determined by the board of directors as a whole. No director plays a part in the discussion about his own remuneration.

The Remuneration Report is set out on pages 36 to 44.

3. ACCOUNTABILITY AND AUDIT

A review of the performance of the group's trading subsidiaries and the financial position of the group is included in the chief executive's review, the chief operating officer's report and in the finance director's report set out on pages 6 to 26. The board uses them, together with the chairman's statement on pages 4 and 5, to present a full assessment of the company's position and prospects. The directors' responsibilities for the financial statements are described on page 49.

Internal control The board of directors is responsible for the group's system of internal control and for reviewing its effectiveness. In designing the system of internal control, consideration is given to the significant risks to the business, the probability of these risks manifesting themselves and the overall cost of controlling them. The system is designed to manage rather than eliminate the risk of failing to achieve business objectives and therefore can only provide reasonable, and not absolute, assurance against material misstatement or loss.

The implementation and day-to-day operation of the system of internal controls has been delegated to executive directors and senior management, but the effectiveness of the system is regularly reviewed by the board in a process that accords with the Turnbull Report. As part of its corporate governance procedures, the board has received regular reports on specific areas of risk. If appropriate, these reports include recommendations for improvement in controls or for the management of those risks. Furthermore, steps continue to be taken to integrate risk management procedures into the group's operations, to extend awareness of the importance of the management of risk and to ensure that recommended improvements brought to the attention of the board are implemented. In particular, during the year the different risks affecting the group were reviewed with the responsible director or senior executive, and improvements made in the methods of identifying and evaluating these risks, and of recording risk management measures, and in the reporting on those risks. The effectiveness of these changes will be reviewed during 2006.

In conjunction with the Audit Committee, the board has carried out an annual review of the overall effectiveness of the system of internal control and risk management procedures, during the year and up until the date of approval of the annual report.

Audit committee and auditors The report of the Audit Committee is set out on pages 34 and 35.

4. RELATIONS WITH SHAREHOLDERS

The company encourages two-way communication with both its institutional and private investors and responds promptly to all enquiries received orally or in writing. During the year the chairman, the chief executive, the chief operating officer and the finance director, either separately or together, attended a number of meetings with analysts, and with shareholders representing circa 50 per cent of the issued share capital. The senior independent director also attended a number of such meetings in 2005. The chairman, chief executive and finance director report fully to the board on any meetings with shareholders or analysts. In addition, written reports about the company by analysts or brokers are circulated to all directors.

As well as sending annual and interim reports to shareholders, the company normally issues trading statements at the Annual General Meeting and around the year end. All shareholders receive at least twenty working days notice of the Annual General Meeting at which all directors are available for questions and a short business presentation takes place. Each substantive issue is the subject of a separate resolution. The numbers of proxy votes for and against each resolution are announced at the meeting, after the voting has taken place.

Going concern After making enquiries, the directors have formed a judgement at the time of approving the financial statements that there is a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Corporate governance compliance statement The company is pleased to report that it has complied throughout the year ended 31 December 2005 with the provisions set out in Section 1 of the Code, except:

A3.2 Independent non-executive directors did not account for at least half of the board membership. Ted Adams, who was not considered independent, but who the directors believe gave considerable benefit to shareholders because of his great experience in the builders merchanting industry, retired on 31st December 2005.

B2.1 The Remuneration Committee did not consist wholly of independent non-executive directors as the chairman is one of its members. The board considers it to be very important that the chairman is closely involved in the establishment and application of the company's remuneration policy.

C3.1 The Audit Committee did not consist wholly of independent non-executive directors. Ted Adams, who was not considered independent, (see A3.2 above) retired on 31st December 2005.

Audit committee report For the year ended 31 December 2005

Role of the audit committee The Audit Committee is responsible for:

- Monitoring the integrity of the financial statements of the company and any formal announcements relating to the company's financial performance, and reviewing significant financial reporting judgements contained therein;
- Reviewing the company's internal financial controls and, unless expressly addressed by the board itself, the company's internal control and risk management systems;
- Monitoring and reviewing the effectiveness of the company's internal audit function;
- Making recommendations to the board, for a resolution to be put to the shareholders for their approval in general meeting, in relation to the appointment of the external auditors and the approval of the remuneration and terms of engagement of the external auditors;
- Reviewing and monitoring the external auditors' independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- Reviewing and monitoring the company's policy on the engagement of the external auditors to supply non-audit services, taking into account relevant guidance regarding the provision of non-audit services by the external audit firm.

The Audit Committee is required to report its findings to the board, identifying any matters in respect of which it considers that action or improvement is needed, and make recommendations as to the steps to be taken.

The committee's full terms of reference are available on the company's website.

Composition of the audit committee Chris Bunker was chairman, and Michael Dearden and Ted Adams were members of the committee throughout the year. All members of the committee, with the exception of Ted Adams, were considered to be independent. Ted Adams retired from the board on 31 December 2005. A further independent non-executive director will be appointed to the committee in the first half of 2006. The group company secretary, Andrew Pike, is secretary to the Audit Committee.

Meetings and attendance The committee met four times during 2005 to consider inter alia, the annual and interim results. The chairman of the committee also invited the group chairman, the group finance director, the group chief operating officer, the group financial controller, and the external auditors to attend each meeting. The group head of business risk and assurance also attended two meetings, following his appointment in July 2005, and the head of internal audit attended three meetings. During each meeting the external auditors and the head of business risk and assurance were given the opportunity to talk with the committee without the presence of management. During the year the committee chairman held six meetings or telephone conferences with the head of internal audit or the group head of business risk and assurance and with the external auditors, all without management being present.

Main activities of the committee during the year At its meeting in February, the committee reviewed the annual financial statements of the company and received reports from the internal auditors on control matters and from the external auditors on the conduct of their audit, their review of accounting policies, areas of judgement and the financial statements and their comments on statements concerning risk and internal control. A similar review was undertaken at its August meeting when the interim statements were considered.

At these meetings, and at its meetings in June and November, the committee also dealt with the following particular matters:

- Following the appointment of a group head of business risk and assurance in July 2005, it reviewed the strategy, staffing and processes of the internal audit department and recommended to the board new terms of reference for that department;

- It reviewed the integration of Wickes into the group's financial systems and controls;
- It reviewed the company's internal control processes and made recommendations to the board for refining and strengthening those processes;
- It reviewed the operation of the group's whistleblowing policy;
- It reviewed the policy on engagement of the external auditors for non-audit work, as referred to below;
- It reviewed the plans presented by the external auditors for conduct of the year-end audit including terms of engagement, fees and letters of engagement;
- It reviewed the company's accounting policies and its plans for the introduction of International Accounting Standards and other emerging new regulations;
- It was advised on the methodology for valuation of the Wickes brand;
- It reviewed the operation of the group's policy on the use of drugs at its premises;
- It reviewed the group's policies and processes relating to accounting for stock;
- It reviewed an evaluation of its work carried out by its members and by the external auditors, and reported to the board on this evaluation.

External auditors The company places great importance on the effectiveness and independence of its external auditors and together with them is careful to ensure their objectivity is not compromised. At its November meeting, the auditors presented to the committee their plans for the forthcoming audit together with details of their proposed fees and how they ensure that their objectivity and independence are not compromised.

It is the role of the committee to ensure compliance with the board's policy in respect of services provided by, and fees paid to, the auditors. Audit fees are negotiated by the finance director and approved by the Audit Committee. For other services that may be provided by the auditors, the company's policy is:

Audit related services The auditors are invited by the company to undertake those services that they are required to and are most suited to perform. Such work includes certification in respect of borrowings, stock exchange related reporting and where appropriate, assistance with acquisitions.

Taxation The external auditors assist the group to meet general tax compliance requirements as well as providing advice on acquisitions and tax planning. Should opportunities arise for them to advise on special tax projects, their suitability is assessed at the time to ensure it would not compromise their audit independence, with the work being tendered where appropriate.

Consulting To avoid any possible conflict of interest the group's policy is not to employ its auditors for general consulting work.

Following its November 2005 meeting, the committee recommended to the board that a resolution be put to shareholders at the Annual General Meeting for the re-appointment of the external auditors, and to authorise the directors to fix their remuneration.

Internal audit As well as its reviews of the internal audit department's strategy and processes, as described above, during its meetings in 2005, the committee received presentations from the head of internal audit, and, subsequently, from the group head of business risk and assurance, who was appointed during the year, about the results of work undertaken by the department, and approved its plans for work in 2006.

Overview As a result of its work during the year, the Audit Committee has concluded that it has acted in accordance with its terms of reference and has ensured the independence, objectivity and effectiveness of the external and internal auditors.

The chairman of the Audit Committee will be available at the Annual General Meeting to answer any questions about the work of the committee.

C. J. Bunker Chairman, Audit Committee
7 March 2006

Remuneration report For the year ended 31 December 2005

Introduction This report sets out the company's remuneration policies for its directors and senior executives and describes how those policies are applied in practice. The directors confirm that this report has been drawn up in accordance with the requirements of Schedule 7A of the Companies Act 1985 ("the Schedule") and the 2003 Combined Code on Corporate Governance ("the Code"). As required by the Schedule, a resolution to approve the report will be proposed at the Annual General Meeting.

Unaudited information

Remuneration committee The committee was established in July 2003, having previously been a combined Remuneration and Nominations Committee. Its principal roles are to establish the company's policy on executive directors' and senior executives' remuneration, to determine the remuneration packages for each of the executive directors, and to review with the chief executive the remuneration packages for other senior executives. It is required to give due regard to the best practice provisions contained in the Code.

Peter Maydon served as chairman during 2005 until his retirement on 31 December 2005. The committee members are Michael Dearden (acting chairman) together with Tim Stevenson and Andrew Simon. Andrew Simon will become chairman of the committee on 1 May 2006. These directors are non-executive and have no day-to-day involvement in the running of the business, no financial interest in the business (except as shareholders) and no conflicts of interest arising from other directorships. The committee has been advised during the year by four independent external consultants engaged by it, namely, Mercer Human Resources Consulting, Hay Group, New Bridge Street Consultants and Towers Perrin. In addition, Andrew Pike, (the company secretary) and Rob Tansey, (the group human resources director) have advised the committee from time to time as requested, but never in respect of their own remuneration.

Policy on executive directors' remuneration The company's policy on executive remuneration is to ensure that it has an appropriate mix of fixed and variable pay over the short and long term, to attract and retain high quality executives with an appropriate blend of skills and experience. The committee consults with the chief executive on the remuneration of the other executive directors and senior executives. It aims to pay salaries and make available variable remuneration to reward out-performance, in line with the median of the top 250 companies in the FTSE All Share index and of a selected comparator group. The committee believes this has and will continue to enable the company to recruit and retain staff of high quality, contributing to the delivery of long-term shareholder value. As a consequence the company's focus is on the following elements of the remuneration package:

- **Basic salary:** to remain competitive in the labour market;
- **Annual bonus payment:** to provide variable remuneration, both in the form of cash and deferred shares, which directly reflects company performance during the year;
- **Long term incentive scheme:** the Share Matching Scheme, under which executives may invest part of their annual bonus in order to receive matching shares the vesting of which depends on company performance over a 3 year period;
- **Share options:** through the regular grant of options to reward outstanding performance over the longer term;
- **Pension arrangements:** to enable executives to make appropriate provision for retirement.

A significant proportion of a director's total remuneration package is variable, being subject to the achievement of specified business objectives. In applying this policy the committee has taken account of the provisions of Schedule A of the Code. Consistent with the recommendations of the ABI guidelines, the committee regularly reviews its remuneration policy. The committee received from its external advisors during the year, market data on the above remuneration elements including the performance in comparator groups.

Basic salary A director's basic salary is generally determined by the Remuneration Committee annually and when an individual changes role. Salaries are normally reviewed in November each year, with increases taking effect from 1 January in the following year. In the case of the three executive directors, with effect from 1 January 2006, their basic annual salaries (and percentage increases) are:

J. P. Carter	£315,000	(5.0%)
G. I. Cooper	£461,250	(2.5%)
P. N. Hampden Smith	£315,000	(5.0%)

When awarding these salary increases, the committee considered the salary increases awarded to other managers and employees of the group.

Annual bonus payments At the beginning of the year, the committee establishes the targets that must be met in order for a bonus to be paid. In the past, bonus payments for executive directors have generally been based on the level of net earnings per share achieved by the group. However in 2005, after consultation with shareholders, the committee introduced a second bonus criterion, namely the extent to which the company's net debt was reduced. This reflected the company's wish to reduce the debt incurred for the Wickes acquisition as quickly as possible. Taking the two elements together, a cash bonus of 36 per cent of salary would have been payable on achievement of budget, with maximum cash bonus of 75 per cent of salary payable on achieving 103 per cent of budget in respect of earnings per share and an improvement over budget in net debt reduction of £37.5 million. With the exception of a specific bonus paid to F. J. McKay, as previously reported, no bonuses are payable in respect of 2005.

For 2006, the committee is introducing a third bonus criterion namely, return on capital employed as a proxy for shareholder value. The three criteria (net earnings per share growth, net debt reduction and return on capital employed) have an equal weighting. The calibration of the criteria has been made more demanding in that a bonus of only 15 per cent of salary (compared with 36 per cent in 2005) will be payable on achievement of budget, and maximum bonus will be payable on achieving 107.5 per cent of budget for earnings per share, 105 per cent of budget for return on capital employed, and an improvement over budget in average cleared net debt reduction of £16m. Consistent with past policy, in addition to the cash bonus, an executive director may earn bonus payable under the Share Matching Scheme in deferred shares (which only vest three years later) of up to 35 per cent of the cash bonus. This effectively means that for executive directors, the maximum annual bonus has a value of 101 per cent of salary.

Share incentive schemes The Committee believes, on the basis of external advice, that the schemes described below, including their current grant levels and performance conditions, are presently an appropriate means of motivating directors and senior executives. However a fundalental review of all long term incentive arrangements is planned for 2006.

Share matching scheme In 2004, shareholders approved the introduction, for the most senior executives, of a Share Matching Scheme to complement the annual bonus scheme. Under this scheme executives can be awarded shares in the company of a value up to 35 per cent of their annual cash bonus ("Deferred Shares"). These shares are to be held in trust for three years and generally will be forfeited if an executive leaves during this time. This provides a retentive element to the annual bonus scheme and assists executives in building up a holding of shares in the company. A key feature of the scheme is the award of shares in the company (known as "Matching Shares") the vesting of which is subject to a three year earnings per share ("EPS") performance condition. Awards of Matching Shares are linked to the Deferred Shares and, in addition, executives have the opportunity to invest up to 35 per cent of annual salary in the company's shares, ("Investment Shares") using the proceeds of their annual cash bonus.

The Matching Shares performance criteria, applying over the 3 year performance period approved by shareholders, is:

- for EPS growth of less than inflation plus 12 per cent, no Matching Shares vest;
- for EPS growth of inflation plus 12 per cent, one Matching Share vests for every three Deferred/Investment Shares;

- for EPS growth of inflation plus 24 per cent or higher, one Matching Share vests for every one Deferred/Investment share; and
- straight line pro-rating applies between EPS growth of inflation plus 12 per cent and inflation plus 24 per cent.

However, for awards of Matching Shares made in 2005, and taking into account the acquisition of Wickes, the committee made the performance condition more demanding by requiring that the full one-to-one match would only be achieved for EPS growth of inflation plus 30 per cent over the three year performance period.

The committee currently regards the use of earnings per share as an appropriate performance measure for the share incentive schemes. However, it has recognised the potential impact of changes in accounting standards and intends to adopt an approach whereby the basis used for measuring EPS growth for each performance period is static even if the method of measurement of earnings per share in the company accounts develops over the same period. This will ensure consistency in the measurement of the performance of the business for the purposes of the share schemes.

There were no occasions during the year on which the Committee exercised its discretion to transfer shares to early leavers.

Share options For many years, the company has further motivated directors and senior executives through granting them share options. The 2001 Executive Share Option Scheme, which covers all executive directors and other senior executives, provides for the grant of options on an annual basis, with a nominal value limit up to twice basic salary. Options are not granted at a discount to the market value. For options granted before 2005, for all eligible executives, options may only be exercised if the growth in the company's EPS exceeds inflation by at least 9 per cent over a three-year period. In the case of executive directors and certain other senior executives, achievement of this target will allow only 50 per cent of options to be exercised. For all options to be exercisable, EPS growth must exceed inflation by at least 15 per cent over the three-year period. Between 9 per cent and 15 per cent the number of options exercisable is calculated on a straight-line basis. For options which were granted to the executive directors and senior executives in 2005, the committee again imposed more demanding EPS targets so as to ensure that those targets remained challenging over the three-year performance period following the Wickes acquisition. Twenty five per cent of those options may be exercised if the growth in the company's EPS exceeds inflation by at least 9 per cent over the performance period while exercise of the remainder of the options will only be possible if the EPS growth exceeds inflation by 21 per cent over the performance period. Between 9 per cent and 21 per cent the number of options exercisable will be calculated on a straight-line basis. The approach to measurement of EPS as a performance measure is described in the section above headed Share Matching Scheme.

The performance conditions for options granted between 2002 and 2003 may be retested for two years if they are not satisfied at the end of the original three-year period. However, in 2004 the committee recognised that this provision was no longer in line with best practice and therefore options granted in 2004 and thereafter do not permit retesting of the performance conditions.

During the year the Committee exercised its discretion to allow exercise for early leavers in two cases.

In March 2005, the company issued shareholding guidelines to its most senior executives encouraging them to build up a shareholding in the company over a five-year period. The target shareholding is 100 per cent of salary for the executive directors and 50 per cent of salary for the other executives. While these guidelines are not mandatory, the committee has reserved the right to take into account an individual's position relative to the target, when making future awards under the executive share option scheme or the share matching scheme.

Pension arrangements The general policy has been for executive directors to be members of the company's final salary pension scheme and to accrue benefits at a rate of 1/30 of pensionable salary for each year's pensionable service after appointment as a director. In the case of John Carter and Paul Hampden Smith, the effective accrual rate is less than 1/30 due to their potential length of service up to retirement age, so that their pension does not exceed two thirds of pensionable salary.

Normal retirement age is 60. As with all other members, executive directors' dependants are eligible for dependants' pensions and a payment of a lump sum in the event of death in service. Except in the case of Frank McKay, who retired in 2005, the pension arrangements provide for a pension in retirement based on the directors' length of service in the group pension scheme and the average of the best three of the last ten years of pensionable salary. Frank McKay was guaranteed, on retirement at age 60, a pension of thirty per cent of his final pensionable salary including the pension from a previous employment. This pension was funded partly by the group scheme and partly by separate funded and unfunded arrangements established for him. In the event that a director's pension benefits are limited by the Inland Revenue "earnings cap", the general policy is to pay an age related annual salary supplement. Geoff Cooper and Paul Hampden Smith receive such a salary supplement. From April 2006, an 'earnings cap' will be applied only in respect of benefits based on service to that date.

For many years, bonus payments to executive directors and management formed a part of scheme members' pensionable emoluments and both the company and the employee contributed a proportion of any such bonus to the scheme funds. This has now been changed and, for pensionable service from 1 December 2004, pensionable salary for all members is basic salary only.

There have been no changes in the basis of directors' pension entitlements during the year. Except as described above for Frank McKay, there are no unfunded pension commitments or similar arrangements for directors.

During the year the committee considered the impact of changes in the taxation of pension arrangements at April 2006, which are expected to affect some senior executives in the company. It has recognised that the company should not compensate such executives for any additional tax for which they would be liable under the new arrangements, but will make available at the member's option, a cost neutral alternative to continued pension provision for members the value of whose benefits are at least 80% of the Lifetime Allowance. The alternative benefit will be a salary supplement calculated with regard to the cost the company would have incurred in providing continuing pension accrual. This supplement will not be taken into account for the purposes of bonuses or other benefits.

During the year, the board also carried out a general review of pension arrangements. As a result of this review, the final salary scheme closed to all new entrants other than those in the waiting period for entry, on 1 February 2006. In future, all employees, including directors and other senior executives, will be invited to join the money purchase scheme which was established in 2003. A number of other changes will be made to the final salary scheme in April 2006 to better manage cost and risk and to take advantage of the greater flexibility offered by recent legislation to make the scheme more attractive to members.

Service contracts The company's policy for executive directors is to have contracts which are not for a fixed period, and which are terminable on twelve months notice from the company, and six months from the director. It is not the policy to specify what compensation would be payable on termination by the company. If such compensation was due, it would be calculated by reference to the unexpired part of the notice period, and the director's salary and other benefits, including pension rights, taking due account of the director's duty to mitigate his loss. Service contracts do not specify any particular level of compensation in the event of termination following change of control of the company.

Each of the executive directors has a service contract, the date of which is shown below, which will be available for inspection at the Annual General Meeting.

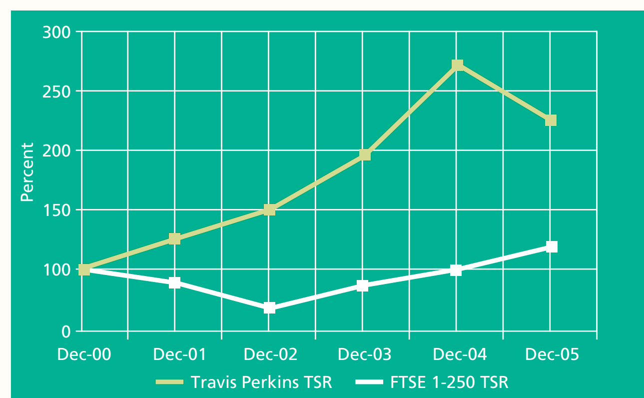
John Carter	6 August 2001
Geoff Cooper	1 February 2005
Paul Hampden Smith	8 October 1996

Non-executive directors The policy of the board is to recruit non-executive directors of the highest calibre, with a breadth of skills and experience appropriate for the company's business. Non-executive directors are appointed for a period of three years, at the end of which the appointment may be renewed by mutual agreement. It is the board's policy that non-executive directors should serve for six years (two three year terms) and that any term beyond this should be subject to a rigorous review. This review would take into account both the need for progressive refreshing of the board, and the particular requirements of the company at the time of the possible extension. The remuneration of the non-executive directors is determined by the board. Each non-executive director receives an annual fee. In addition Michael Dearden and Chris Bunker receive an additional fee for the role of senior independent director and for chairing the Audit Committee, respectively. Ted Adams, who retired on 31 December 2005, receives an additional fee for chairing the company's pension trusts. Non-executive directors do not receive any other benefits and are not eligible to join a company pension scheme. No compensation is payable on termination of their employment, which may be without notice from the company. They cannot participate in any of the company's share option schemes. Non-executive directors do not have a service contract, but each has received a letter of appointment expiring on the following dates:

Michael Dearden	November 2006	John Coleman	February 2008
Chris Bunker	January 2007	Andrew Simon	February 2009
Tim Stevenson	September 2007		

Total shareholder return The company considers itself distinctive in its sector, as there are no directly comparable competitors in terms of size, demographic spread or activities. The company measures the performance of its shares against the top 250 companies in the FTSE All Share index, which it considers the most appropriate comparator group. The graph shows total shareholder return for Travis Perkins' shares over the last five years, relative to that group of companies. Total shareholder return is defined as a combination of growth in the company's share price and dividends paid to shareholders.

Travis Perkins' total shareholder return



Directors' shareholdings The directors' holdings of ordinary 10p shares of Travis Perkins plc at 31 December 2004 and 2005 were as follows:

Director	Interest	**2005 No.**	2004 No.
T. E. P. Stevenson	Beneficial owner	**8,500**	5,000
E. C. Adams	Beneficial owner	**100,749**	103,749
C. J. Bunker	Beneficial owner	**4,000**	2,000
J. P. Carter	Beneficial owner	**14,188**	10,958
G. I. Cooper	Beneficial owner	**5,000**	–
M. B. Dearden	Beneficial owner	**3,000**	1,000
P. N. Hampden Smith	Beneficial owner	**9,360**	6,008
P. J. Maydon	Beneficial owner	**3,000**	1,000
F. J. McKay	Beneficial owner	***7,444**	7,444

* On retirement as a director on 14 March 2005.

Details of directors' share options are given on pages 43 and 44. There have been no changes in the holdings of the directors between 31 December 2005 and the date of this report, except that on appointment on 20 February 2006, Andrew Simon held 500 shares in the company.

Travis Perkins' share price information	2005	2004
Mid-market price at the year end	**1,400.0p**	1,733.0p
Highest mid-market price during the year	**1,979.0p**	1,733.0p
Average mid-market price during the year	**1,598.1p**	1,387.1p
Lowest mid-market price during the year	**1,205.0p**	1,249.0p

Audited information

Amount of directors' emoluments Details of directors' remuneration are set out in the table below.

Part of each executive director's remuneration may consist of benefits in kind not payable in cash, such as the provision of a company car, a fuel card, and private healthcare insurance. No director receives an expense allowance which is chargeable to tax.

	Basic salary		Annual bonus		Benefits in kind		Gains on share options		Total remuneration	
	2005 £'000	2004 £'000	**2005 £'000**	2004 £'000	**2005 £'000**	2004 £'000	**2005 £'000**	2004 £'000	**2005 £'000**	2004 £'000
Executive										
J. P. Carter	**300**	265	**–**	146	**25**	20	**–**	235	**325**	666
G. I. Cooper[1]	**540**	–	**–**	–	**32**	–	**–**	–	**572**	–
P. N. Hampden Smith[2]	**386**	351	**–**	151	**11**	10	**–**	13	**397**	525
F. J. McKay[3]	**395**	499	**100**	267	**2**	1	**385**	749	**882**	1,516
Non-executive										
T. E. P. Stevenson	**150**	150	**–**	–	**–**	–	**–**	–	**150**	150
E. C. Adams[4]	**41**	37	**–**	–	**–**	–	**–**	–	**41**	37
C. J. Bunker	**41**	35	**–**	–	**–**	–	**–**	–	**41**	35
J. Coleman	**29**	–	**–**	–	**–**	–	**–**	–	**29**	–
M. B. Dearden	**33**	32	**–**	–	**–**	–	**–**	–	**33**	32
P. J. Maydon[4]	**41**	37	**–**	–	**–**	–	**–**	–	**41**	37
	1,956	1,406	**100**	564	**70**	31	**385**	997	**2,511**	2,998

1 Basic salary includes a £126,640 salary supplement to enable Geoff Cooper to arrange pension provision for that part of his salary, which is above the HMRC approved limit. Geoff Cooper also received, and retained, in 2005, £65,000 in respect of his non-executive chairmanship of Dunelm Group Ltd.

2 Basic salary includes a £84,270 salary supplement (2004: £74,550) to enable Paul Hampden Smith to arrange pension provision for that part of his salary, which is above the HMRC approved limit. It also includes a £1,500 fuel allowance. Paul Hampden Smith also received, and retained, in 2005, £35,000 (2004: £13,920) in respect of his non-executive directorship of DX Services plc.

3 Highest paid director. Retired 3 October 2005. Basic salary included a £9,423 car allowance and a £1,131 fuel allowance. Frank McKay also received, and retained, in 2005 (up to 3 October) remuneration of £22,500 (2004: £22,453) in respect of his non-executive directorship of Luxfer Holdings plc.

4 Retired 31 December 2005.

Directors' pension entitlements Pension entitlements of the executive directors during the year were as follows:

	J. P. Carter	P. N. Hampden Smith	G. I. Cooper	F. J. McKay[1]
Age at 31 December 2005	44	45	51	60
	£'000	£'000	£'000	£'000
Accrued pension at 31 December 2004	148	30	–	85
Accrued pension at 31 December 2005	176	33	3	83[2]
Increase in accrued pension in 2005	28	3	3	(2)
Real increase in accrued pension in 2005	25	3	3	(4)
Transfer value of the real increase in accrued pension net of member's contributions	243	23	40	(97)
Value of increase in accrued benefit	260	29	46	(85)
Member's contributions towards pension	17	6	6	12
Increase in transfer value net of member's contributions	547	85	40	178
Transfer value of benefits accrued at 31 December 2004	1,250	252	–	1,514
Transfer value of benefits accrued at 31 December 2005	1,814	343	46	1,704[3]

1 The figures shown above for F. J. McKay reflect his total pension promise. Benefits up to the Inland Revenue maximum were provided through the Travis Perkins Pension & Dependants' Benefit Scheme ("TPDBS"). Benefits above the Inland Revenue maximum were provided through an unapproved arrangement. F. J. McKay's salary at retirement (3 October 2005) was £510,000.

2 The member retired on 3 October 2005 taking tax-free cash of £23,430 and pension of £18,906 p.a. from the TPDBS. In addition his unapproved arrangement gave a tax-free cash sum of £526,897 and pension of £64,334 p.a.

3 Of which £387,006 is in respect of approved benefits, and £1,316,923 is unapproved.

Share matching scheme The following shares have been awarded under the Share Matching Scheme and remained outstanding at 31 December 2005.

		No.
Number of shares awarded at 1 January 2005		–
Awarded during year	– Deferred shares	19,897
	– Deferred matching shares	19,897
	– Investment matching shares	27,359
	Price at award date 1,681p	
Vested during year	– Deferred shares	(5,573)
	– Deferred matching shares	–
	– Investment matching shares	–
Lapsed during year	– Deferred shares	(358)
	– Deferred matching shares	(358)
	– Investment matching shares	(202)
Number of shares awarded at 31 December 2005		60,662

Participation by directors in the Share Matching Scheme is as follows:

	F. J. McKay (retired from Board 14 March 2005) No.	G. I. Cooper (appointed to Board 1 February 2005) No.	P. N. Hampden Smith No.	J. P. Carter No.
Number of shares awarded at 1 January 2005	–	–	–	–
Awarded during year				
– Deferred shares	5,573	–	3,160	3,045
– Deferred matching shares	5,573	–	3,160	3,045
– Investment matching shares	–	–	5,746	5,537
Price at award date 1,681p				
Vested during year				
– Deferred shares	(5,573)	–	–	–
Price at vesting date 1,411p				
– Deferred matching shares	–	–	–	–
– Investment matching shares	–	–	–	–
Lapsed during year				
– Deferred shares	–	–	–	–
– Deferred matching shares	–	–	–	–
– Investment matching shares	–	–	–	–
Number of shares awarded at 31 December 2005	5,573	–	12,066	11,627

The performance criteria for the vesting of share matching shares are disclosed on page 37 of the remuneration report.

Share options The following options over ordinary shares have been granted under the 1995 and the 2001 Executive Share Option Schemes and the Travis Perkins Sharesave Schemes 1992 and 2002 and remained outstanding at 31 December 2005:

Executive share options

Outstanding at 1 January 2005 No.	Granted during year No.	Lapsed previous year No.	Lapsed during year No.	Exercised during year No.	**Outstanding at 31 December 2005 No.**	Exercise price	Exercise period
55,961	–	–	–	(16,159)	**39,802**	571.5p	Anytime until 26/4/08
13,520	–	–	–	–	**13,520**	602.5p	Anytime until 7/9/10
20,000	–	(20,000)	–	–	**–**	550.0p	–
441,413	–	(44,171)	(21,000)	(71,571)	**304,671**	756.0p	Anytime until 3/7/11
298,774	–	–	–	(162,173)	**136,601**	1,071.5p	From 10/4/05 until 9/4/12
354,080	–	(5,000)	(5,000)	(15,995)	**328,085**	1,067.5p	From 11/4/06 until 10/4/13
508,805	–	–	(25,000)	(17,200)	**466,605**	1,311.0p	From 16/3/07 until 15/3/14
72,033	–	–	–	–	**72,033**	1,447.0p	From 30/4/07 until 29/10/07
9,044	–	–	–	–	**9,044**	1,382.0p	From 07/9/07 until 06/9/14
–	586,967	–	(12,666)	–	**574,301**	1,675.0p	From 01/4/08 until 31/03/15
–	264,156	–	–	–	**264,156**	1,435.0p	From 30/9/08 until 29/09/15
1,773,630	851,123	(69,171)	(63,666)	(283,098)	**2,208,818**		

The performance criteria for the exercise of executive share options granted under the 2001 Executive Share Option Scheme are disclosed on page 38 of the remuneration report. The options granted under the 1995 Executive Share Option Scheme prior to 1998 do not have performance conditions, consistent with market practice at the time.

Sharesave options

Outstanding at 1 January 2005 No.	Granted during year No.	Lapsed during year No.	Exercised during year No.	**Outstanding at 31 December 2005 No.**	Exercise price	Exercise period
21,281	–	(1,254)	(20,027)	**–**	511.0p	–
313,143	–	(4,154)	(280,792)	**28,197**	464.0p	From 1/12/05 until 31/5/06
15,468	–	(1,491)	(13,977)	**–**	609.5p	–
211,126	–	(6,055)	(3,435)	**201,636**	609.5p	From 1/12/06 until 31/5/07
227,144	–	(12,414)	(183,146)	**31,584**	847.5p	From 1/12/05 until 31/5/06
212,325	–	(13,980)	(2,331)	**196,014**	847.5p	From 1/12/07 until 31/5/08
232,147	–	(26,142)	(2,429)	**203,576**	1,079.0p	From 1/12/06 until 31/5/07
157,964	–	(11,189)	(711)	**146,064**	1,079.0p	From 1/12/08 until 31/5/09
236,587	–	(33,048)	(267)	**203,272**	1,156.0p	From 1/12/07 until 31/5/08
169,779	–	(14,915)	(297)	**154,567**	1,156.0p	From 1/12/09 until 31/5/10
–	488,271	(5,411)	–	**482,860**	1,159.0p	From 1/12/08 until 31/5/09
–	299,189	(915)	–	**298,274**	1,159.0p	From 1/12/10 until 31/5/11
1,796,964	787,460	(130,968)	(507,412)	**1,946,044**		

Directors' share options included within the previous tables

	Outstanding at 1 January 2005 No.	Granted during year No.	**Outstanding at 31 December 2005 No.**	Exercise price	Exercise period
J. P. Carter	–	31,343	**31,343**	1,675.0p	From 01/04/08 until 31/03/15
	29,398	–	**29,398**	1,071.5p	From 10/4/05 until 9/4/12
	32,786	–	**32,786**	1,067.5p	From 11/4/06 until 10/4/13
	34,038	–	**34,038**	1,311.0p	From 16/3/07 until 15/3/14
	854	–	**854**	1,079.0p	From 01/12/06 until 31/05/07*
P. N. Hampden Smith	30,000	–	**30,000**	571.5p	Anytime until 26/4/08
	39,351	–	**39,351**	756.0p	Anytime until 3/7/11
	31,031	–	**31,031**	1,071.5p	From 10/4/05 until 9/4/12
	–	31,343	**31,343**	1,675.0p	From 01/04/08 until 31/03/15
	40,983	–	**40,983**	1,067.5p	From 11/4/06 until 10/4/13
	36,708	–	**36,708**	1,311.0p	From 16/3/07 until 15/3/14
	819	–	**819**	1,156.0p	From 01/12/07 until 31/05/08*
G. I. Cooper	–	53,731	**53,731**	1,675.0p	From 01/04/08 until 31/03/15
	275,968	116,417	**392,385**		

* Sharesave options

No directors' share options were exercised or lapsed during the year.

At 31 December 2005, in addition to the directors, there were 206 employees (2004: 271) who had holdings of executive share options and 4,210 employees (2004: 3,199) who were participating in the Sharesave Scheme.

Shareholders' approval The shareholders will be invited to approve the remuneration policy set out in this report at the Annual General Meeting, at which the chairman of the committee will be available to answer any questions.

Approved by the board and signed on its behalf by:

M. B. Dearden Chairman, Remuneration Committee

7 March 2006

Nominations committee report For the year ended 31 December 2005

The Nominations Committee was established in July 2003, board appointments having previously been dealt with by a combined Remuneration & Nominations Committee. Its principal role is to identify and nominate for board approval, candidates to fill board vacancies as and when they arise. It is required to prepare a description of the role, and capabilities required, for any appointment, and to maintain contact with major shareholders about appointments to the board. It also reviews the induction process for newly appointed directors, reviews annually the time required of non-executive directors, keeps the structure, size and composition of the board under review, and considers board succession planning for both executive and non-executive directors. During the year, the committee members were Tim Stevenson (chairman), together with Ted Adams, Chris Bunker and Peter Maydon, all of whom, except Ted Adams, are independent non-executive directors. Ted Adams and Peter Maydon retired on 31 December 2005. A further independent non-executive director will be appointed to the committee during the first half of 2006.

During the year, the committee reviewed the balance of experience on the board, in the light of the forthcoming retirements of Ted Adams and Peter Maydon, and recommended to the board that a further non-executive director should be appointed. A description of the experience and capabilities required for this appointment was agreed by the committee in consultation with the other directors. Recruitment consultants, Russell Reynolds, assisted the committee in this process and a number of candidates were interviewed by the committee and by other directors. As a result, Andrew Simon was appointed on 20 February 2006. The committee anticipates that it will recommend to the board, the appointment of a further independent non-executive director during the first half of 2006.

The chairman of the Nominations Committee will be available at the Annual General Meeting to answer any questions about the work of the committee.

T. E. P. Stevenson Chairman, Nominations Committee
7 March 2006

Directors' report For the year ended 31 December 2005

The directors present their annual report and audited accounts for the year ended 31 December 2005.

Principal activities Travis Perkins is one of the largest builders merchants and home improvement retailers in the UK. The principal activities of the group are the marketing and distribution of timber, building and plumbing and heating materials and the hiring of tools to the building trade and industry generally and, since the acquisition of Wickes, to the general public, within the United Kingdom.

Review of group's position, developments and future prospects A review of the group's position, developments and future prospects is contained in the chairman's statement on pages 4 and 5, the chief executive's review on pages 6 to 13, the chief operating officer's report on pages 14 to 19 and the finance director's report on pages 20 to 26.

Results and dividends The group results and dividends for the year ended 31 December 2005 are set out on page 52. If approved, the final dividend will be paid on 16 May 2006 to those shareholders on the register at the close of business on 21 April 2006.

Directors and their interests The names of the directors at 31 December 2005, together with their biographical details, are set out on pages 28 and 29. All of those directors held office throughout the year except Geoff Cooper and John Coleman who were appointed on 1 and 10 February 2005 respectively, and Andrew Simon who was appointed on 20 February 2006. Frank McKay served as a director until 14 March 2005 and Ted Adams and Peter Maydon both served as directors throughout the year until their retirements on 31 December 2005. In accordance with the company's articles of association, Chris Bunker, Paul Hampden Smith and Tim Stevenson will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. Paul Hampden Smith has a rolling 12 month notice period in his contract. As non-executive directors, Chris Bunker and Tim Stevenson do not have service contracts. In light of the evaluation of their performance as a result of the process described on page 31, Tim Stevenson, chairman, confirms on behalf of the board that Chris Bunker continues to be effective in, and committed to, his role as non-executive director. As senior independent director, Michael Dearden also confirms on behalf of the board that Tim Stevenson continues to be effective in, and committed to, his role as chairman.

In accordance with the company's articles of association, Andrew Simon who has been appointed as a director since the last annual general meeting, will retire at the forthcoming annual general meeting and will offer himself for election. The board believes that with his wide experience of a number of companies, including some in the construction products' sector, Andrew Simon will make a positive contribution to the board. As a non-executive director, Andrew Simon does not have a service contract.

It is anticipated that a further independent non-executive director will be appointed during the first half of 2006.

Directors and officers of the company are entitled to be indemnified out of the assets of the company in respect of any liability incurred in relation to the affairs of the company, or any associated company, to the extent the law allows.

None of the directors had an interest in any contract to which the company or any of its subsidiaries was a party during the year.

The disclosable interests of directors at 31 December 2005, including holdings, if any, of wives and of children aged under 18, were as detailed in the directors remuneration report on pages 40, 43 and 44.

Substantial shareholders At 7 March 2006, the only substantial interests in the company's issued share capital (representing 3 per cent or more of such share capital) notified to the company were as follows:

	Beneficial		Non-beneficial	
	Number	%	Number	%
Legal and General Group PLC	3,991,289	3.29	–	–
E. R. A. Travis	1,966,026	1.62	7,047,952	5.81
C. M. T. Travis	1,516,992	1.25	6,438,957	5.31

Close company status The close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the company.

Employees and charitable donations Statements on these matters are contained in the chief operating officer's report and chief executive's review respectively on pages 16 to 18 and on pages 12 and 13.

Supplier payment policy The group's policy is to pay all of its suppliers in accordance with established terms. Group trade creditors at 31 December 2005 represented 52.5 days (31 December 2004: 47.8 days) of average purchases of goods and services. The company trade creditors at 31 December 2005 represented 30 days (2004: 30 days).

Annual general meeting special business The annual general meeting of the company will be held at Lord's Conference and Banqueting Centre, St John's Wood Road, London NW8 8QN on Monday 24 April 2006 at 11.45 a.m. The following items are to be proposed at the forthcoming annual general meeting as items of special business.

Resolution 8: Directors remuneration report In accordance with the Directors' Remuneration Report Regulations 2002, this resolution seeks shareholders' approval of the directors' remuneration report as set out on pages 36 to 44.

Resolution 9: Renewal of authority to allot shares Under the Companies Act 1985, the board is not able to allot shares except with the general or specific authority of shareholders. Resolution 9 renews the board's authority to issue share capital up to an aggregate nominal amount of 1,364,633 (being the company's authorised but unissued share capital). This represents 11.25 per cent of the issued share capital of the company as at 7 March 2006. The authority extends until the earlier of the conclusion of the next annual general meeting and the date fifteen months from the passing of this resolution. The board does not have any present intention of exercising this authority other than for the purposes of the company's employee share option schemes. The company does not hold any treasury shares as at 7 March 2006.

Resolution 10: Limited authority to allot shares for cash The Companies Act 1985 provides that, when equity securities are being issued for cash, such securities must first be offered pro-rata to existing shareholders unless the board is given power to allot them without regard to that requirement. Resolution 10 therefore empowers the board to allot for cash, equity securities of a nominal amount not exceeding 406,534 (representing 3.35 per cent of the issued share capital as at 7 March 2006) without first offering such securities to existing shareholders. The calculation of this amount takes into account the placing of five million shares on 17 December 2004 in connection with the Wickes acquisition and the relevant insitution shareholder voting guidelines in respect of non pre-emptive issues. The authority extends until the earlier of the conclusion of the next annual general meeting and the date fifteen months from the passing of this resolution. Any issue of shares for cash will, however, still be subject to the requirements of the UK Listing Authority.

Resolution 11: Authority to purchase own shares Your directors believe that it is in the best interests of shareholders that the company should have the flexibility to make market purchases of its own shares (up to 10 per cent of the issued share capital). The effect of any such purchases (and the cancellation of such shares) would be to reduce the number of shares in issue and the directors would only make such purchases after consideration of the effect on earnings per share and the longer-term benefits for the company and shareholders generally. The fact that such authority is being sought should not be taken to imply that shares would be purchased at any particular price or indeed at all. At 7 March 2006, there were options outstanding over 4,083,198 shares, representing 3.36 per cent of the company's issued share capital. This would rise to 3.74 per cent if the authority being sought to buy back shares were to be exercised in full, and all of the repurchased shares were to be cancelled.

Auditors A resolution to re-appoint Deloitte & Touche LLP as the company's auditors and to authorise the directors to fix the auditors' remuneration will be proposed at the annual general meeting.

By order of the board

A. S. Pike Secretary
7 March 2006

Statement of directors' responsibilities For the year ended 31 December 2005

The directors are responsible for preparing the Annual Report and the financial statements. The directors are required to prepare financial statements for the group in accordance with International Financial Reporting Standards (IFRS) and have also elected to prepare financial statements for the company in accordance with IFRS. Company law requires the directors to prepare such financial statements in accordance with IFRS, the Companies Act 1985 and Article 4 of the IAS Regulations.

International Accounting Standards 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards. Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions in the entity's financial position and financial performance.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report and directors' remuneration report and operating and financial review that comply with the requirements of the Companies Act 1985.

The directors are responsible for the maintenance and integrity of the company website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditors' report to the members of Travis Perkins plc

For the year ended 31 December 2005

We have audited the group and individual company financial statements (the 'financial statements') of Travis Perkins plc for the year ended 2005 which comprise group and individual company income statements, the group and individual company balance sheets, the group and individual company cash flow statements, the group and individual statements of recognised income and expense and the related notes 1 to 38. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' 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 or the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors The directors' responsibilities for preparing the annual report, the directors' remuneration report and the financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards (IFRSs) as adopted for use in the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements and the part of the directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with the relevant framework and whether the financial statements and the part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985, and article 4 of the IAS regulation. We report if, in our opinion, the directors' report is not consistent with the financial statements. We also report to you if the company has not kept proper records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We also report to you if, in our opinion, the company has not complied with any of the four directors' remuneration disclosure requirements specified for our review by the Listing Rules of the Financial Services Authority. These comprise the amount of each element in the remuneration package and information of share options, details of long-term incentive schemes, and money purchase and defined benefit schemes. We give a statement, to the extent possible, of details of any non-compliance.

We review whether the corporate governance statement reflects the company's compliance with the nine provisions of the July 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the directors' report and the other information contained in the annual report including the unaudited part of the directors' remuneration report, and we consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report described as having been audited.

It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the directors' remuneration report described as having been audited are free from material misstatements, whether caused by fraud or any other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the directors' remuneration report described as having been audited.

Opinion In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted for use in the European Union, of the state of the group's and the individual company's affairs as at 31 December 2005 and of the group's and the individual company's profit for the year then ended; and
- the financial statements and the part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

As explained in Note 1 to the financial statements, the group and the company in addition to complying with their legal obligations to apply those IFRSs adopted for use in the European Union, have also complied with the IFRSs as issued by the International Accounting Standards Board. Accordingly, in our opinion the financial statements give a true and fair view, in accordance with IFRS, of the state of the group's and the company's affairs as at 31 December 2005 and of the group's and company's profit for the year then ended.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Birmingham

7 March 2006

Income statements

For the year ended 31 December 2005

	Notes	Non-Wickes related £m	Identified impact of Wickes (note below) £m	The Group 2005 £m	The Group 2004 £m	The Company 2005 £m	The Company 2004 £m
Revenue	4	1,881.0	759.8	**2,640.8**	1,828.6	**65.6**	59.3
Operating profit	5	208.3	59.7	**268.0**	217.7	**56.8**	49.7
Finance income	10	0.4	–	**0.4**	0.5	**0.3**	0.4
Finance costs	10	(10.8)	(50.9)	**(61.7)**	(11.7)	**(54.4)**	(7.7)
Profit before taxation		197.9	8.8	**206.7**	206.5	**2.7**	42.4
Tax	11	(61.9)	(4.0)	**(65.9)**	(64.4)	**18.2**	3.7
Profit for the year		136.0	4.8	**140.8**	142.1	**20.9**	46.1

	Notes	The Group 2005	The Group 2004
Earnings per ordinary share	12		
Basic		**116.8p**	124.4p
Diluted		**115.6p**	123.0p
Total dividend per ordinary share	13	**34.0p**	30.5p

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 integration projects, and the additional finance related costs incurred by the group as a result of the acquisition. Further details are given in note 29.

Statements of recognised income and expense

For the year ended 31 December 2005

	The Group 2005 £m	The Group 2004 £m	The Company 2005 £m	The Company 2004 £m
Actuarial gains and losses on defined benefit pension scheme	**2.4**	(32.5)	**–**	–
Losses on cash flow hedges	**(5.0)**	–	**(5.0)**	–
Tax on items taken directly to equity	**10.1**	2.0	**1.4**	–
Net income recognised directly in equity	**7.5**	(30.5)	**(3.6)**	–
Transferred to income statement on cash flow hedges	**0.5**	–	**0.5**	–
Tax on items transferred from equity	**(0.1)**	–	**(0.1)**	–
Profit for the year	**140.8**	142.1	**20.9**	46.1
Total recognised income and expense for the year	**148.7**	111.6	**17.7**	46.1

Balance sheets As at 31 December 2005

	Notes	The Group		The Company	
		2005 £m	2004 £m	**2005 £m**	2004 £m
ASSETS					
Non-current assets					
Property, plant and equipment	16	**445.2**	340.7	**0.3**	0.1
Goodwill	14	**1,273.8**	304.8	**–**	–
Other intangible assets	15	**162.5**	–	**–**	–
Derivative financial instruments	25	**1.3**	–	**1.3**	–
Investment property	17	**4.1**	4.2	**–**	–
Investments in subsidiaries	18	**–**	–	**1,607.8**	569.7
Deferred tax asset	27	**42.9**	38.5	**2.4**	1.3
Total non-current assets		**1,929.8**	688.2	**1,611.8**	571.1
Current assets					
Inventories		**263.2**	200.6	**–**	–
Trade and other receivables	19	**322.4**	287.8	**114.1**	99.9
Cash and cash equivalents	20	**56.1**	116.9	**11.0**	98.0
Total current assets		**641.7**	605.3	**125.1**	197.9
Total assets		**2,571.5**	1,293.5	**1,736.9**	769.0

Balance sheets (continued)

		The Group		The Company	
EQUITY AND LIABILITIES	Notes	**2005 £m**	2004 £m	**2005 £m**	2004 £m
Capital and reserves					
Issued capital	21	**12.1**	12.1	**12.1**	12.1
Share premium account	23	**165.6**	159.2	**164.5**	158.1
Revaluation reserve	23	**26.3**	26.7	**–**	–
Own shares	23	**(8.1)**	–	**(8.1)**	–
Hedging reserve	23	**(3.2)**	–	**(3.2)**	–
Accumulated profits	23	**565.3**	452.6	**142.3**	159.9
Total equity		**758.0**	650.6	**307.6**	330.1
Non-current liabilities					
Interest bearing loans and borrowings	24	**1,027.4**	137.8	**994.0**	65.0
Retirement benefit obligation	8	**142.8**	128.3	**–**	–
Long-term provisions	26	**13.2**	–	**–**	–
Amounts due to subsidiaries		**–**	–	**267.1**	238.4
Deferred tax liabilities	27	**72.6**	38.3	**–**	–
Total non-current liabilities		**1,256.0**	304.4	**1,261.1**	303.4
Current liabilities					
Interest bearing loans and borrowings	24	**2.9**	0.8	**129.8**	118.5
Unsecured loan notes	24	**8.2**	9.0	**8.2**	9.0
Derivative financial instruments	25	**5.1**	–	**5.1**	–
Trade and other payables	28	**482.3**	293.4	**25.1**	8.0
Tax liabilities		**33.3**	22.6	**–**	–
Short-term provisions	26	**25.7**	12.7	**–**	–
Total current liabilities		**557.5**	338.5	**168.2**	135.5
Total liabilities		**1,813.5**	642.9	**1,429.3**	438.9
Total equity and liabilities		**2,571.5**	1,293.5	**1,736.9**	769.0

The financial statements were approved by the board of directors on 7 March 2006 and signed on its behalf by:

G. I. Cooper
P. N. Hampden Smith } Directors

Cash flow statements For the year ended 31 December 2005

	The Group		The Company	
	2005	2004	**2005**	2004
	£m	£m	**£m**	£m
Operating profit	**268.0**	217.7	**56.8**	49.7
Adjustments for:				
Depreciation and impairment of property, plant and equipment	**54.5**	33.4	**–**	–
Other non cash movements	**2.4**	(0.3)	**0.4**	0.2
Loss/(gain) on disposal of property, plant and equipment	**0.7**	(0.4)	**–**	–
Operating cash flows before movements in working capital	**325.6**	250.4	**57.2**	49.9
Decrease/(increase) in inventories	**12.4**	(15.7)	**–**	–
Decrease/(increase) in receivables	**(1.5)**	(14.3)	**3.7**	2.6
Increase in payables	**2.8**	28.3	**27.9**	23.7
Cash payments to the pension scheme in excess of the charge to income statement	**(28.5)**	(25.8)	**–**	–
Cash generated from operations	**310.8**	222.9	**88.8**	76.2
Interest paid	**(38.6)**	(8.5)	**(33.6)**	(7.3)
Taxes paid	**(47.0)**	(54.2)	**–**	–
Net cash from operating activities	**225.2**	160.2	**55.2**	68.9
Cash flows from investing activities				
Interest received	**0.4**	0.5	**0.3**	0.4
Proceeds on disposal of property, plant and equipment	**1.4**	2.2	**–**	–
Purchases of property, plant and equipment	**(71.6)**	(67.3)	**(0.2)**	–
Acquisition of businesses net of cash acquired (note 29)	**(1,045.5)**	(39.0)	**(1,042.5)**	(16.2)
Net cash used in investing activities	**(1,115.3)**	(103.6)	**(1,042.4)**	(15.8)
Financing activities				
Proceeds from the issue of share capital	**6.4**	90.6	**6.4**	90.6
Purchase of own shares	**(8.1)**	–	**(8.1)**	–
Payment of finance leases liabilities	**(2.3)**	(1.0)	**–**	–
Repayment of unsecured loan notes	**(0.8)**	(3.2)	**(0.8)**	(3.2)
Increase/(decrease) in bank loans	**872.7**	(30.0)	**941.3**	(40.0)
Dividends paid	**(38.6)**	(30.0)	**(38.6)**	(30.0)
Net cash from financing activities	**829.3**	26.4	**900.2**	17.4
Net (decrease)/increase in cash and cash equivalents	**(60.8)**	83.0	**(87.0)**	70.5
Cash and cash equivalents at beginning of year	**116.9**	33.9	**98.0**	27.5
Cash and cash equivalents at end of year	**56.1**	116.9	**11.0**	98.0

Notes to the financial statements For the year ended 31 December 2005

1. General information

Overview

Travis Perkins plc is a company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given on page 99. The nature of the group's operations and its principal activities are set out in the chief executive's review, the chief operating officer's report and the finance director's report on pages 6 to 26.

These financial statements are presented in pounds Sterling, the currency of the primary economic environment in which the group operates.

Statement of compliance

For the first time the financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) adopted for use in the European Union and therefore comply with Article 4 of the EU IAS regulations. As a result, the comparative amounts included in these financial statements have been restated under IFRS from the UK Financial Reporting Standard ("UK GAAP") values originally published by the group. The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRSs are given in note 38.

Basis of preparation

The financial statements have been prepared on the historic cost basis, except that derivative financial instruments are stated at their fair value. The consolidated financial statements include the accounts of the company and all entities controlled by the company (its subsidiaries) (together referred to as "the group") from the date control commences until the date that control ceases. Control is achieved where the company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. As such, the results of subsidiaries acquired during the year are included in the consolidated income statement from the effective date of acquisition.

The group has chosen to apply the permitted alternative treatment under IAS 19 "Employee Benefits" for recognising actuarial gains and losses in the statement of recognised income and expense.

The group has taken the exemption available in IFRS 1 "First Time Adoption of International Financial Reporting Standards" not to restate comparatives for IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement". Despite taking advantage of the exemption the company believes that IAS 32 and IAS 39 would not have impacted the prior period.

In accordance with the transitional provisions available in IFRS 1, IFRS 2 "Share-based Payments" has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005.

In accordance with the transitional provisions of IFRS 1, the basis of accounting for pre-transition (1 January 2004) combinations under UK GAAP has not been revisited. The initial carrying amount of assets and liabilities acquired in such business combinations is deemed to be equivalent to cost.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not yet been applied in these financial statements were in issue, but not yet effective:

- IFRS 6 – Explanation for and Evaluation of Mineral Resources;
- IFRS 7 – Financial Instruments: Disclosures; and the related amendment to IAS 1 on capital disclosures;
- IFRIC 4 – Determining Whether an Arrangement Contains a Lease;
- IFRIC 5 – Rights to Interests Arising from Decommissioning, Restoration and Environmental; Rehabilitation Funds;
- IFRIC 6 – Liabilities Arising from Participation in a Specific Market – Waste Electrical and Electronic Equipment;
- IFRIC 7 – Applying the Restatement Approach Under IAS 29 Reporting in Hyper-inflationary Economies;
- IFRIC 8 – Scope of IFRS 2;
- IFRIC 9 – Reassessment of Embedded Derivatives.

The directors anticipate that adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the group except for the additional disclosures on capital or financial instruments when the relevant Standards come into effect for periods commencing on or after 1 January 2007.

2. Significant accounting policies

The principal accounting policies adopted in preparing the 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.

Goodwill arising on acquisitions before the date of transition to IFRSs (1 January 2004) has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

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.

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.

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.

2. Significant 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 provisions 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 the 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.

2. Significant accounting policies continued

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 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 the 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.

2. Significant accounting policies continued

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.

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 options 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.

3. Accounting estimates and judgements

The audit committee have been party to discussions about the development, selection and disclosure of the group's critical accounting policies and estimates and about their actual application. The key estimates made by management are detailed below:

Goodwill

In testing for impairment, management have made certain assumptions concerning the future development of the business that are consistent with its annual budget and three-year plan. Should these assumptions regarding the growth in profitability be unfounded then it is possible that goodwill included in the balance sheet could be impaired. Management are confident that this is not the case.

Pension liabilities

The group has chosen to adopt assumptions that are more conservative than average, particularly in respect of longevity. If the future return on equities is lower than anticipated, or if the difference between actual inflation and the actual increase in pensionable salaries is greater than that assumed, or if the average life expectancy of pensioners increases, then the pension deficit would be greater than currently stated in the balance sheet.

Property leases

The group is party to a number of leases on properties that are no longer required for trading. Whilst every effort is made to profitably sub-let these properties, it is not always possible. Where a lease is onerous to the group, a provision is established for the difference between amounts contractually payable to the landlord and amounts contractually receivable from the tenant (if any) for the period up until the point it is judged that the lease will no longer be onerous. Management believe that their estimates, which are based upon the current state of the UK property market are appropriate. However, it is possible that it may take longer to dispose of leases than they anticipate. As a result the provisions may be understated, but in the opinion of the directors this is unlikely to be material.

Insurance provisions

The group has been substantially self-insured since 2001. The nature of insurance claims is that they frequently take many years to fully crystalise, therefore the directors have to estimate the value of provisions to hold in the balance sheet in respect of historic claims. Under the guidance of the group's insurance advisors, the value of incurred claims is estimated using the Generalised Cape Cod Method. The provision is determined by deducting the value of claims settled to date from the estimated level of claims incurred. Whilst the Generalised Cape Cod Method is an insurance industry standard methodology, it relies on historic trends to determine the level of expected claims. To the extent that the estimates are inaccurate the group may be underprovided, but in the opinion of the directors any under-provision is unlikely to be material.

4. Revenue

	The Group		The Company	
	2005	2004	**2005**	2004
	£m	£m	**£m**	£m
Sale of goods	**2,640.8**	1,828.6	**–**	–
Management charges	**–**	–	**6.8**	5.7
Dividends from subsidiaries	**–**	–	**58.8**	53.6
	2,640.8	1,828.6	**65.6**	59.3
Other operating income	**1.4**	1.5	**–**	–
Investment income	**0.4**	0.5	**0.3**	0.4
	2,642.6	1,830.6	**65.9**	59.7

5. Operating profit

	The Group		The Company	
	2005	2004	**2005**	2004
	£m	£m	**£m**	£m
Revenue	**2,640.8**	1,828.6	**65.6**	59.3
Cost of sales	**(1,723.1)**	(1,245.3)	**–**	–
Gross profit	**917.7**	583.3	**65.6**	59.3
Selling and distribution costs	**(540.7)**	(297.7)	**–**	–
Administrative expenses	**(110.4)**	(69.4)	**(8.8)**	(9.6)
Other operating income	**1.4**	1.5	**–**	–
Operating profit	**268.0**	217.7	**56.8**	49.7

Operating profit has been arrived at after charging/(crediting):

	The Group		The Company	
	2005	2004	**2005**	2004
	£m	£m	**£m**	£m
Provisions against inventories	**8.3**	8.0	**–**	–
Pension costs in administration expenses	**2.0**	1.6	**0.4**	0.9
Pension costs in selling and distribution costs	**12.1**	9.4	**–**	–
Depreciation of property, plant and equipment	**53.9**	33.4	**–**	–
Impairment of property, plant and equipment	**0.6**	–	**–**	–
Staff costs (see note 7)	**302.9**	215.5	**4.1**	7.4
Loss/(gain) on disposal of property, plant and equipment	**0.7**	(0.4)	**–**	–
Rental income	**(2.5)**	(1.3)	**–**	–
Hire of vehicles, plant and machinery	**11.3**	8.5	**–**	–
Other leasing charges – property	**86.3**	20.7	**–**	–
Auditors' remuneration for audit services	**341.0**	197.0	**17.0**	17.0

During the year the group incurred the following costs for services provided by the group's auditors:

	The Group		The Company	
	2005	2004	**2005**	2004
Amounts paid to auditors	**£000**	£000	**£000**	£000
Group statutory audit fee	**341**	197	**17**	17
IFRS implementation	**91**	34	**91**	34
Tax services – compliance	**93**	65	**93**	65
– advisory	**29**	70	**29**	70
Wickes acquisition	**20**	205	**20**	205
Other services	**42**	–	**38**	–
	616	571	**288**	391

In addition £9,000 (2004: £9,000) was paid to the auditors by the Travis Perkins Pension and Dependent's Benefits Scheme.

A description of the work of the audit committee is set out in the audit committee report on pages 34 and 35, and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditor.

6. Business and geographical segments

For management purposes, the group is currently organised into two operating divisions – Builders Merchanting and DIY Retailing, both of which operate entirely in the United Kingdom. These divisions are the basis on which the group reports its primary segment information. Segment results, assets and liabilities include items directly attributable to segments as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly interest bearing loans, borrowings and expenses and corporate assets and expenses. There are no inter-segment sales or charges.

	Builders merchanting	DIY retailing	Eliminations	**Consolidated**
	£m	£m	£m	**£m**
Revenue	1,881.0	759.8	–	**2,640.8**
Result				
Segment result	213.3	55.9	–	**269.2**
Unallocated corporate expenses				**(1.2)**
Net finance costs				**(61.3)**
Profit before taxation				**206.7**
Taxation				**(65.9)**
Profit for the year				**140.8**
Segment assets	1,186.1	1,235.2	–	**2,421.3**
Unallocated corporate assets				**150.2**
Consolidated total assets				**2,571.5**
Segment liabilities	(425.3)	(213.5)	–	**(638.8)**
Unallocated corporate liabilities				**(1,174.7)**
Consolidated total liabilities				**(1,813.5)**
Consolidated net assets	760.8	1,021.7		
Capital expenditure	54.1	17.5		**71.6**
Depreciation	39.4	14.5		**53.9**
Impairment losses	–	0.6		**0.6**

In 2004 the group had only one segment, builders merchanting.

7. Staff costs

(a) The average monthly number of persons employed (including executive directors)

	The Group		The Company	
	2005	2004	**2005**	2004
	No.	No.	**No.**	No.
Sales	**11,082**	6,846	**–**	–
Distribution	**1,582**	1,537	**–**	–
Administration	**1,384**	1,002	**58**	44
	14,048	9,385	**58**	44

(b) Aggregate remuneration

	The Group		The Company	
	2005	2004	**2005**	2004
	£m	£m	**£m**	£m
Wages and salaries	**(265.8)**	(186.4)	**(3.4)**	(5.2)
Social security costs	**(23.0)**	(18.1)	**(0.3)**	(0.9)
Other pension costs (see note 8)	**(14.1)**	(11.0)	**(0.4)**	(1.3)
	(302.9)	(215.5)	**(4.1)**	(7.4)

8. Pension arrangements

Defined benefit schemes

During the year, the group operated two final salary schemes; the Travis Perkins Pensions and Dependants' Benefit Scheme ("TP"), which is a 1/60th scheme, and the Wickes Group Retirement Benefits Plan ("Wickes"), the assets of which were held in separate trustee administered funds. The TP scheme is funded by contributions from the group companies and the employees, and the Wickes scheme, which is now closed, is funded by employer contributions only. Contributions are paid to the trustees on the basis of advice from independent professionally qualified actuaries who carry out a valuation of each scheme every three years.

Employees are entitled to start drawing a pension, based on their membership of a scheme, on their normal retirement date. If employees choose to retire early and draw their pension, then the amount they receive is scaled down accordingly.

A full actuarial valuation of the TP scheme was carried out on 30 September 2005, then updated to 31 December 2005 by a qualified actuary. A full actuarial valuation of the Wickes' scheme was carried out as at 1 April 2005. This was backdated to 11 February 2005, the date of acquisition, and updated to 31 December 2005 by a qualified actuary. The present values of the defined obligations, the related current service costs and the past service costs for both schemes were measured using the projected unit method.

(a) Major assumptions used by the actuary at the balance sheet date (in nominal terms)

	At 31 December 2005		At 31 December 2004
	TP Scheme	**Wickes Scheme**	TP Scheme
Rate of increase in pensionable salaries	**3.8%**	**3.8%**	3.8%
Rate of increase of pensions in payment	**2.8%**	**2.8%**	2.8% (post 1997) 3.0% (pre 1997)
Discount rate	**4.75%**	**4.75%**	5.3%
Inflation assumption	**2.8%**	**2.8%**	2.8%

In respect of longevity the valuation adopts the PMA/PFA92 tables with improvements in life expectancy to continue in the medium term, with base year appropriate to the member's date of birth. This results in the following life expectancies at illustrative ages:

Weighted average life expectancy for mortality tables used to determine pension liability at 31 December 2005

	Male	Female
	Years	Years
Member age 65 (current life expectancy)	21.5	24.5
Member age 40 (life expectancy on reaching age 65)	23	26

8. Pension arrangements continued

(b) Amounts recognised in income in respect of defined benefit schemes

	Total	Wickes Scheme	TP Scheme	TP Scheme
	2005	**2005**	**2005**	2004
	£m	**£m**	**£m**	£m
Current service costs charged to the income statement	**11.6**	**–**	**11.6**	10.6
Interest cost	**25.8**	**5.3**	**20.5**	17.1
Expected return on scheme assets	**(22.1)**	**(4.2)**	**(17.9)**	(14.3)
Total pension costs	**15.3**	**1.1**	**14.2**	13.4

In consultation with the scheme actuaries and the trustees of the pension funds the directors are in the process of fixing the employers' contribution rate for 2006.

Note 5 shows where pension costs have been charged in the income statement. Actuarial gains and losses have been included in the Statement of Recognised Income and Expense.

(c) Assets and liabilities in the schemes and the expected rate of return (net of allowance for administration expenses)

TP Scheme	**At 31 December 2005**		At 31 December 2004	
	Expected return	**Fair value £m**	Expected return	Fair value £m
Equities	**6.9%**	**258.2**	7.3%	183.9
Gilts	**3.9%**	**46.6**	4.3%	38.4
Corporate bonds	**4.55%**	**40.4**	5.1%	31.1
Total fair value of assets		**345.2**		253.4
Actuarial value of liability		**(446.0)**		(381.7)
Deficit in scheme		**(100.8)**		(128.3)
Related deferred tax asset		**30.3**		38.5
Net pension liability		**(70.5)**		(89.8)

Wickes scheme	**At 31 December 2005**	
	Expected return	**£m**
Equities	**6.9%**	**28.5**
Bonds and gilts	**4.2%**	**45.0**
Property	**6.4%**	**12.9**
Total fair value of assets		**86.4**
Actuarial value of liability		**(128.4)**
Deficit in scheme		**(42.0)**
Related deferred tax asset		**12.6**
Net pension liability		**(29.4)**

The actual returns on scheme assets

	2005		2004	
	£m	**%**	£m	%
Travis Perkins	**54.4**	**21.5**	23.5	12.2
Wickes	**9.9**	**12.9**	–	–

8. Pension arrangements continued

(d) The amount included in the balance sheet arising from the group's obligations in respect of its defined benefit schemes and the movement during the year

	Total	TP Scheme	Wickes Scheme	TP Scheme
	2005	**2005**	**2005**	2004
	£m	**£m**	**£m**	£m
Liability at 1 January/date of acquisition*	**(173.7)**	**(128.3)**	***(45.4)**	(121.6)
Expense recognised in the income statement	**(15.3)**	**(14.2)**	**(1.1)**	(13.4)
Contributions received by the scheme	**43.8**	**40.2**	**3.6**	39.2
Actuarial gains/(losses) recognised in the statement of recognised income and expenditure	**2.4**	**1.5**	**0.9**	(32.5)
Liability at 31 December	**(142.8)**	**(100.8)**	**(42.0)**	(128.3)

(e) Movements in the present value of defined benefits obligations in the current period

	Total	TP Scheme	Wickes Scheme	TP Scheme
	2005	**2005**	**2005**	2004
	£m	**£m**	**£m**	£m
At 1 January/date of acquisition*	**(503.4)**	**(381.7)**	***(121.7)**	(314.3)
Service cost	**(11.6)**	**(11.6)**	**–**	(10.3)
Interest cost	**(25.9)**	**(20.5)**	**(5.4)**	(17.1)
Contributions from scheme members	**(4.3)**	**(4.3)**	**–**	(4.5)
Actuarial gains and losses	**(39.8)**	**(35.0)**	**(4.8)**	(43.5)
Benefits paid	**10.6**	**7.1**	**3.5**	8.3
Past service cost	**–**	**–**	**–**	(0.3)
At 31 December	**(574.4)**	**(446.0)**	**(128.4)**	(381.7)

(f) Movements in the present value of fair value of scheme assets in the current period

	Total	TP Scheme	Wickes Scheme	TP Scheme
	2005	**2005**	**2005**	2004
	£m	**£m**	**£m**	£m
At 1 January/date of acquisition*	**329.8**	**253.4**	***76.4**	192.7
Expected return of scheme assets	**22.1**	**17.9**	**4.2**	14.3
Actuarial gains and losses	**42.2**	**36.5**	**5.7**	9.2
Contributions from sponsoring companies	**43.8**	**40.2**	**3.6**	41.0
Contributions from scheme members	**4.3**	**4.3**	**–**	4.5
Benefits paid	**(10.6)**	**(7.1)**	**(3.5)**	(8.3)
At 31 December	**431.6**	**345.2**	**86.4**	253.4

8. Pension arrangements continued

(g) Cumulative actuarial gains and losses recognised in equity – combined information

	2005 **£m**	2004 £m
At 1 January	**(195.1)**	(162.6)
Net actuarial gains/(losses) recognised in the year	**2.4**	(32.5)
At 31 December	**(192.7)**	(195.1)

(h) History of experience gains and losses – combined information

	2005	2004	2003	2002	2001
Fair value of scheme assets (£m)	**431.6**	253.4	192.7	148.6	175.4
Present value of scheme obligations (£m)	**(574.4)**	(381.7)	(314.3)	(271.1)	(207.8)
Deficit in the scheme (£m)	**(142.8)**	(128.3)	(121.6)	(122.5)	(32.4)
Experience adjustments on scheme liabilities					
Amounts (£m)	**9.0**	0.1	0.1	(15.4)	(1.5)
Percentage of scheme liabilities	**1.6%**	–	–	5.7%	0.7%
Experience adjustments on scheme assets					
Amounts (£m)	**42.2**	10.9	14.7	(43.1)	(37.7)
Percentage of scheme assets	**9.8%**	4.3%	7.6%	29.0%	21.5%

Defined contribution schemes

There is one defined contribution scheme in the group. The pension cost, which represents contributions payable by the group, amounted to £0.4 million (2004: £0.4 million).

In addition, during the year Wickes employees participated in the Focus Do It All Pension Plan which is a defined contribution scheme. Contributions payable by Wickes amounted to £2.1 million. Included in creditors is £0.3 million in respect of contributions to this scheme.

9. Share-based payments

Details of the share option schemes run by the company, including information concerning vesting periods, amounts outstanding and the exercise price are contained in the directors' remuneration report on pages 43 and 44.

The Black-Scholes option-pricing model is used to calculate the fair value of the options and the amount to be expensed. No performance conditions were included in the fair value calculations. The inputs into the model expressed as weighted averages are as follows:

	Executive options		SAYE	
	2005	2004	**2005**	2004
Share price at grant date (pence) – group	**1,601**	1,329	**1,265**	1,406
Option exercise price (pence) – group	**1,601**	1,329	**1,159**	1,156
Share price at grant date (pence) – company	**1,659**	1,359	**1,265**	1,406
Option exercise price (pence) – company	**1,659**	1,359	**1,159**	1,156
Volatility – group and company	**16.4%**	18.8%	**22.0%**	20.5%
Option life (years) – group and company	**4.0**	4.0	**3.8**	3.8
Risk-free interest rate – group and company	**4.6%**	4.7%	**4.4%**	4.5%
Expected dividends as a dividend yield – group and company	**1.9%**	1.9%	**2.0%**	2.2%

9. Share-based payments continued

Volatility was based on historic share prices over a period of time equal to the vesting period. Option life used in the model has been based on options being exercised in accordance with historical patterns. The risk-free interest rate of return is the yield on zero-coupon UK Government bonds on a term consistent with the vesting period. Dividends used are based on actual dividends where data is known and future dividends estimated using a dividend cover of 3 times. It has also been assumed that performance conditions in respect of the executive share options and the share matching scheme will be met.

The number and weighted average exercise price of share options is as follows:

The Group	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
	2005	**2005**	2004	2004
In thousands of options	**p**	**No.**	p	No.
Outstanding at the beginning of the period	**1,112**	**2,180**	991	1,331
Forfeited during the period	**1,147**	**(167)**	986	(115)
Exercised during the period	**903**	**(222)**	1,093	(39)
Granted during the period	**1,388**	**1,639**	1,258	1,003
Outstanding at the end of the period	**1,256**	**3,430**	1,112	2,180
Exercisable at the end of the period	**848**	**32**	–	–

Share options were exercised on a regular basis throughout the year. The weighted average share price for options exercised during the year was 1,356p. Details of the options outstanding at 31 December 2005 were as follows:

	2005		2004	
	Executive options	SAYE	Executive options	SAYE
Range of exercise prices (pence)	**1,068 to 1,675**	**848 to 1,159**	1,068 to 1,447	848 to 1,156
Weighted average exercise price (pence)	**1,412**	**1,101**	1,231	1,022
Number of shares (thousands)	**1,714**	**1,716**	944	1,236
Weighted average expected remaining life (years)	**2.6**	**2.8**	2.9	2.8
Weighted average contractual remaining life (years)	**8.4**	**3.3**	8.4	3.3

The Company	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
	2005	**2005**	2004	2004
In thousands of options	**p**	**No.**	p	No.
Outstanding at the beginning of the period	**1,200**	**410**	1,059	215
Exercised during the period	**879**	**(6)**	–	–
Granted during the period	**1,655**	**185**	1,355	195
Outstanding at the end of the period	**1,346**	**589**	1,200	410
Exercisable at the end of the period	**–**	**–**	–	–

Share options were exercised during the year. The weighted average share price for options exercised during the year was 1,276 pence. Details of the options outstanding at 31 December 2005 were as follows:

	2005		2004	
	Executive options	SAYE	Executive options	SAYE
Range of exercise prices (pence)	**1,068 to 1,675**	**1,008 to 1,159**	1,068 to 1,447	848 to 1,156
Weighted average exercise price (pence)	**1,352**	**1,039**	1,209	970
Number of shares (thousands)	**577**	**12**	394	16
Weighted average expected remaining life (years)	**2.2**	**2.1**	2.7	2.7
Weighted average contractual remaining life (years)	**8.2**	**2.6**	8.7	3.2

9. Share-based payments continued

The Group and the Company

Executive options were granted on 1 April 2005 and 30 September 2005. SAYE options were granted on 1 December 2005. The aggregate of the estimated fair values of the options granted on those dates is £5.5 million for the group and £0.7 million for the company.

During 2004, executive options were granted on 16 March 2004 and SAYE options were granted on 1 December 2004. The aggregate of the estimated fair values of the options granted on those dates is £4.0 million for the group and £0.6 million for the company.

The group charged £2.4 million (2004: £1.4 million) and the company charged £0.4 million (2004: £0.2 million) to the income statement in respect of equity-settled share-based payment transactions.

10. Finance costs

	The Group		The Company	
	2005	2004	**2005**	2004
	£m	£m	**£m**	£m
Interest on bank loans and overdrafts	**(53.1)**	(7.5)	**(52.4)**	(7.1)
Interest on unsecured loans	**(0.4)**	(0.6)	**(0.4)**	(0.6)
Interest on obligations under finance leases	**(2.0)**	(0.8)	**–**	–
Unwinding of discounts in provisions	**(0.9)**	–	**–**	–
Net loss on re-measurement of derivatives at fair value	**(0.6)**	–	**(0.6)**	–
Amortisation of issue costs of bank loans	**(1.0)**	–	**(1.0)**	–
Interest payable	**(58.0)**	(8.9)	**(54.4)**	(7.7)
Other finance costs – pension schemes	**(3.7)**	(2.8)	**–**	–
Finance costs	**(61.7)**	(11.7)	**(54.4)**	(7.7)
Interest on bank deposits	**0.4**	0.5	**0.3**	0.4
Net finance costs	**(61.3)**	(11.2)	**(54.1)**	(7.3)
Interest cover	**4.9**	25.9		

Interest cover is calculated by dividing operating profit of £268.0 million (2004: £217.7 million) by the combined value of interest on bank loans, unsecured loans, finance leases and interest on bank deposits, which total £55.1 million (2004: £8.4 million).

11. Tax

	The Group		The Company	
	2005	2004	**2005**	2004
	£m	£m	**£m**	£m
Current tax				
UK corporation tax				
– current year	**59.1**	54.3	**(16.7)**	(3.3)
– prior year	**(0.4)**	0.9	**(1.4)**	–
Total current tax	**58.7**	55.2	**(18.1)**	(3.3)
Deferred tax				
– current year	**7.0**	10.1	**(0.1)**	(0.1)
– prior year	**0.2**	(0.9)	**–**	(0.3)
Total deferred tax	**7.2**	9.2	**(0.1)**	(0.4)
Total tax charge	**65.9**	64.4	**(18.2)**	(3.7)

11. Tax continued

The differences between the total tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

The Group	2005 £m	2005 %	2004 £m	2004 %
Profit before tax	**206.7**		206.5	
Tax at the UK corporation tax rate of 30% (2004: 30%)	**62.0**	**30.0%**	62.0	30.0%
Tax effect of expenses that are not deductible in determining taxable profit	**1.1**	**0.5%**	1.0	0.5%
Depreciation of non-qualifying property	**3.0**	**1.5%**	1.4	0.7%
Prior period adjustment	**(0.2)**	**(0.1)%**	–	–
Tax expense and effective tax rate for the year	**65.9**	**31.9%**	64.4	31.2%

The Company	2005 £m	2005 %	2004 £m	2004 %
Profit before tax	**2.7**		42.4	
Intercompany dividends	**(58.8)**		(53.6)	
Profit before tax and dividends	**(56.1)**		(11.2)	
Tax at the UK corporation tax rate of 30% (2004: 30%)	**(16.8)**	**(30.0)%**	(3.3)	(30.0)%
Prior period adjustment	**(1.4)**	**(2.5)%**	(0.4)	(3.0)%
Tax expense and effective tax rate for the year	**(18.2)**	**(32.5)%**	(3.7)	(33.0)%

12. Earnings per ordinary share

	2005 £m	2004 £m
Earnings		
Earnings for the purposes of basic and diluted earnings per share being net profit attributable to equity holders of the parent	**140.8**	142.1

Number of shares	**No.**	No.
Weighted average number of ordinary shares for the purposes of basic earnings per share	**120,542,092**	114,232,096
Dilutive effect of share options on potential ordinary shares	**1,205,748**	1,322,132
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**121,747,840**	115,554,228

At 31 December 2005, 561,736 (2004: nil) share options had an exercise price in excess of the market value of shares on that day. As a result they were excluded from the calculation of diluted earnings per share.

13. Dividends

The Group and the Company

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

	2005	2004
	£m	£m
Final dividend for the year ended 31 December 2004 of 21.0 pence (2003: 16.8 pence) per ordinary share	**25.3**	19.0
Interim dividend for the year ended 31 December 2005 of 11.0 pence (2004: 9.5 pence) per ordinary share	**13.3**	11.0
Total dividends recognised during the year	**38.6**	30.0

The proposed final dividend of 23.0 pence per ordinary share in respect of the year ending 31 December 2005 was approved by the board on 7 March 2006. As the final dividend has not yet been approved by shareholders, in accordance with IFRS, it has not been included in the balance sheet as a liability as at 31 December 2005. It will be paid on 16 May 2006 to shareholders on the register on 21 April 2006.

There are no income tax consequences in respect of the dividends declared, but not recognised in the financial statements.

14. Goodwill

	DIY	Builders merchanting	**Total**
	£m	£m	**£m**
Cost			
At 1 January 2004	–	285.7	**285.7**
Recognised on acquisitions during the year	–	19.1	**19.1**
At 1 January 2005	–	304.8	**304.8**
Recognised on acquisitions during the year	939.2	29.8	**969.0**
At 31 December 2005	**939.2**	**334.6**	**1,273.8**

Goodwill arising on the acquisitions of Wickes and other businesses during the year was allocated to those cash generating units that are expected to benefit from those acquisitions. All other goodwill is allocated to cash generating units ("CGU") in the Builders Merchanting business segment. With the exception of the Wickes' business no individual CGU is significant in comparison with the total carrying amount of goodwill.

During the year management has carried out an impairment test for the goodwill and other indefinite life intangible assets carried in the balance sheet. No impairments were identified as a result of the review. All of the recoverable amounts were based on value in use. The key assumptions applied in the value in use calculations were:

- cash flow projections based on management approved budgets for 2006 and three-year plan for 2007 to 2009;
- the weighted average cost of capital ("WACC") of the group of 7.52%;
- long-term forecast growth rates of 2.5% in line with the average long-term GDP growth trend, applied from 2009 onwards.

Whilst management is confident that its assumptions are appropriate, it is possible an impairment would be identified if any of the above key assumptions were changed significantly. However, as they are all inextricably linked it is not possible to determine the impact of a significant change to one or more of them.

15. Other intangible assets

	The Group
	£m
Cost	
At 1 January 2005	–
Additions – brand	162.5
At 31 December 2005	**162.5**

Prior to 11 February 2005 the group did not have any other intangible assets.

The brand is not amortised. As a leading brand in the DIY sector, with significant growth prospects, it is considered to have an indefinite useful life and is reviewed annually for impairment. Details of impairment testing are given in note 14. In 2005 no impairments were identified.

16. Property, plant and equipment

	The Group					The Company
	Freehold	Long leases	Short leases	Plant & equipment	Total	Plant & equipment
	£m	£m	£m	£m	£m	£m
Cost or valuation						
At 1 January 2004	167.3	17.5	29.2	191.4	405.4	0.3
Additions	14.2	2.4	3.8	47.2	67.6	–
Additions from acquired businesses	5.2	–	0.4	2.8	8.4	–
Disposals	(0.5)	–	–	(16.5)	(17.0)	–
At 1 January 2005	186.2	19.9	33.4	224.9	464.4	0.3
Additions	9.1	0.4	9.4	52.7	71.6	0.2
Additions from acquired businesses	7.8	0.2	38.5	42.9	89.4	–
Disposals	(0.5)	–	–	(18.1)	(18.6)	–
At 31 December 2005	**202.6**	**20.5**	**81.3**	**302.4**	**606.8**	**0.5**
Accumulated depreciation						
At 1 January 2004	12.0	1.4	6.5	85.7	105.6	0.2
Charged this year	3.7	0.4	1.9	27.3	33.3	–
Disposals	(0.1)	–	–	(15.1)	(15.2)	–
At 1 January 2005	15.6	1.8	8.4	97.9	123.7	0.2
Charged this year	5.2	0.6	5.9	42.1	53.8	–
Impairment loss	–	–	0.2	0.4	0.6	–
Disposals	(0.2)	–	–	(16.3)	(16.5)	–
At 31 December 2005	**20.6**	**2.4**	**14.5**	**124.1**	**161.6**	**0.2**
Net book value						
At 31 December 2005	**182.0**	**18.1**	**66.8**	**178.3**	**445.2**	**0.3**
At 31 December 2004	170.6	18.1	25.0	127.0	340.7	0.1

16. Property, plant and equipment continued

The cost element of the fixed assets carrying value is analysed as follows:

	The Group					The Company
	Freehold £m	Long leases £m	Short leases £m	Plant & equipment £m	**Total £m**	**Total £m**
At valuation	78.0	6.1	1.9	–	**86.0**	**–**
At cost	124.6	14.4	79.4	302.4	**520.8**	**0.5**
	202.6	**20.5**	**81.3**	**302.4**	**606.8**	**0.5**

Those freehold and leasehold properties included at valuation in the consolidated balance sheet were revalued at their open market value on an existing use basis. The valuations were performed as at 31 December 1999 by an independent professional valuer, Lambert Smith Hampton, Consultant Surveyors and Valuers.

Included within freehold property is land with a value of £80.8 million (2004: £77.2 million) which is not depreciated.

The carrying amount of assets held under finance leases is analysed as follows:

	The Group				The Company
	Long leases £m	Short leases £m	Plant & equipment £m	**Total £m**	**Total £m**
2005	**0.9**	**20.8**	**4.3**	**26.0**	**–**
2004	0.7	13.8	0.2	14.7	–

Comparable amounts determined according to the historical cost convention:

	The Group					The Company
	Freehold £m	Long leases £m	Short leases £m	Plant & equipment £m	**Total £m**	**Total £m**
Cost	193.6	19.5	86.2	302.4	**601.7**	**0.5**
Accumulated depreciation	(39.4)	(3.7)	(17.3)	(124.1)	**(184.5)**	**(0.2)**
Net book value						
At 31 December 2005	**154.2**	**15.8**	**68.9**	**178.3**	**417.2**	**0.3**
At 31 December 2004	142.5	15.8	26.9	127.0	312.2	0.1

17. Investment property

	The Group
	£m
Cost	
At 1 January 2004, 1 January 2005 and 31 December 2005	4.3
Accumulated depreciation	
At 1 January 2004	–
Provided in the year	0.1
At 1 January 2005	0.1
Provided in the year	0.1
At 31 December 2005	**0.2**
Net book value	
At 31 December 2005	**4.1**
At 31 December 2004	4.2

Property rental income totalled £1.4 million during 2005 (2004: £1.3 million). Direct operating expenses were not significant.

As no external valuation has been performed, the directors have estimated that the fair value of investment property equates to its carrying value. As such it is not material to the group's balance sheet.

18. Investments in subsidiaries

	The Company	
	2005	2004
	£m	£m
Shares in group undertakings	**1,612.4**	574.3
Provision for impairment	**(4.6)**	(4.6)
	1,607.8	569.7

The principal operating subsidiaries of the group and company at 31 December 2005 are as follows:

Subsidiary	**Registered office**
Travis Perkins Trading Company Limited* (Builders merchants)	Lodge Way House, Harlestone Road, Northampton NN5 7UG
Keyline Builders Merchants Limited* (Builders merchants)	Southbank House, 1 Strathkelvin Place, Kirkintilloch, Glasgow G66 1HX
Wickes Building Supplies Limited (DIY retailers)	Lodge Way House, Harlestone Road, Northampton NN5 7UG
City Plumbing Supplies Holdings Limited (Plumbers merchants)	Lodge Way House, Harlestone Road, Northampton NN5 7UG
CCF Limited* (Ceiling & dry lining distribution)	Lodge Way House, Harlestone Road, Northampton NN5 7UG
Travis Perkins (Properties) Limited* (Property management company)	Lodge Way House, Harlestone Road, Northampton NN5 7UG

* Held directly by Travis Perkins plc

18. Investments in subsidiaries continued

The directors have applied s231 of the Companies Act 1985 and therefore list only significant subsidiary companies.

All subsidiaries are 100 per cent owned. Each company is registered and incorporated in England and Wales, other than Keyline Builders Merchants Limited and five dormant companies, which are registered and incorporated in Scotland, and City Investments Limited, and 13 dormant companies, which are registered and incorporated in Jersey.

19. Trade and other receivables

	The Group		The Company	
	2005	2004	**2005**	2004
	£m	£m	**£m**	£m
Trade receivables	**229.3**	230.8	**–**	–
Amounts owed by subsidiaries	**–**	–	**90.5**	96.9
Other receivables, prepayments and accrued income	**93.1**	57.0	**23.6**	3.0
	322.4	287.8	**114.1**	99.9

The group's principal financial assets are trade and other receivables, which for the group at the balance sheet date comprise principally amounts receivable from the sale of goods, together with amounts due from rebates and sundry prepayments. The group has no significant concentration of credit risk, with exposure spread over a large number of customers. The average credit term for sales of goods is 48.0 days.

The amounts presented in the balance sheet are net of allowances for doubtful debts of £19.0 million (2004: £17.3 million), estimated by the group's management based on prior experience and their assessment of the current economic environment. The directors consider the carrying amount of trade and other receivables approximates their fair values.

20. Cash and cash equivalents

Cash and cash equivalents comprise cash held by the company and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Included within cash and cash equivalents was £nil million (2004: £0.7 million) held by employee related trusts. These funds could only be used to purchase ordinary shares in the company in order to satisfy obligations under the executive share options schemes and employee sharesave schemes or to provide other benefits to employees.

21. Share capital

	Authorised		Issue fully paid	
Ordinary shares of 10p	No.	£m	No.	£m
At 1 January 2004	135,000,000	13.5	113,387,252	11.3
Market placing of shares	–	–	5,000,000	0.5
Allotted under share option schemes	–	–	2,132,127	0.3
At 1 January 2005	135,000,000	13.5	120,519,379	12.1
Allotted under share option schemes	–	–	790,510	–
At 31 December 2005	**135,000,000**	**13.5**	**121,309,889**	**12.1**

The net contribution received for the issue of shares during the year was £6.4 million. Details of the share option schemes are given in the directors' remuneration report on pages 38, 43 and 44.

The company has one class of ordinary share that carries no right to fixed income. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company. All shares rank equally with regard to the company's residual assets.

22. Own shares

The Group and the Company

	No.
Balance at 1 January 2005	–
Acquired in the year	500,000
Re-issued in the year	(5,573)
Balance at 31 December 2005	**494,427**

The own shares, all of which were acquired during the year by the Travis Perkins Employee Share Ownership Plan for £8.1 million, (2004: no purchases or sales) are stated at cost and held to satisfy options under the group's share option schemes. All rights attaching to own shares are suspended until the shares are re-issued.

23. Reserves

The Group

	Share premium account £m	Non-distributable revaluation reserve £m	Own shares £m	Hedging reserve £m	Accumulated profits £m	Total reserves £m
At 1 January 2004	69.4	27.1	–	–	364.8	461.3
Dividends paid	–	–	–	–	(30.0)	(30.0)
Total recognised income and expense	–	–	–	–	111.6	111.6
Difference between depreciation of assets on a historical basis and on a revaluation basis	–	(0.4)	–	–	0.4	–
Effect of share options	–	–	–	–	5.8	5.8
Premium on the issue of equity shares	89.8	–	–	–	–	89.8
At 31 December 2004	159.2	26.7	–	–	452.6	638.5
Dividends paid	–	–	–	–	(38.6)	(38.6)
Total recognised income and expense	–	–	–	(3.2)	151.9	148.7
Difference between depreciation of assets on a historical basis and on a revaluation basis	–	(0.4)	–	–	0.4	–
Effect of share options	–	–	–	–	(1.0)	(1.0)
Own shares	–	–	(8.1)	–	–	(8.1)
Premium on the issue of equity shares	6.4	–	–	–	–	6.4
At 31 December 2005	**165.6**	**26.3**	**(8.1)**	**(3.2)**	**565.3**	**745.9**

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have yet to occur.

The cumulative total of goodwill written off directly to reserves for acquisitions from December 1989 to December 1998 is £40.1 million. The aggregate information for the accounting periods prior to this period is not available.

23. Reserves continued

The Company

	Share premium account £m	Own shares £m	Hedging reserve £m	Accumulated profits £m	Total reserves £m
At 1 January 2004	68.3	–	–	142.7	211.0
Total recognised income and expense	–	–	–	46.1	46.1
Dividends paid	–	–	–	(30.0)	(30.0)
Effect of share options	–	–	–	1.1	1.1
Premium on the issue of equity shares	89.8	–	–	–	89.8
At 31 December 2004	158.1	–	–	159.9	318.0
Total recognised income and expense	–	–	(3.2)	20.9	17.7
Dividends paid	–	–	–	(38.6)	(38.6)
Effect of share options	–	–	–	0.1	0.1
Own shares	–	(8.1)	–	–	(8.1)
Premium on the issue of equity shares	6.4	–	–	–	6.4
At 31 December 2005	**164.5**	**(8.1)**	**(3.2)**	**142.3**	**295.5**

24. Borrowings

A summary of the group policies and strategies with regard to financial instruments can be found in the finance director's report on page 24. At 31 December 2004 and 2005 all borrowings were made in Sterling.

(a) Summary

	The Group		The Company	
	2005 £m	2004 £m	**2005 £m**	2004 £m
Bank loans (note 24c)	**994.0**	120.0	**994.0**	120.0
Bank overdrafts	**–**	–	**129.8**	63.5
Finance leases (note 24d)	**36.3**	18.6	**–**	–
Loan notes (note 24e)	**8.2**	9.0	**8.2**	9.0
	1,038.5	147.6	**1,132.0**	192.5
Current liabilities	**11.1**	9.8	**138.0**	127.5
Non-current liabilities	**1,027.4**	137.8	**994.0**	65.0
	1,038.5	147.6	**1,132.0**	192.5

24. Borrowings continued

(b) Analysis of borrowings

The Group

	Bank loans and overdrafts		Other borrowings	
	2005	2004	**2005**	2004
	£m	£m	**£m**	£m
Borrowings repayable				
On demand or within one year	**–**	55.0	**11.1**	9.8
More than one year, but not more than two years	**84.0**	5.0	**2.5**	0.8
More than two years, but not more than five years	**910.0**	60.0	**5.0**	2.7
More than five years	**–**	–	**25.9**	14.3
	994.0	120.0	**44.5**	27.6

The Company

	Bank loans and overdrafts		Other borrowings	
	2005	2004	**2005**	2004
	£m	£m	**£m**	£m
Borrowings repayable				
On demand or within one year	**129.8**	118.5	**8.2**	9.0
More than one year, but not more than two years	**84.0**	5.0	**–**	–
More than two years, but not more than five years	**910.0**	60.0	**–**	–
	1,123.8	183.5	**8.2**	9.0

(c) Facilities

On completion of the acquisition of Wickes Limited on 11 February 2005, a new five-year facility comprising a £500 million term loan and a £700 million revolving credit facility was partly drawn. At 31 December 2005 the group had the following bank facilities available:

	The Group		The Company	
	2005	2004	**2005**	2004
	£m	£m	**£m**	£m
Drawn facilities				
5 year term loan	**500.0**	–	**500.0**	–
5 year revolving credit facility	**494.0**	–	**494.0**	–
Bilateral loans	**–**	120.0	**–**	120.0
	994.0	120.0	**994.0**	120.0
Undrawn facilities				
5 year term loan	**–**	500.0	**–**	500.0
5 year revolving credit facility	**206.0**	700.0	**206.0**	700.0
Bank overdrafts	**25.0**	54.0	**25.0**	54.0
364 day uncommitted facilities	**–**	78.0	**–**	78.0
	231.0	1,332.0	**231.0**	1,332.0

24. Borrowings continued

(d) Obligations under finance leases

The Group	Minimum lease payments		Present value of minimum lease payments	
	2005 £m	2004 £m	**2005 £m**	2004 £m
Amounts payable under finance leases:				
Within one year	**5.3**	2.0	**2.9**	0.8
In the second to fifth years inclusive	**11.9**	7.1	**7.4**	3.5
After five years	**46.1**	23.8	**26.0**	14.3
	63.3	32.9	**36.3**	18.6
Less: future finance charges	**(27.0)**	(14.3)	**–**	–
Present value of lease obligations	**36.3**	18.6	**36.3**	18.6
Less: Amount due for settlement within 1 year (shown under current liabilities)			**2.9**	0.8
Amount due for settlement after 1 year			**33.4**	17.8

As a result of the introduction of IAS 17 – "Leases", the group considers certain properties to be subject to finance leases. Excluding 999 year leases, the average loan term for these properties is 50 years and the average borrowing rate has been determined at the inception of the lease to be 8.9 per cent. In addition the group leases certain of its fixtures and equipment under finance leases, the obligations for which are secured by the lessors' charges over the leased assets. The average lease term is 3–4 years. For the year ended 31 December 2005, the average implicit borrowing rate was 14.2 per cent (2004: 15.6 per cent). Interest rates are fixed at the contract date. All lease obligations, which are denominated in Sterling, are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

(e) Loan notes

Included in borrowings due within the year are £8.2 million (2004: £9.0 million) in respect of loan notes issued as consideration for the acquisition of two groups during 1999 and 2000. The loan notes of £4.5 million issued in 1999 to acquire Sharpe & Fisher can be redeemed on 1 January and 1 July each year, the final redemption date being 1 January 2010. The £3.7 million of loan notes issued for the acquisition of the business of Broombys Limited are redeemable on 30 June and 31 December each year until the final redemption date of 30 June 2015.

(f) Interest

The weighted average interest rates paid were as follows:

	2005 %	2004 %
Bank loans and overdrafts	**5.5**	4.9
Other borrowings	**4.9**	4.7

Bank term loans and revolving credit facilities of £1.2 billion (2004: £120 million) were arranged at variable interest rates. This exposed the group to fair value interest rate risk. As detailed in note 25, to manage the risk the group entered into amortising interest rate swap arrangements to fix interest rates on £351.5 million of borrowing during 2005. For the year to 31 December 2005 this had the effect of increasing the weighted average interest rates paid by 0.05%.

24. Borrowings continued

In respect of income earning financial assets and interest bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice.

The Group	2005		2004	
	Effective interest rate	6 months or less total	Effective interest rate	6 months or less total
	%	£m	%	£m
Unsecured variable rate bank facilities	5.2%	994.0	5.5%	120.0
Loan notes	5.0%	8.2	5.3%	9.0
		1,002.2		129.0

The Company	2005		2004	
	Effective interest rate	6 months or less total	Effective interest rate	6 months or less total
	%	£m	%	£m
Unsecured variable rate bank facilities	5.2%	994.0	5.5%	120.0
Loan notes	5.0%	8.2	5.3%	9.0
Bank overdrafts	5.5%	129.8	5.7%	63.5
		1,132.0		192.5

(g) Fair values

For both the group and the company the fair value of financial assets and liabilities has been calculated by discounting expected cash flows at prevailing rates at 31 December. There were no significant differences between book and fair values on this basis and therefore no further information is disclosed. Details about the fair values of derivatives are given in note 25.

(h) Guarantees and security

No debt is secured, except for that relating to £3.6 million (2004: £nil million) of finance lease obligations, which are secured on the assets subject to the leases.

There are cross guarantees on the overdrafts between group companies.

The companies listed in note 18, together with Wickes Limited are guarantors of the following facilities advanced to Travis Perkins plc:

- £500 million term loan;
- £700 million revolving credit facility;
- $400 million US private placement (note 24i);
- The interest rate and currency swaps, detailed in note 25.

The group companies have entered into other guarantee and counter-indemnities arrangements in respect of guarantees issued in favour of group companies by the clearing banks amounting to approximately £14 million (2004: £12 million).

24. Borrowings continued

(i) Post balance sheet debt restructuring

On 26 January 2006 the group finalised a US private placement that resulted in it receiving $400 million and repaying £230 million of the term loan. $200 million of the US borrowing is repayable in January 2013 and $200 million in January 2016. The US borrowings carry fixed rate coupons of between 130 bps and 140 bps over US treasuries. As described in note 25, to protect itself from currency movements and bring interest rate exposures back into line with the group's desired risk profile the group entered into five cross currency swaps.

25. Derivative financial instruments

Interest rate swaps

The group adopts a policy of ensuring that its exposure to changes in interest rates on borrowing is either on a fixed rate basis or is subject to movements within pre-defined limits. To achieve its desired interest rate profile the group uses interest rate swaps and interest rate collars.

During 2005, as part of their interest rate management process, the group and the company became party to two amortising interest rate swaps, one amortising interest rate floor option and an interest rate cap option. The two interest rate swaps each have a notional value of £180 million and £171.5 million respectively. The interest rate cap and floor options provide a collar on £171.5 million of borrowings. Contracts with nominal values of £343 million have fixed interest payments at an average rate of 4.95 per cent for periods up until February 2010 and have floating interest receipts at nil per cent plus LIBOR.

At 31 December 2005 the fair value of interest rate derivatives, all of which terminate approximately 4 years from the balance sheet date, to which the group and the company were parties was estimated at £(5.1) million (2004: £nil million). This amount is based on market values of equivalent instruments at the balance sheet date. All of these interest rate swaps are designated and effective as cash flow hedges and the fair value thereof has been deferred in equity. An amount of £0.6 million in respect of the fair value movement on the collar (2004: £nil million) has been taken to the income statement as the company has not applied hedge accounting.

Currency swaps

In order to eliminate the currency risk associated with the $400 million private placement described in note 24i, the group and the company have entered into five cross currency swaps in varying amounts between £23 million and £63 million to fix the exchange rate at £1 equal to $1.73 for the entire life of the private placement, although there is a mutual break clause on each swap on 1 December 2010. The forward options fix the notional amount receivable and payable in respect of the private placement to £231 million as well as fixing the exchange rate applicable to future coupon payments.

The currency swaps manage the group's and the company's exposure to the fixed interest rate on the US dollar denominated borrowing arising out of a private placement on 26 January 2006. There are two interest rate swaps of £58 million that convert the borrowing rate on $200 million of debt from 5.77 per cent to a variable rate on 6 month LIBOR plus a weighted average basis point increment of 81.9. At 26 January the variable rates were at 5.43 per cent and 5.43 per cent respectively. A further three interest rate swaps of £29 million, £23 million and £63 million convert the borrowing rates on $50 million, $40 million and $110 million of debt from 5.89 per cent to a variable rate based on six month LIBOR plus basis point increment of 86.5, 86.7 and 86.05 respectively. At 26 January 2006 the variable rates were at 5.47 weighted average per cent.

At 31 December the fair value of currency derivatives, all of which terminate more than five years after the balance sheet date, was estimated at £1.3 million (2004: £nil million). This amount is based upon the market values of equivalent instruments at the balance sheet date.

All of these currency swaps are designated and effective as fair value hedges and the fair value thereof has been deferred in equity.

26. Provisions

	The Group			
	Property £m	Insurance £m	Other £m	**Total £m**
At 1 January 2005	–	12.7	–	**12.7**
Additional provision in the year	4.1	8.5	–	**12.6**
Utilisation of provision	(3.7)	(3.1)	(0.8)	**(7.6)**
On acquisition of subsidiary	16.8	1.6	1.9	**20.3**
Unwinding of discount	0.9	–	–	**0.9**
At 31 December 2005	**18.1**	**19.7**	**1.1**	**38.9**
Included in current liabilities	4.9	19.7	1.1	**25.7**
Included in non-current liabilities	13.2	–	–	**13.2**
	18.1	**19.7**	**1.1**	**38.9**

With the acquisition of Wickes the group has inherited a substantial number of vacant and partly sub-let leasehold properties. Provision has been made for the residual lease commitments after taking into account existing sub-tenant arrangements.

It is group policy to substantially self insure itself against claims arising in respect of damage to assets, or due to employers or public liability claims. The nature of insurance claims means they may take some time to be settled. The insurance claims provision represents managements' best estimate, based on external advice, of the value of outstanding insurance claims where the final settlement date is uncertain.

27. Deferred tax

The Group

The following are the major deferred tax liabilities and assets recognised by the group and movements thereon during the current and prior reporting period.

Provided	At 1 Jan 2004 £m	Recognised in income £m	Recognised in equity £m	At 31 Dec 2004 £m	Acquired in year £m	Recognised in non-current assets £m	Recognised in income £m	Recognised in equity £m	**At 31 Dec 2005 £m**
Capital allowances	11.5	2.2	–	13.7	(3.3)	–	1.0	–	**11.4**
Revaluation	13.5	–	–	13.5	–	–	–	–	**13.5**
Share based payments	(5.0)	–	(0.3)	(5.3)	–	–	–	3.1	**(2.2)**
Provisions	(1.3)	7.1	–	5.8	(1.9)	–	(2.0)	(9.4)	**(7.5)**
Business combinations	10.6	(0.1)	0.1	10.6	–	5.9	(0.3)	–	**16.2**
Leases	–	–	–	–	(6.2)	–	–	–	**(6.2)**
Brand	–	–	–	–	–	48.8	–	–	**48.8**
Derivatives	–	–	–	–	–	–	–	(1.4)	**(1.4)**
Deferred tax liability	29.3	9.2	(0.2)	38.3	**(11.4)**	**54.7**	**(1.3)**	**(7.7)**	**72.6**
Deferred tax asset	(36.5)	–	(2.0)	(38.5)	**(13.6)**	**–**	**8.5**	**0.7**	**(42.9)**
Net	(7.2)	9.2	(2.2)	(0.2)	**(25.0)**	**54.7**	**7.2**	**(7.0)**	**29.7**

At the balance sheet date the group has unused capital losses of £71.5 million (2004: £0.4 million) available for offset against future capital profits. No deferred tax asset has been recognised because it is not probable that future taxable profits will be available against which the group can utilise the losses.

27. Deferred tax continued

Other than disclosed in the previous table, no deferred tax assets and liabilities have been offset.

The group has recognised a deferred tax asset of £42.9 million (2004: £38.5 million) in respect of the deficits on its pension schemes. The directors believe that the deferred tax asset will be realised as the deficits are reduced over the coming years.

The Company

Provided	At 1 Jan 2004 £m	Recognised in income £m	Recognised in equity £m	At 31 Dec 2004 £m	Recognised in income £m	Recognised in equity £m	**At 31 Dec 2005 £m**
Share options	(0.4)	–	(0.5)	(0.9)	–	0.4	**(0.5)**
Provisions	–	(0.4)	–	(0.4)	(0.1)	–	**(0.5)**
Derivatives	–	–	–	–	–	(1.4)	**(1.4)**
	(0.4)	(0.4)	(0.5)	(1.3)	**(0.1)**	**(1.0)**	**(2.4)**

28. Trade and other payables

	The Group		The Company	
	2005 £m	2004 £m	**2005 £m**	2004 £m
Trade payables	**352.6**	238.9	**–**	–
Other taxation and social security	**23.0**	20.9	**–**	1.2
Other payables	**61.3**	18.0	**24.6**	5.2
Accruals and deferred income	**45.4**	15.6	**0.5**	1.6
	482.3	293.4	**25.1**	8.0

The Group

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 52.5 days. The directors consider that the carrying amount of trade payables approximates to their fair value.

The Company

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 30 days. The directors consider that the carrying amount of trade payables approximates to their fair value.

29. Acquisition of businesses

On 11 February 2005, the group acquired 100% of the issued share capital of Wickes Limited for cash consideration of £1,009.7 million. This transaction has been accounted for by the purchase method of accounting.

Wickes fair value table

	2005		
	IFRS book value £m	Fair value adjustments £m	**Fair value acquired £m**
Net assets acquired			
Property, plant and equipment	105.3	(24.3)	**81.0**
Inventories	68.2	2.3	**70.5**
Trade and other receivables	27.6	(1.7)	**25.9**
Cash and cash equivalents	6.7	–	**6.7**
Trade and other payables	(194.6)	(10.3)	**(204.9)**
Retirement benefit obligations	(12.1)	(19.7)	**(31.8)**
Tax liabilities	(1.4)	7.5	**6.1**
	(0.3)	**(46.2)**	**(46.5)**
Other intangible assets (net of deferred tax)			**113.7**
Goodwill			**939.2**
Costs not charged to goodwill			**3.3**
			1,009.7

Satisfied by:	
Cash	**994.3**
Directly attributable costs included in goodwill	**12.1**
	1,006.4
Directly attributable costs not included in goodwill	**3.3**
	1,009.7

The net amount paid after deducting £6.7m of cash in Wickes at the date of acquisition was £1,003.0 million.

In the ten and a half months to 31 December 2005, Wickes contributed operating profit of £55.9 million and profit before tax of £52.7 million to the group's 2005 profits. If the acquisition had occurred on 1 January 2005, group revenue would have been £2,726 million and net profit would have been £141.9 million.

In addition to the profit before tax of £52.7 million, the Wickes acquisition contributed £4.7 million of identifiable synergy benefits (arising from specific integration projects) to the existing builders merchanting business and increased group finance costs by £48.6 million. The total identifiable pre-tax impact of Wickes was £8.8 million as disclosed in the income statement.

29. Acquisition of businesses continued

Other acquisitions

In addition, during the year the group acquired 9 limited companies and the assets of 8 other businesses, details of which on an individual basis are not material to the financial statements. All the acquisitions were accounted for using the purchase method of accounting.

	2005			2004
	Book value acquired £m	Provisional fair value adjustments £m	Provisional fair value acquired £m	Fair value acquired £m
Net assets acquired				
Property, plant and equipment	8.4	–	**8.4**	8.4
Inventories	4.5	–	**4.5**	6.8
Trade and other receivables	7.1	–	**7.1**	8.1
Cash and cash equivalents	1.4	–	**1.4**	1.6
Trade and other payables	(5.7)	–	**(5.7)**	(3.5)
Tax liabilities	(1.6)	–	**(1.6)**	0.1
Bank overdrafts and loans	(1.9)	–	**(1.9)**	(0.4)
	12.2	**–**	**12.2**	21.1
Goodwill			**29.8**	19.1
			42.0	40.2
Satisfied by cash			**42.0**	40.2

On the day following completion, the trade and assets of each acquired business were transferred into another Travis Perkins' subsidiary. The acquired subsidiary companies are now dormant.

The individual results and cash flow effects of the acquired businesses are not sufficiently material to warrant separate disclosure. The acquired branches have now been fully integrated into the Travis Perkins' group accounting systems. As such, the directors are unable to calculate meaningful cash flow effects of each of the other acquired businesses for the period of Travis Perkins' ownership without incurring undue expense and delay.

Goodwill arising on acquisition

The goodwill arising on the acquisitions made during the year is attributable to the anticipated profitability of these acquisitions and the future operating synergies arising in the enlarged group. As described in note 15, £162.5 million was attributed to the brand value of Wickes. No other significant intangible assets were acquired during the year.

Prior period acquisitions

The provisional fair values ascribed to the net assets of acquisitions made during 2004 and disclosed in the 2004 financial statements were finalised during the year. There were no significant changes to the values disclosed last year.

Post year end acquisitions

There have been no material acquisitions since the year end.

30. Operating lease arrangements

The group leases a number of trading properties under operating leases. The leases are typically 25 years in duration, although some have lessee only break clauses of between 10 and 15 years. Lease payments are reviewed every five years and increases applied in line with market rates. The group also leases certain items of plant and equipment.

The Group as lessee	**2005**	2004
	£m	£m
Minimum lease payments under operating leases recognised in income for the year	**90.2**	21.0

At the balance sheet date, the group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2005	2004
	£m	£m
Within one year	**101.2**	19.0
In the second to fifth years inclusive	**360.7**	71.6
After five years	**949.9**	210.0
	1,411.8	300.6

The Group as lessor

The group sublets a number of ex-trading properties to third parties. Property rental income earned during the year in respect of these properties was £2.5 million (2004: £1.3 million).

At the balance sheet date, the group had contracts with tenants for the following future minimum lease payments:

	2005	2004
	£m	£m
Within one year	**2.7**	1.1
In the second to fifth years inclusive	**8.9**	2.9
After five years	**12.7**	1.6
	24.3	5.6

31. Related party transactions

The group has a related party relationship with its subsidiaries and with its directors. Transactions between the group companies, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the company and its subsidiaries are disclosed below. In addition the remuneration, and the details of interests in the share capital of the company, of the directors, who are the key management personnel of the group, are provided in the audited part of the directors' remuneration report on pages 41 to 44.

The company undertakes the following transactions with its active subsidiaries:

- providing day-to-day funding from its UK banking facilities;
- levying an annual management charge to cover services provided to members of the group of £6.8m (2004: £5.7m);
- receiving annual dividends totalling £58.8 million (2004: £53.6 million).

There have been no material related party transactions with directors.

32. Capital commitments

	The Group		The Company	
	2005	2004	**2005**	2004
	£m	£m	**£m**	£m
Contracted for but not provided in the accounts	**15.2**	20.5	**–**	–

33. Net debt reconciliations

	The Group		The Company	
	2005	2004	**2005**	2004
	£m	£m	**£m**	£m
Net debt at 1 January	**(30.7)**	(147.9)	**(94.5)**	(208.2)
(Decrease) / increase in cash and cash equivalents	**(60.8)**	83.0	**(87.0)**	70.5
Cash flows from debt	**(871.9)**	34.2	**(940.5)**	43.2
Fair value of derivatives	**(1.3)**	–	**(1.3)**	–
Finance charges netted off bank debt	**2.3**	–	**2.3**	–
Finance leases acquired	**(20.0)**	–	**–**	–
Actual net debt 31 December	**(982.4)**	(30.7)	**(1,121.0)**	(94.5)

Debt to acquire Wickes (see Note 29)	(1,009.7)
Finance leases acquired	(20.0)
Cash acquired	6.7
Proforma net debt at 31 December 2004	(1,053.7)
Net debt at 31 December 2005	(982.4)
Net debt reduction in 2005	71.3

Proforma information is given to allow proper comparison between 2004 and 2005.

34. Gearing

	Actual		Proforma
	2005	2004	2004
	£m	£m	£m
Net debt under IFRS	**(982.4)**	(30.7)	(1,053.7)
IAS 17 finance leases	**32.7**	18.5	33.7
Fair value of derivatives	**1.3**	–	–
Finance charges netted off bank debt	**(2.3)**	–	–
Net debt under 2005 UK GAAP	**(950.7)**	(12.2)	(1,020.0)
Total equity	**758.0**	650.6	650.6
Gearing	**125.4%**	1.9%	156.8%

Proforma information is given to allow proper comparison between 2004 and 2005.

35. Free cash flow

Free cash flow as referred to in the finance director's report, is derived as follows:

	The Group	
	2005	2004
	£m	£m
Net debt at 1 January	**(30.7)**	(147.9)
Net debt at 31 December	**(982.4)**	(30.7)
Movement in net debt	**(951.7)**	117.2
Wickes finance leases acquired	**20.0**	–
Dividends	**38.6**	30.0
Net cash outflow for expansion capital expenditure	**42.2**	29.3
Net cash outflow for acquisitions	**1,045.5**	39.0
Own shares purchased	**8.1**	–
Shares issued	**(6.4)**	(90.6)
Derivative financial instruments included in borrowings	**1.3**	–
Special pension contributions	**28.5**	25.8
Free cash flow	**226.1**	150.7

36. Return on equity and return on capital

Return on equity and return on capital are derived as follows:

	The Group	
Return on equity	**2005**	2004
	£m	£m
Profit before taxation	**206.7**	206.5
Closing equity	**758.0**	650.6
Net pension deficit	**99.9**	89.8
Closing goodwill written off	**92.7**	92.7
	950.6	833.1
Opening equity	**650.6**	472.6
Net pension deficit	**89.8**	85.1
Opening goodwill written off	**92.7**	92.7
	833.1	650.4
Average net assets*	**891.9**	707.8
Return on equity	**23.2%**	29.2%

*Due to the £75.5 million share issue in December 2004, a weighted average net assets value has been used to calculate the average net assets for the year ended 31 December 2004.

36. Return on equity and return on capital continued

Return on capital

	2005	2004
	£m	£m
Operating profit	**268.0**	217.7
Opening net assets	**650.6**	478.2
Goodwill written off	**92.7**	92.7
Net borrowings	**30.7**	147.9
Pension deficit	**128.3**	121.6
Opening capital employed	**902.3**	840.4
Closing net assets	**758.0**	650.6
Goodwill written off	**92.7**	92.7
Net borrowings	**982.4**	30.7
Pension deficit	**142.8**	128.3
Closing capital employed	**1,975.9**	902.3
Average capital employed*	**1,855.3**	871.4
Return on capital employed	**14.4%**	25.0%

*On 10 February 2005, borrowings and therefore capital employed were substantially increased. Therefore, average capital employed for 2005 has been calculated using £902.3 million for 41 days and £1,975.9 million for 324 days.

37. Earnings before interest, tax and depreciation

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

	The Group	
	2005	2004
	£m	£m
Profit before taxation	**206.7**	206.5
Finance costs	**61.3**	11.2
Depreciation and impairments	**54.5**	33.4
EBITDA under IFRS	**322.5**	251.1
Adjustments to reverse the IFRS effect and include Wickes' pre-acquisition EBITDA	**4.4**	
EBITDA as defined in UK banking agreements	**326.9**	
Net debt under 2005 UK GAAP (note 34)	**950.7**	
Net debt to EBITDA	**2.9x**	

38. Explanation of transition to IFRS

The reconciliations of equity at 1 January 2004 (date of transition to IFRS) and at 31 December 2004 (date of last UK GAAP financial statements) have been included below to enable a comparison of the 2005 published consolidated figures with those published in the corresponding period of the previous financial year. In addition, there is also the reconciliation of the UK GAAP profit for the year ended 31 December 2004 to the profit restated under IFRS. Other than causing a restatement of the format, the introduction of IFRS has not significantly impacted the consolidated cash flow statement or the numbers contained therein.

The significant changes as a result of the transition to IFRS and of adopting the IFRS group accounting policies are described below.

IFRS 2 Share-based payments

In accordance with IFRS 2, the group has recognised a charge reflecting the fair value of outstanding share options granted to employees since 7 November 2002. The fair value has been calculated using the Black Scholes valuation model and is charged to profit over the relevant option vesting period, adjusted to reflect actual and expected levels of vesting. The impact of this change on the group has been a charge of £1.4m to operating profit for the year to 31 December 2004. For the company the charge to operating profit for 2004 was £0.2m.

IFRS 3 Business combinations

IFRS 3 prohibits the amortisation of goodwill. The standard requires goodwill to be carried at cost less impairment. Impairment reviews should be carried out annually and also when there are indications that the carrying value may not be recoverable. As permitted by IFRS 1, the group has chosen to apply IFRS 3 prospectively from 1 January 2004, the date of transition, and has chosen not to restate previous business combinations. Therefore, goodwill is stated in the opening balance sheet at 1 January 2004 at its UK GAAP carrying value of £285.7m with the subsequent 2004 amortisation being reversed. The impact on operating profit is a credit of £17.4m for the year ended 31 December 2004.

IAS 10 Events after the balance sheet date

Under IAS 10, a provision should only be recognised when there is a present legal or constructive obligation to transfer resources. For the Travis Perkins plc group, no such obligation to pay a dividend exists until the shareholders give formal approval to the proposed dividend at the annual general meeting. Therefore under IFRS, the group will no longer accrue unapproved dividends at period ends. This has resulted in an increase in net assets of £19.0m at 1 January 2004, the opening balance sheet date, and £25.3m at 31 December 2004.

For the company, dividends from subsidiary undertakings are no longer accrued. This has resulted in a reduction of net assets of £26.0 million at 1 January 2004 and £29.8 million at 31 December 2004. For 2004, operating profits were reduced by £3.8m.

IAS 12 Income taxes

IAS 12 requires entities to calculate deferred taxation based on temporary differences, which are defined as the difference between the carrying amount of assets/liabilities and their tax base. As a result, the group has provided an additional £19.1m of deferred tax liabilities in its opening balance sheet, and £18.8m at 31 December 2004 that were not required under UK GAAP. These arise from the potential tax gains on the revaluation of fixed assets, on certain acquired buildings that do not qualify for industrial building allowances and from the effect of implementing IFRS 2. Where required, deferred tax has been provided on all other IFRS adjustments.

IAS 16 Property, plant and equipment

In accordance with IFRS 1, the group has elected, where appropriate, to use the revaluation carrying amount of certain properties as the "deemed cost" on transition to IFRS.

IAS 17 Leases

Under IAS 17, a lease is classified as a finance lease if it transfers substantially all the risks and rewards of ownership to the lessee. Assets held under finance leases and the related lease obligations are recorded in the balance sheet at the lower of the fair value of the property and the present value of the minimum lease payments at inception of the leases. The impact of the new standard means that a number of property leases will now be capitalised. This has resulted in an increase to fixed assets of £14.4m and creditors of £18.5m giving a net decrease to net assets of £4.1m and a credit of £1.0m to operating profit for the year to 31 December 2004.

In accordance with IAS 17 lease incentives are treated as a reduction in rental expense over the term of the lease. Therefore, under IAS the group will not be allowed to reflect the benefit of these incentives over a shorter period should the lease rental be adjusted to reflect market rates. This change in policy only has an effect on the group in 2005.

38. Explanation of transition to IFRS continued

IAS 19 Employee benefits

As the group has an obligation to its employees to pay accrued holiday entitlement, IAS 19 requires it to accrue for holidays earned by its employees, but not taken by the balance sheet date. The holiday pay year is co-terminus with the statutory year-end.

IAS 32 Financial instruments: Disclosure and presentation and IAS 39 Financial instruments: Recognition and measurement

The group has elected not to apply IAS 32 and IAS 39 to periods ended on or prior to 31 December 2004. The group has not identified any significant adjustments that would be required to prior periods if IAS 32 and IAS 39 were applied retrospectively.

IAS 40 Investment properties

IAS 40 allows the group to recognise investment properties at cost and depreciate them over their estimated useful lives or at fair value. The group has chosen to adopt the cost model with the result that operating profits for the year ended 31 December 2004 were reduced by £0.1m. The carrying value of investment properties at 31 December 2004 was increased by £0.3m to £4.2m after depreciation.

In accordance with the transitional rules set out in IFRS 1 the cost of investment properties held at 1 January 2004 is deemed to be the same as the fair value of the properties at that date.

The Group

Reconciliations

The following tables reconcile the previously reported UK GAAP numbers with those now prepared under IFRS.

Reconciliation of UK GAAP profit to IFRS profit for the year ended 31 December 2004

	UK GAAP £m	Effect of transition to IFRS £m	IFRS £m
Revenue	1,828.6	–	1,828.6
Operating profit	200.8	16.9	217.7
Finance costs	(10.4)	(0.8)	(11.2)
Profit before taxation	190.4	16.1	206.5
Tax	(60.3)	(4.1)	(64.4)
Net profit	130.1	12.0	142.1
Basic earnings per share	113.9p	10.5p	124.4p
Diluted earnings per share	112.6p	10.4p	123.0p
Adjusted earnings per share (earnings before goodwill amortisation)	129.1p	(4.7)p	124.4p

38. Explanation of transition to IFRS continued

Reconciliation of UK GAAP equity shareholders' funds to IFRS equity shareholders' funds

	At 1 January 2004			At 31 December 2004		
	UK GAAP	Effect of transition to IFRS	IFRS	UK GAAP	Effect of transition to IFRS	IFRS
	£m	£m	£m	£m	£m	£m
Property, plant and equipment	284.7	15.1	299.8	326.3	14.4	340.7
Goodwill	285.7	–	285.7	287.4	17.4	304.8
Investment property	4.3	–	4.3	3.9	0.3	4.2
Deferred tax asset	–	36.5	36.5	–	38.5	38.5
Total non-current assets	574.7	51.6	626.3	617.6	70.6	688.2
Inventories	178.1	–	178.1	200.6	–	200.6
Trade and other receivables	265.6	–	265.6	287.8	–	287.8
Cash and cash equivalents	33.9	–	33.9	116.9	–	116.9
Total current assets	477.6	–	477.6	605.3	–	605.3
Total assets	1,052.3	51.6	1,103.9	1,222.9	70.6	1,293.5
Issued capital	11.3	–	11.3	12.1	–	12.1
Share premium account	69.4	–	69.4	159.2	–	159.2
Revaluation reserve	30.6	(3.5)	27.1	29.8	(3.1)	26.7
Accumulated profits	365.7	(0.9)	364.8	429.4	23.2	452.6
Total equity	477.0	(4.4)	472.6	630.5	20.1	650.6
Interest bearing loans and borrowings	150.0	18.3	168.3	120.0	17.8	137.8
Deferred tax liability	10.2	19.1	29.3	19.5	18.8	38.3
Employee benefits	85.1	36.5	121.6	89.8	38.5	128.3
Total non-current liabilities	245.3	73.9	319.2	229.3	75.1	304.4
Trade and other payables	281.8	(19.0)	262.8	318.7	(25.3)	293.4
Current tax liability	25.9	–	25.9	22.6	–	22.6
Interest bearing loans and borrowings	0.2	1.1	1.3	0.1	0.7	0.8
Unsecured loan notes	12.2	–	12.2	9.0	–	9.0
Short-term provisions	9.9	–	9.9	12.7	–	12.7
Total current liabilities	330.0	(17.9)	312.1	363.1	(24.6)	338.5
Total liabilities	575.3	56.0	631.3	592.4	50.5	642.9
Total equity and liabilities	1,052.3	51.6	1,103.9	1,222.9	70.6	1,293.5

38. Explanation of transition to IFRS continued

The Company

Reconciliation of UK GAAP profit to IFRS profit for the year ended 31 December 2004

	UK GAAP £m	Effect of transition to IFRS £m	IFRS £m
Revenue	63.1	(3.8)	59.3
Operating profit	53.7	(4.0)	49.7
Finance costs	(7.3)	–	(7.3)
Profit before taxation	46.4	(4.0)	42.4
Tax	4.0	(0.3)	3.7
Net profit	50.4	(4.3)	46.1

Reconciliation of UK GAAP equity shareholders' funds to IFRS equity shareholders' funds

	At 1 January 2004			At 31 December 2004		
	UK GAAP £m	Effect of transition to IFRS £m	IFRS £m	UK GAAP £m	Effect of transition to IFRS £m	IFRS £m
Property, plant and equipment	0.1	–	0.1	0.1	–	0.1
Deferred tax asset	–	0.4	0.4	–	1.3	1.3
Investment in subsidiaries	553.5	–	553.5	569.7	–	569.7
Total non-current assets	553.6	0.4	554.0	569.8	1.3	571.1
Trade and other receivables	128.5	(26.0)	102.5	130.1	(30.2)	99.9
Cash and cash equivalents	27.5	–	27.5	98.0	–	98.0
Total current assets	156.0	(26.0)	130.0	228.1	(30.2)	197.9
Total assets	709.6	(25.6)	684.0	797.9	(28.9)	769.0
Issued capital	11.3	–	11.3	12.1	–	12.1
Share premium account	68.3	–	68.3	158.1	–	158.1
Accumulated profits	149.6	(6.9)	142.7	163.4	(3.5)	159.9
Total equity	229.2	(6.9)	222.3	333.6	(3.5)	330.1
Interest bearing loans and borrowings	70.0	–	70.0	65.0	–	65.0
Amounts due to subsidiaries	222.7	–	222.7	238.4	–	238.4
Total non-current liabilities	292.7	–	292.7	303.4	–	303.4
Trade and other payables	22.0	(18.7)	3.3	33.4	(25.4)	8.0
Interest bearing loans and borrowings	153.5	–	153.5	118.5	–	118.5
Unsecured loan notes	12.2	–	12.2	9.0	–	9.0
Total current liabilities	187.7	(18.7)	169.0	160.9	(25.4)	135.5
Total liabilities	480.4	(18.7)	461.7	464.3	(25.4)	438.9
Total equity and liabilities	709.6	(25.6)	684.0	797.9	(28.9)	769.0

Five year record

Consolidated income statement

	IFRS		UK GAAP		
	2005	2004	2003	2002	2001
	£m	£m	£m	£m	£m
Revenue	**2,640.8**	1,828.6	1,678.3	1,417.5	1,279.3
Operating profit before amortisation and impairment charges	**268.0**	217.7	191.4	158.2	129.1
Amortisation and impairment charges	**–**	–	(15.3)	(12.1)	(10.5)
Operating profit	**268.0**	217.7	176.1	147.3	120.0
Finance costs	**(61.3)**	(11.2)	(13.4)	(9.7)	(9.5)
Profit before tax	**206.7**	206.5	162.7	137.6	110.5
Tax	**(65.9)**	(64.4)	(53.8)	(45.8)	(35.5)
Net profit	**140.8**	142.1	108.9	91.8	75.0
Return on capital (note 36)	**14.4%**	25.0%	25.5%	24.0%	21.5%
Return on equity (note 36)	**23.2%**	29.2%	29.3%	29.0%	27.3%
Basic earnings per share	**116.8p**	124.4p	96.5p	81.9p	67.3p
Adjusted earnings per share	**116.8p**	124.4p	110.0p	91.6p	75.5p
Dividend declared per ordinary share (pence)	**34.0p**	30.5p	24.4p	19.5p	17.2p
Branches at 31 December (No.)	**983**	751	700	610	502
Average number of employees (No.)	**14,048**	9,385	9,199	8,497	7,892

Consolidated cash flow statement

	IFRS		UK GAAP		
	2005	2004	2003	2002	2001
	£m	£m	£m	£m	£m
Cash generated from operations	**310.8**	222.9	230.8	179.8	166.9
Net interest paid	**(38.2)**	(8.0)	(9.3)	(8.3)	(13.7)
Income taxes paid	**(47.0)**	(54.2)	(50.9)	(42.7)	(34.7)
Net purchases of property, plant and equipment	**(70.2)**	(65.1)	(46.9)	(31.6)	(24.2)
Acquisition of businesses net of cash acquired	**(1,045.5)**	(39.0)	(72.3)	(111.5)	(16.1)
Proceeds from issuance of share capital	**6.4**	90.6	3.5	2.8	4.9
Dividends paid	**(38.6)**	(30.0)	(23.7)	(20.0)	(17.8)
Own shares acquired	**(8.1)**	–	–	–	–
Payment of finance lease liabilities	**(2.3)**	(1.0)	–	(0.1)	–
Repayment of unsecured loan notes	**(0.8)**	(3.2)	–	(2.0)	–
Increase/(decrease) in bank loans	**872.7**	(30.0)	–	–	–
Net (decrease)/increase in cash and cash equivalents	**(60.8)**	83.0	31.2	(33.6)	65.3
Net debt at 1 January	**(30.7)**	(128.5)	(159.7)	(126.1)	(191.4)
IFRS adjustment	**–**	(19.4)	–	–	–
Cash flows from debt and debt acquired	**(890.9)**	34.2	–	–	–
Net debt at 31 December	**(982.4)**	(30.7)	(128.5)	(159.7)	(126.1)

Five year record continued

Consolidated balance sheet

	IFRS		UK GAAP		
	2005	2004	2003	2002	2001
Assets	**£m**	£m	£m	£m	£m
Property, plant and equipment	**445.2**	340.7	284.7	258.2	226.4
Goodwill and other intangibles	**1,436.3**	304.8	285.7	249.9	187.3
Derivative financial instruments	**1.3**	–	–	–	–
Investment property	**4.1**	4.2	4.3	4.6	4.9
Deferred tax asset	**42.9**	38.5	–	–	–
Inventories	**263.2**	200.6	178.1	152.1	132.7
Trade and other receivables	**322.4**	287.8	265.6	251.4	217.5
Cash and cash equivalents	**56.1**	116.9	33.9	30.0	37.0
Total assets	**2,571.5**	1,293.5	1,052.3	946.2	805.8
Issued capital	**12.1**	12.1	11.3	11.3	11.2
Share premium account	**165.6**	159.2	69.4	65.7	61.0
Other reserves	**15.0**	26.7	30.6	31.2	31.5
Accumulated profits	**565.3**	452.6	365.7	287.2	283.1
Total equity	**758.0**	650.6	477.0	395.4	386.8
Non-current liabilities					
Interest bearing loans and borrowings	**1,027.4**	137.8	150.0	175.0	150.0
Retirement benefit obligations	**142.8**	128.3	85.1	85.8	22.7
Long-term provisions	**13.2**	–	–	–	–
Deferred tax liabilities	**72.6**	38.3	10.2	7.9	6.3
Current liabilities					
Interest bearing loans and borrowings	**11.1**	9.8	12.4	14.7	13.1
Derivative financial instruments	**5.1**	–	–	–	–
Trade and other payables	**482.3**	293.4	281.8	218.5	188.5
Tax liabilities	**33.3**	22.6	25.9	42.7	35.8
Short-term provisions	**25.7**	12.7	9.9	6.2	2.6
Total liabilities	**1,813.5**	642.9	575.3	550.8	419.0
Total equity and liabilities	**2,571.5**	1,293.5	1,052.3	946.2	805.8

The amounts disclosed for 2003 and earlier periods are stated on the basis of UK GAAP because it is not practicable to restate amounts for periods prior to the date of transition to IFRS. The principal differences between UK GAAP and IFRSs are explained in note 38 to the financial statements.

Notice of annual general meeting

Notice is hereby given that the forty second Annual General Meeting of Travis Perkins plc will be held at Lord's Conference and Banqueting Centre, St. John's Wood Road, London, NW8 8QN on Monday 24 April 2006 at 11.45 a.m.

The resolutions

Resolutions 1 to 9 (inclusive) will be proposed as ordinary resolutions. Resolutions 10 and 11 will be proposed as special resolutions.

Ordinary business

1. To receive the Company's financial statements for the year ended 31 December 2005 together with the directors' report, the directors' remuneration report, the auditors' report on those accounts and on the auditable part of the directors' remuneration report.

2. To declare a final dividend for the financial year ended 31 December 2005 of 23.0 pence per ordinary share, payable to shareholders on the register at the close of business on 21 April 2006.

3. To appoint, pursuant to Article 71 of the Company's Articles of Association, Andrew Simon who was appointed as a non-executive director by the board on 20 February 2006. Biographical details of Andrew Simon appear on page 29.

4. To re-appoint Chris Bunker, who is retiring by rotation pursuant to Article 76 of the Company's Articles of Association. Biographical details of Chris Bunker appear on page 29.

5. To re-appoint Paul Hampden Smith, who is retiring by rotation pursuant to Article 76 of the Company's Articles of Association. Biographical details of Paul Hampden Smith appear on page 28.

6. To re-appoint Tim Stevenson, who is retiring by rotation, pursuant to Article 76 of the Company's Articles of Association. Biographical details of Tim Stevenson appear on page 28.

7. To re-appoint Deloitte & Touche LLP, Chartered Accountants, as auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next general meeting of the Company at which accounts are laid and to authorise the directors to fix their remuneration.

Special business

8. That the directors' remuneration report for the financial year ended 31 December 2005 set out on pages 36 to 44 be approved.

9. That the authority conferred on the directors by Article 4(B) of the Company's Articles of Association be and is hereby renewed for the period expiring fifteen months after the date of the passing of this resolution, or, if earlier, at the conclusion of the next Annual General Meeting and for that period the "section 80 amount" is 1,364,633.

10. That, subject to the passing of Resolution 9, the power conferred on the directors by Article 4(C) of the Company's Articles of Association be and is hereby renewed for the period expiring fifteen months after the date of the passing of this resolution or, if earlier, at the conclusion of the next Annual General Meeting and for that period the "section 89 amount" is 406,534.

11. That the Company be and is hereby generally and unconditionally authorised to make one or more market purchases (within the meaning of section 163(3) of the Companies Act 1985) of ordinary shares of 10 pence each in the capital of the Company ("ordinary shares"), provided that:

a. the maximum aggregate number of ordinary shares authorised to be purchased is 12,135,366 (representing 10 per cent of the issued share capital of the Company as at 7 March 2006);

b. the minimum price which may be paid for an ordinary share is its nominal value of 10 pence, exclusive of expenses;

c. the maximum price which may be paid for an ordinary share is an amount equal to 105 per cent. of the average of the middle market quotations for an ordinary share as derived from The London Stock Exchange Daily Official List for each of the five business days immediately preceding the day on which that ordinary share is purchased, exclusive of expenses;

d. this authority expires at the conclusion of the next Annual General Meeting of the Company or the date fifteen months from the date of passing of this resolution, whichever is the earlier; and

e. the Company may make a contract to purchase ordinary shares under this authority before the expiry of such authority, which will or may be executed wholly or partly after the expiry of such authority, and may make a purchase of ordinary shares pursuant to any such contract.

By order of the board,

Andrew Pike Secretary

Lodge Way House, Harlestone Road, Northampton, NN5 7UG

7 March 2006

Registered in England No. 824821

(Directions to Lord's Conference and Banqueting Centre can be found on the last page of the 'Notes to the notice of the annual general meeting').

Notes to the notice of annual general meeting

1. A member entitled to attend and vote at the meeting may appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member.

2. To be effective, the instrument appointing a proxy and any authority under which it is signed (or a notarially certified copy of such authority) must be returned by post, courier or by hand, to the offices of the Company's Registrar, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU.

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Annual General Meeting to be held on 24 April 2006 and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it relates to the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (RA10) by the latest time(s) for receipt of proxy appointments specified in the Notice of Meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

In each case the proxy appointments must be received by the Company not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

A form of proxy is enclosed with this notice. The appointment of a proxy does not preclude a member from attending the meeting and voting in person, in which case any votes of the proxy will be superseded.

3. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, only those members entered on the register of members of the Company as at 5.00 p.m. on 21 April 2006 shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries on the register of members after that time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

4. Copies of contracts of service of directors with the Company, or with any of its subsidiary companies, will be available for inspection at the Registered Office of the Company during usual business hours on any weekday (Saturdays and public holidays excluded) from the date of this Notice to the date of the meeting and at Lord's Conference and Banqueting Centre from 11.15am on the day of the meeting until the conclusion of the meeting.

5. The register of directors' interests kept by the Company under section 325 of the Companies Act 1985 will be produced at the commencement of the meeting and remain open and accessible during the continuance of the meeting to any person attending the meeting.

6. A copy of article 147 of the Company's Articles of Association, which sets out the Directors' and officers' indemnity entitlements, will be produced at the commencement of the meeting and remain open and accessible during the continuance of the meeting to any person attending the meeting.

Travel directions to Lord's

Lord's is located on St. John's Wood Road, in the borough of Westminster.

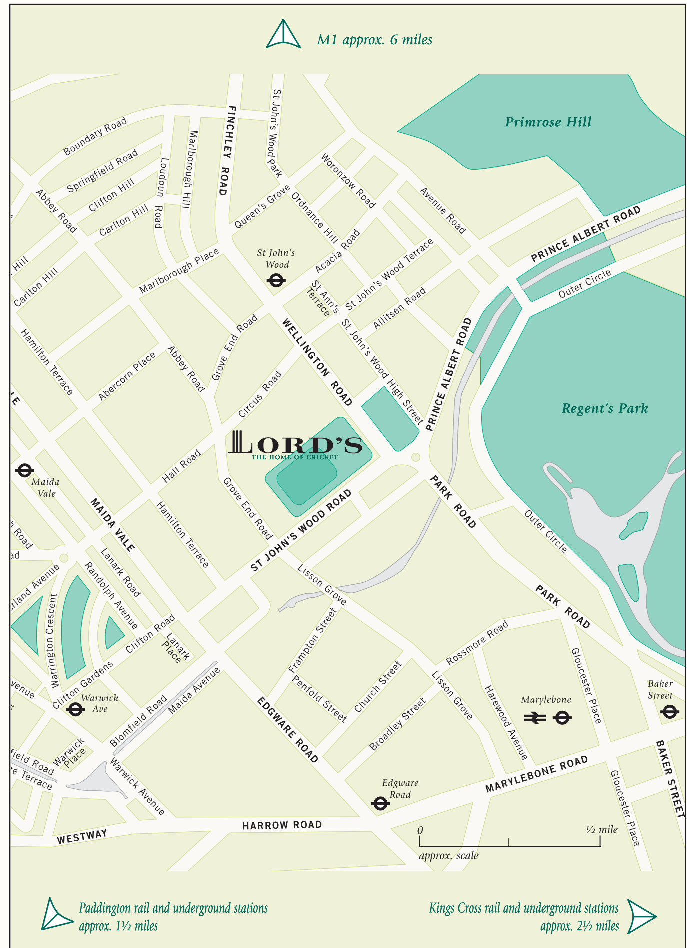
The ground is very easily accessed both by car and by public transport.

By road

The ground is 4.5 miles from the M1 and 1.5 miles from Marble Arch, it is also close to the M40 and the M4.

M40. From the end of the M40 take the A40 (Westway). Turn left into Lisson Grove. At the end of Lisson Grove, turn right into St. John's Wood Road. Lord's is on the left.

M1. From the end of the M1 follow signs to central London on the A41 and continue to Wellington Road. Pass St. John's Wood Underground Station on the left, and the Wellington Hospital on the right. Lord's is on the right.



By bus

Several routes run within easy reach of the ground. For more information on bus routes – www.transportforlondon.gov.uk/buses

By tube

The following are all within fifteen minutes' walk of the Ground.

St. John's Wood	Jubilee Line
Warwick Avenue	Bakerloo Line
Marylebone	Bakerloo Line
Edgware Road	Bakerloo, Circle, District, Hammersmith & City
Baker Street	Bakerloo, Circle, Jubilee, Metropolitan, Hammersmith & City

For more information on tube routes – www.tube.tfl.gov.uk

Other shareholder information

Shareholder enquiries

Shareholder enquiries should be directed to the company secretary at the company's registered office at Lodge Way House, Harlestone Road, Northampton NN5 7UG (telephone 01604 752424; email cosec@travisperkins.co.uk).

Share registrar's on-line service

By logging onto www.capitaregistrars.com, clicking on "are you a shareholder" and following the prompts from the drop down menu, shareholders can view and amend various details on their account. Please note that you may require your unique investor code, which can be found on your share certificate or dividend tax voucher.

Financial diary

Annual General Meeting	24 April 2006
Payment of final dividend	16 May 2006
Announcement of interim results	August 2006
Payment of interim dividend	November 2006
Announcement of 2006 annual results	March 2007

Share dealing services

Capita IRG ("Capita") the Company's Registrar, offers an on-line and telephone share dealing service which is available by logging on to www.capitadeal.com or telephoning 0870 458 4577. For the on-line service, Capita's commission rates are 1 per cent of the value of the deal (minimum £17.50, maximum £40) and for the telephone service, Capita's commission rates are 1.25 per cent of the value of the deal (minimum £20, maximum £50). An additional £2.50 will be levied on all share dealings to cover Capita's compliance and administrative costs.

Internet

There are sites on the internet that carry a range of information about the company and its principal brands, products and services at the following addresses:

www.travisperkins.co.uk	www.cityplumbing.co.uk
www.keyline.co.uk	www.ccfltd.co.uk
www.tpph.co.uk	www.gardendimensions.co.uk
www.toolmart.co.uk	www.buildthedream.co.uk (Builders Merchants Website of the Year 2003)
www.bmpublicsector.co.uk	www.homedimensions.co.uk
www.tpnet.co.uk	www.wickes.co.uk

www.tpextranet.co.uk (Builders Merchants Website of the Year 2004)

www.trademate.co.uk (Builders Merchants Website of the Year 2005)

Some of the sites provide information about branch locations and allow access to prices and the product range available. Customers are also able to construct their own price quotation that includes any special price arrangements that have been negotiated with the company.

Shareholders notes