

Building success

Company Number: 29846

Wolseley PLC



Annual Report and
Accounts 2006



**Wolseley is the world's
number one distributor
of heating and plumbing
products to the
professional market
and a leading supplier
of building materials**

**The future is about
focus and execution to
create sustained and
profitable growth, both
acquisitive and organic,
across Europe and
North America**



2006

This has been our 10th record-breaking year in succession

Group revenue*

£14.2 billion

Trading profit*

£882 million

*Figures in accordance with IFRS for 2006 and 2005, all other years under UK GAAP. Trading profit is as defined on page 88.

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Driving ahead

+25.8%

Group revenue up to £14.2 billion

+24.7%

Trading profit up to £882 million

+18.8%

Operating profit up to £834 million

+11.2%

Basic earnings per share up to 90.77 pence

+19.7%

Earnings per share before amortisation of
acquired intangibles up to 98.90 pence

+11.4%

Increase in total dividend for the year

+18.8%

Return on gross capital employed*

*Return on gross capital employed is as defined on page 23.

But now it's about the next phase of Wolseley's growth, with a new Group Chief Executive and a renewed commitment to ensuring that Wolseley is "the name the world builds on"



Delivering through local trusted brands

Wolseley is an international business, operating more than 4,650 branches across 19 countries in Europe and North America and employing more than 70,000 people

Although the Wolseley name is well-known amongst our investor community, it is not universally familiar to all of our customers. That is because our strength is to operate leading national businesses in home markets, with strong local brands supported by continent wide infrastructures and to continually exceed customer expectations through ever wider product ranges and superior service. The brands you see here are all recognised and trusted in their home markets.

North America

USA

Canada

Europe

UK

France

Ireland

Austria

Italy

Switzerland

Czech Republic

Hungary

Denmark

Benelux

Luxembourg

The Netherlands

Belgium

Staying ahead

An international group committed to improving performance

Whilst we continued our record of substantial organic growth, especially in the US, we also recorded our highest-ever spend on acquisitions in 2005/6. Added to this, shortly before the financial year closed, we agreed to buy, subject to competition approval, DT Group, the Nordic region's leading distributor of building materials. The Board is delighted with this acquisition, particularly as it demonstrates our clear commitment to the European business while also delivering an excellent balance between our operations in North America and Europe.

There has been a marked shift in the characteristics of the Group in recent years. Wolseley is now a genuinely international company, with leadership from the corporate centre complemented by talented management throughout the European and North American organisations, ably supported by high quality teams in the operating companies.

Organisational culture has evolved to reflect the Group's increasingly international position. Today, our managers across the world identify with the Wolseley name. They remain committed to improving the performance of their own operating companies, but they also recognise the opportunities available internationally.

We now, therefore, have a Group where the sum of the parts is truly greater than the individual components. We have established significant leadership capabilities both centrally and regionally in areas such as IT, Procurement, Human Resources, Mergers & Acquisitions and Strategy, supporting not only our ongoing businesses, but also increasing our capability to add value to acquisitions going forward.

Further, two successful debt issues confirmed Wolseley's status as a soundly financed, well-respected international group. In November 2005, the Group completed the largest ever US\$ Private Placement, followed by a bank syndication in May 2006 which was heavily over-subscribed by Wolseley's relationship banks.

Dividend

With our earnings per share before intangibles rising 19.7% to 98.9 pence, the Board is recommending a final dividend of 19.55 pence, which represents a total dividend for the year of 29.4 pence. This is an increase of 11.4% over the total dividend paid last year.

The Board

The handover of Group Chief Executive responsibilities from Charlie Banks to Chip Hornsby proceeded to plan, with Chip being succeeded by Frank Roach as Chief Executive, North America. Frank joined the Board in December 2005 and has already made a significant contribution to our deliberations.

I would like to thank Charlie Banks not only for the efficient handover but also for the leadership, experience and good humour he displayed throughout his five years as Group Chief Executive. Charlie made a major contribution to the Group and during his time at the helm we witnessed a marked change in management mindset to a more international perspective. We saw Group sales rise by 96.8% and the share price by 144%. I, and the whole Board, wish him every happiness in retirement.

Chip Hornsby has made an excellent start as Group Chief Executive and I look forward to working closely with him in the coming years. He spent the first three months of this calendar year building on his already solid knowledge of our European businesses and the following three months acquainting himself with matters at the Corporate level.

As Chip makes clear elsewhere in this Report, Wolseley has delivered excellent performances over many years – but now it is time to encourage a step-change and to push forward to fully realise Wolseley's true potential.

In conclusion, I wish to thank our customers, suppliers, investors and debt providers for their unswerving support over the last year. But of course the year's achievements would not have been possible without the skills and unyielding commitment of more than 70,000 people and to each of them I extend our wholehearted thanks.

The Board looks ahead with confidence. The proven strategy we have followed in recent times will continue, sustaining our record of growth and business development. We have achieved a great deal, but there remains much to do. The Board is confident that Chip and his team will lead Wolseley to new and even greater heights.

John W Whybrow
Chairman

An impressive year This has been another outstanding 12 months for the Group, with record results for the 10th year in succession. We are positioning ourselves to make further progress

I was delighted and honoured to take over as Woleseley's Group Chief Executive on 1 August 2006. We enjoyed a great run under Charlie Banks' leadership and I want to put on record my admiration for his tremendous achievements.

Charlie established some fine foundations which are reflected in the figures you see in this Report, with 2005/6 characterised by excellent growth in North America, strong market outperformance in the UK, good performances in Holland, Switzerland and Italy and broadly satisfactory results elsewhere in the Group.

In North America, Stock Building Supply achieved excellent results, outperforming the market and growing sales by 27.4%. Towards the end of the year a reduction in housing starts and a fall in the price of timber affected revenue and this is likely to be continued into the current financial year. Ferguson saw outstanding growth, with a 35.1% increase in top line performance and 40.4% bottom line growth driven by some of the highest fill rates in the industry, our ongoing distribution centre strategy, our market focus and a clutch of successful acquisitions. Woleseley Canada recorded a solid performance and again delivered double-digit growth.

Despite major changes to our UK business, which included the completion of a comprehensive restructuring, the business performed well in a challenging market, with good acquisition performance driving sales up by 14.4%. In continental Europe, the highlights included good progress in Switzerland and Italy, the Benelux countries and also a rewarding performance from our French business, PBM. The

results from Woleseley Austria and Brossette were less satisfactory, although we remain confident that both these businesses will deliver improved performance in the coming 12 months.

This time next year, I expect to be reporting results from three new Woleseley countries, after the completion of our acquisition of DT Group, which was agreed just before the year end. At just over £1.3 billion this is the largest single acquisition in Woleseley's history so far. DT Group is the Nordic region's leading distributor of building materials, with a strong presence in Sweden, Norway, Finland and Denmark and significantly broadens our European reach.

Just as the DT Group acquisition will take us into new geographic areas, others have taken us into new product areas. For example, during the year Woleseley UK bought William Wilson and AC Electrical to move into the electrical distribution sector for the first time and moved further into the insulation materials market through the acquisition of Encon. In the USA, Stock Building Supply also entered into the electrical products and services market and strengthened its position in installed services, meeting a clearly emerging need from our major home construction customers.

We invested £914 million on a total of 53 acquisitions in seven countries during the year, as follows:

	North America	Europe
Number of acquisitions	31	22
Total consideration for acquisitions	£497m	£417m

Our European market: At the end of the financial year we had operations in 13 European countries, having moved into Belgium for the first time. As the new year opened, we were finalising our acquisition of DT Group which gives us a major presence in Sweden, Norway, Finland and Denmark.

Historically, acquisitions have delivered around half of our annual growth and this is an area where our management team are strong. In industry at large, there is always concern that acquisitions fail to deliver the anticipated benefits; at Wolseley a rigorous assessment process and skilful integration into the Group ensures that acquisitions perform in line with expectations and deliver shareholder value.

A simple business model, executed with commitment and focus

A distribution business like ours is not an overly complex model.

What makes us different is the way in which we focus on our markets and execute our business model. That's the competitive advantage behind our growth – and we're not about to radically change such a proven strategy.

So the future is about evolution not revolution. The emphasis remains on growth, through acquisitions and through organic growth driven by our capabilities in four key areas which are at the heart of our success:

People

We invest in – and support – the most important resources that we have: our people. Our customer experience is based on interaction with our 70,000 plus people and customer service is at the heart of every recruitment we make and every training programme we launch. Our commitment is to recruit and train the best people available throughout our industry that have a particular eye on providing outstanding customer service. This includes the way we assist customers in all aspects of their business, by providing the right products at the right time, as well as being knowledgeable in all aspects of their particular needs.

Product

We continue to offer more products and services to more customers in more sectors in more countries. We buy the right products at the right specification and the right price. Our objective is to have the widest product offering of anyone in the industry, so we can fulfil all of our customers' particular needs. This includes carrying some of the most recognised brands in each of our business sectors to allow us to support our customers in each specific area.

Distribution

We buy our products well and provide those products and services reliably, efficiently and quickly to our customers. Our logistics infrastructure allows us to ensure that our size translates directly into better, faster service. Our objective is to have the highest order fill rates of anyone in the industry, as this will be of great benefit to our customers so that they consider

us to be not only reliable, but also, more importantly, a true partner in their business.

Service

We shape our business to meet our customers' needs in whatever way is most advantageous for them. We go out of our way to make it easy for customers to choose Wolseley – whether that's through deliveries, collection services, online shops, shared branches or any other initiative. Since the largest majority of our business is transacted at the local level, through more than 4,650 locations across Europe and North America, our objective is to lead the industry when it comes to access and availability of product.

You can read practical examples of our model in action on pages 12 to 19.

A track record of success and a focused future

We have demonstrated year after year that by doing it our way, we can consistently deliver excellent performance. In this, our tenth successive year of delivering record results, we have again demonstrated that, despite facing some challenging market conditions, we can continue to grow and in most cases have been able to outperform both the market and the competition.

So our emphasis remains on profitable growth driven by an ever stronger focus on the core competencies that underpin the execution of our business and some key factors that we believe give us true competitive advantage.

Our structure is designed to keep the right activities at the right level in the Group – the continental groups are directly responsible for the profits of the operating companies they oversee. This is their key priority and area of focus. In addition, they are responsible for organic growth; being same branch sales, new branch openings, expansion into new geographies, as well as expansion into new customer types throughout their areas of responsibility.

At the Group and continental levels we also focus on the strategy and our five core competencies, which feed into the operating companies and underpin their ability to grow.

Human resources and leadership development

Customer service is why we exist as an organisation. Identifying and training the top talent within our industry therefore not only impacts customer service, but also our ability to support double-digit growth. Whilst we recognise that people are a large component of our costs, we strive to identify and train people as one of our most valuable investments.

Our North American market: We have an extensive branch presence across the continent, served by our impressive Distribution Centre network. During the year we continued to grow our leading positions in both the building materials and the plumbing and heating markets in the US and Canada.

Charlie Banks retires
Charlie Banks retired at the end of the financial year, following 39 years with Ferguson and Wolseley, the last five as Group Chief Executive. Here is his parting message.

"It has been an honour and a privilege to have been associated with Wolseley for so many years. In my time as Group CEO, we saw sales almost double in size and both the share price and EPS rise dramatically. It has been an amazing journey.

None of our achievements would have been possible without the continued support of our shareholders and debt providers. I am also grateful to the Board for giving me the opportunity to lead this great company and to our employees, without whose unswerving commitment we would not have been able to execute our strategy and deliver such exceptional growth.

I know that we have laid the foundations for continued success in the coming years and I have total confidence in Chip Hornsby and his team to lead Wolseley to new and even greater heights."

Organic growth and acquisitive growth

We have just appointed Adrian Barden, previously Managing Director of our UK business, to a newly created position to lead our global M&A efforts. This will bring even more focus to our acquisition processes, in a more competitive market, including developing a target base of acquisition opportunities on both continents, establishing a formalised integration process of acquisitions into the Group and refining our post acquisition performance review process.

Sourcing

We are elevating sourcing to a higher level to deliver the right products to our customers. This will include responsibility at the Group level for the top 30-50 suppliers, which will be coordinated with both the continental groups.

We want to identify and drive low cost country/own brand/proprietary brands throughout the entire Group so that this will be a significantly larger portion of our business within the next two to three years. Indirect spend initiatives will also deliver cost savings across our business.

Supply chain

We are developing a format such that supply chain becomes a distinct competitive advantage across the Group. Simply put, our intent is to have the broadest product offering with the highest fill rates of anyone in the industry. We believe that the right combination of sourcing and supply chain will become a significant competitive advantage.

Business improvement

Our aim over the next several years is to continually improve our net margin by focusing on a number of growth and cost reduction initiatives. In looking at the longer term, increased focus on efficiency and productivity throughout the entire Group will bring great benefit in improving our overall net margin. The utilisation of information for the benefit of customer service and productivity will be at the forefront of this initiative, but it is certainly not limited to that aspect alone.

The future

So what are my objectives for our organisation in the immediate future? We are still focused on delivering double-digit sales growth – but now with a greater emphasis on margin improvement and the new leadership structure is designed to allow us to build on our experience and our scale.

Our customer base runs into millions – every one of them with individual needs, being serviced by our front line staff. Above all, this is a relationship business and

the only way to make it work is by serving local customers, locally. We will continue to go out of our way to try and help our customers succeed – we make their problems our problems and we work with them to find solutions. Loyal customers provide repeat business and increasingly more business, as the amount of product they buy from us increases.

We are also making it easier to do business with us at all levels. In the USA and the UK we have structured our branches into focused "business groups" (USA) or "core brands" (UK) to put a real emphasis on a particular sector, customer or product range. Results from the businesses structured this way show significant organic growth, so it's a model we are extending across the Group. This single point focus on specific customer groups, be they plumbers, electricians, roofers, or general contractors, means our customers know what they can expect. Our team of people are real subject and product experts, the products are relevant to the requirement and the customer remains loyal.

Looking ahead

We have huge potential for further growth. As you will see in our Performance review on pages 20 to 41 the size of our potential market is vast and despite our success we still have only a relatively small share.

Look across the 19 countries where we currently operate and you'll find that we are in just about every sector of construction materials somewhere – but we don't as yet provide a complete offering anywhere. Even without moving beyond Europe and North America, there are significant opportunities for our businesses to share knowledge and learn from each other's experiences in order to extend our product range and introduce ourselves to new customers.

In conclusion, I would like to thank the Board and you, our shareholders, for giving me the opportunity to lead this great company. I believe we have a tremendous future ahead of us and with the continued loyal commitment of our outstanding 70,000 plus strong team, without whom we would be nothing, we can look to the future with confidence. We are committed to making Wolseley "the name the world builds on".

Chip Hornsby
Group Chief Executive

Looking ahead



Invest



Thomas Kopsa, Amy Beal and Jason Powers,
Ferguson Trainees in Raleigh Durham, USA

People – we'll continue to create and develop exciting and innovative programmes to attract high quality employees into the Group. But we'll also increasingly invest in training and development programmes which are designed to help all our people fulfil their – and our – potential.

> Investing in people

People are our key competitive advantage. We support them in many different ways, ensuring that they have the skills to meet our requirements and their career goals.

Deliver

Duncan Fellows, British Gas Engineer, Cheltenham Spa, UK

> Delivering to the customer

We work hard to ensure that our recruitment programmes are geared to identify customer-focused people with the passion to deliver.

In North America, Ferguson is widely respected for market-leading graduate programmes that once again brought people into the organisation in 2005/6 and has recently seen them recognised by *Business Week* magazine as one of the top 50 places in the USA to start and build a career. People don't just join Wolseley companies – they stay at Wolseley companies for long-term careers. Our new Group Chief Executive, the head of our North American organisation and the President and CEO of Ferguson, along with countless other members of our leadership team, each have over 20 years' service with the Group.

The European Graduate Programme ("EGP") delivers a pipeline of internationally-minded graduates who can move effortlessly between cultures as well as languages. The programme, which provides a mix of on-the-job training with formal residential courses, has proved popular with trainees and managers alike.

Across the Group, the EGP is complemented by a wide range of innovative activities, ranging from established programmes at Stock Building Supply to the new Groupwide International Leadership Development Programme, among others.

During the last year we invested £21 million on 142,000 days of training and development.

This investment in our people allows us to deliver the services our customers need. For example, British Gas service engineers are able to get on with their jobs, thanks to an innovative agreement with Wolseley UK. A single national account means that engineers can collect products and spare parts from any of our branches throughout the UK, with just a signature, meaning better and more immediate service for British Gas customers.

Today



Earth wire sold by William Wilson, UK

Product – we'll continue to introduce new products to our existing customers, giving them the opportunity to buy more goods and services from us. But we'll also use our understanding of industry trends to identify emerging demands and win new customers in new sectors.

> Today's trends

We believe that we offer the broadest product range in our industry, under the umbrella of countless brands from more than 4,650 branches across 19 countries.

Tomorrow

Charles Evans and Ronnie Patterson, Stock Building Supply, North Carolina, USA

> Tomorrow's advantage

We're always looking for new opportunities where our expertise and experience can provide customers with more products at the right specification and the right price.

In the UK, we moved into the electrical distribution sector for the first time, through the purchases of William Wilson and AC Electrical. In the USA, we followed suit with the acquisition of Efficient, an electrical supplier based in Las Vegas. In both instances, we're giving customers more opportunities to become – and remain – Wolseley customers.

In the Spring, Brossette and PBM opened a joint facility "Batipole" in Lannion, France, allowing customers to purchase from one location building materials from PBM's Reseau Pro brand, electrical products from Brossette's CDL brand and plumbing and heating equipment from Brossette. The French businesses will continue to innovate to find ways to meet their customers' needs.

High volume, production builders in the western States of the USA are increasingly demanding a turnkey installation service from suppliers – they need the people who provide the frames to also install equipment throughout the build project.

Stock Building Supply evolved its business model to meet this new demand, shaping its service to win business from a new set of customers by providing the products and services they need, how and where they need them.

Scale



Wolseley UK's new DC, Royal Leamington Spa, UK

Distribution – we'll continue to roll out our proven Distribution Centre ("DC") strategy, using our expertise and financial strength to set the industry standard in logistics. But we'll also develop initiatives at the sharp end of the supply chain, creating new ways to get products to customers, with increased speed and reliability.

> More choice and availability
Over 50% of Ferguson products now pass through the doors of one of their 9 DCs – and the Iowa facility alone handles over 77,000 products.

Simplicity

Wasco branch, Diest, Belgium

> Less hassle and cost

We constantly search for innovative ways, such as our "branch within a branch" concept, to take more products to more customers.

Our DCs have helped to transform the Ferguson business in the US. DCs don't only save costs – they also have impact on customer satisfaction. Fill rates out of the US DC facilities regularly exceed 94% and are amongst the highest in our industry.

Now we're rolling out the DC model across Europe. The new National Distribution Centre opened in the UK in August 2006 and the Italian DC will follow towards the end of the year. Plans are already advanced to open similar facilities in other countries.

Through the "branch within a branch" initiative, we establish a counter from one brand in the premises of another, thereby increasing the branch's total product offering without increasing the size of the branch itself.

At the Wasco branch in Diest, Belgium, we have gone one step further – implanting not one but two new product areas within the branch. So in addition to their regular plumbing and heating supplies, Wasco customers can now access spare parts from a Parts Center area and specialist fixings from a Unifix area, all under a single roof. These additional product areas are also introducing a new customer base to the Wasco brand.

Convenient >

Tobler's innovative website – www.haustechnik.ch

Service – we'll continue to exploit technology in order to interact with customers in whatever way they prefer. But we'll never forget that successful business relationships are built on successful personal relationships.

> Remote capability

We look for ways to make it easy for customers to do business with us – and that includes Internet technology that enables customers to buy online.

Personal

Bob Smith, Wolseley UK, providing customer service for 60 years

> Personal service

We get close to our customers, listening to what they need and then creating innovative, often highly personalised services, to match.

Few people would place plumbers close to the top of a list of those who use the web in their daily lives. Yet a recent e-business initiative at Tobler in Switzerland is proving the very opposite. The Tobler website experiences an average of over 1,600 hits each day and more than 15,000 unique visitors per month.

All 50,000 plus Tobler products are available online. If customers place an order by 6pm, products are delivered first thing the following morning, either to the plumber's business or to the job site.

In the UK and the USA, we've structured our branches to put a real emphasis on a particular sector, customer or product range. This single point focus on a specific

customer group – such as plumbers, electricians, roofers and so on – delivers a truly personal, knowledgeable service. Customers know what to expect and they know that our people will give them the personal service they need to get on with their jobs.

Our customers' experiences are based on their interaction with our people. We invest in a wide range of programmes that help ensure that when customers meet any of our people, they do so with somebody who speaks their language – literally as well as professionally – knows their business, understands their pressures and can meet their needs.

Stephen P Webster
Group Finance Director

Record results

2006 has been a year of record investment, record results and strong growth

* Compound annual growth rate.

4,658

The number of branches
operated by the Group at
31 July 2006

**Wolseley's
business is the
distribution of
construction
materials and
the provision of
related services
primarily to a
specialist market
of professional
contractors**

Introduction

Purpose

This Performance review has been prepared solely to provide additional information to existing and potential shareholders and other interested parties to assess the Group's strategies and the potential for those strategies to succeed.

Forward looking statements

This review and other sections of this Report contain forward looking statements that are subject to risk factors, which are further explained inside the back cover of this Annual Report.

Contents

The Performance review has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to Wolseley plc and its subsidiary undertakings when viewed as a whole.

The Performance review discusses the following areas:

Company overview and performance monitoring	p.21
Operations	p.25
Future outlook	p.32
Risk management	p.33
Financial review	p.37
Other financial matters	p.39

Basis of preparation of financial information

As noted on page 41, these financial statements are the first prepared under IFRS. In respect of five year information included in this Performance review information for years 2002, 2003 and 2004 has been prepared under UK GAAP. Information for 2005 and 2006 has been prepared in accordance with IFRS.

Company overview and performance monitoring

Company overview

Wolseley's business is the distribution of construction materials and the provision of related services primarily to a specialist market of professional contractors. The Group is the world's number one distributor

of heating and plumbing products to professional contractors and a leading supplier of building materials to the professional market. The Group is an international business, operating 4,658 branches in 19 countries and employing over 70,000 people.

Wolseley plc is a holding company and its subsidiaries are organised into two geographic divisions – Europe and North America. Divisional management are primarily responsible for the profits of the operating companies they oversee and for driving organic growth, which includes additional sales from existing branches, new branch openings, expansion into new geographies as well as expansion into new customer types and product areas.

The divisional teams are supported by global functional teams such as acquisitions, sourcing, supply chain and business improvement. This structure allows the Group to focus on the key competencies by which the business is driven forward. These key competencies and the business model are described in the Group Chief Executive's review on pages 8 to 19.

The principal activities of the Group are:

- the distribution of plumbing, heating and air conditioning equipment within Europe and North America;
- the distribution of building materials in the UK, Ireland, France and USA;
- the distribution of electrical components and supplies in the UK, France and USA;
- the distribution of pipes, valves, fitting and waterworks in Europe and North America.

The opportunities for organic and acquisitive growth in these fragmented markets are substantial

Wolseley's products

The Group supplies materials used in the construction industry. The range of products used in construction is broad and the Group continually seeks opportunities to widen that choice to its customers. The main product categories supplied to customers are set out at the bottom of the page.

Wolseley's customers

The Group has a wide range of customers operating in different industry sectors that range from the individual plumber or builder through to national contractor chains or house builders and include large industrial and commercial organisations. Wolseley's primary customer focus is on professional contractors. These contractors work with households, governments, property developers and industrial companies in the construction of new homes, offices and industrial buildings or in the repair and maintenance of existing premises. Increasingly the Group has structured around core business groups or brands allowing its local companies to put real focus on these sectors, whilst enhancing customer service and developing further product expertise.

Competitive environment

The Group aims to be a leading distributor in each of the markets in which it operates. The markets where the Group operates are typically fragmented with a few large players and a significant portion of the market is supplied by small local operations. In certain markets the Group competes with the large DIY chains which have increased their offerings to professional contractors.

The opportunities for organic and acquisitive growth in these fragmented markets are substantial. The environment for acquisitions has become marginally more competitive over the last year in certain markets and the competition for large acquisitions from private equity investors has also increased. However for the majority of acquisitions which are smaller businesses, financial purchasers are few and there has been no significant change in the competition for these acquisitions.

Wolseley's products

Plumbing, heating & air conditioning

- Baths, showers and accessories
- Sanitaryware
- Brassware
- Bathroom furniture
- Boilers and burners
- Radiators and valves
- Hot water cylinders and flues
- Control equipment
- Ventilation/air conditioning equipment

Electrical

- Cables and cabling accessories
- Controls and switchgear
- Wiring accessories
- Lighting
- Data networking supplies
- Cable management

Building materials

- Insulation
- Plaster and plasterboard
- Roofing materials
- Bricks, blocks and aggregates
- Tiles and flooring
- Timber products
- Doors and frames
- Glass
- Beams, trusses and frames
- Hardware

Civils/waterworks, industrial & commercial

- Tanks and treatment plants
- Sheet material
- Drainage pipes, associated supplies and covers
- Underground pressure pipes
- Small bore pressure pipes and fittings
- Other pipes, valves and fittings

In North America, the Group also provides construction services to house builders. This consists of the provision of labour to assist with house construction and commercial lending to house builders secured on properties under construction or completed homes.

Other market factors

The changing demographics of the European and North American markets, with a generally ageing population and increasing immigration, suggests that demand for new housing will continue at relatively high levels over the long term. As the housing stock ages, it will increase demand in the repair and remodelling sector. The Group's business model gives it the flexibility and agility to respond to changes of this nature.

While the Group does not operate in a regulated industry, the performance of the Group can be impacted by Government legislation. The key regulatory influences centre on environmental legislation and stipulations imposed when building or remodelling buildings. Such changes in legislation present an opportunity for growth in response to increasing demand as customers or end users respond by changing their buying habits.

Performance monitoring

The Group employs a rigorous performance management framework to plan, monitor and review the activities of the businesses. An annual long term rolling plan is produced by all businesses and this sets out business plans and resource requirements. Linked to this is the annual budget process, which is core to the target setting process. The form and components of the budget are in general cascaded down to branch level within the businesses.

Each month, the businesses submit their results, which also include a forecast for the remainder of the financial year. Performance against both budget and prior month forecast is reviewed with the businesses by continental and Group management. Corrective actions or additional resource deployments are discussed with the benefit of such information.

The Board of Wolseley plc meets regularly to discuss trading results and uses a set of Key Performance Indicators to measure overall progress of the Group against its business objectives.

Over the past five years the Group has delivered:

- average organic revenue growth of 7.0%
- average acquired revenue growth of 10.4%
- an increase in trading margin from 5.8% to 6.2%
- average free cash flow, after dividends, of £213m
- average return on gross capital employed of 17.9%

Key Performance Indicators

The Group utilises the following indicators of performance to assess its development against its strategy and financial objectives.

Key Performance Indicator and definition

Review of performance

Growth in organic revenue

The total increase or decrease in revenue for the year adjusted for the impact of currency exchange, new acquisitions in the year and the incremental impact of acquisitions in the prior year.

The Group seeks to achieve, on average, double-digit growth in revenue through both organic growth and through acquisitions. Over the economic cycle the Group would expect growth to come evenly from both sources.

- Organic revenue increased in the year by 10.9%.
- Ferguson achieved organic revenue growth of 24.3% whilst Stock Building Supply also achieved organic growth of 4.1%.
- The UK business outperformed the market and achieved 2.1% organic growth.
- Each of the Italian, Swiss and Dutch businesses achieved double-digit organic growth.
- Over the past five years the Group has delivered average organic revenue growth of 7.0%.

Growth in acquired revenue

The growth in revenue from businesses that the Group has acquired during the financial year and the incremental effect of the prior years' acquisitions.

- A total of 53 acquisitions were completed during the year.
- Acquisitions made in 2006 contributed £862 million to revenue in the year or 6.1%.
- Over the past five years the Group has delivered average acquired revenue growth of 10.4% with 11.9% in the last year, both exceeding target.

Trading margin

The ratio of trading profit to revenue expressed as a percentage.

The Group seeks to achieve a growth in trading profits higher than the growth in revenue through year on year improvements in trading margin as a result of continuous improvement in operations.

- Trading margin improvement was achieved in North America although the European trading margin reduced due to lower trading margins in Brossette, Austria and the UK.
- Overall, Group trading margin fell from 6.3% in 2005 to 6.2% in 2006 as a result of investments in people and infrastructure.
- Over the past five years the Group's trading margin has increased from 5.8% to 6.2%.

Free cash flow

Free cash flow represents cash flow from operating activities less maintenance capital expenditure, tax, dividends and interest.

The Group seeks to generate sufficient free cash flow over the business cycle to fund normal "bolt on" acquisitions and expansion capital expenditure.

- Free cash flow decreased from £321 million in 2005 to £285 million, down by 11.2% as a result of higher working capital demands due to organic growth.
- Over the past five years after dividends, average free cash flow is £213 million.

Return on gross capital employed

The ratio of trading profit to the aggregate of the monthly average of shareholders' funds, minority interests, net debt and cumulative goodwill and acquired intangibles written off.

The Group targets to deliver an incremental return on gross capital employed at least 4% in excess of the pre-tax weighted average cost of capital.

- Return on gross capital employed in 2006 decreased from 19.1% to 18.8% due to higher acquisition spend in the year, but was 7.5% ahead of the estimated pre-tax weighted average cost of capital of 11.3%.
- Average return on gross capital employed over the past five years was 17.9%.
- Return on gross capital employed in Europe was 16.2% (2005: 19.9%) and in North America 21.9% (2005: 20.3%).

Electrical

The Group acquired William Wilson and AC Electrical in the UK

124

The number of XpressNet locations operated by Ferguson

Wolseley's 70,000 plus people are the cornerstone of providing service to its customers and are one of its key competitive advantages

A summary of the Group's performance over the last five years is as follows:

	2006	2005	2004	2003	2002
Growth in organic revenue	10.9%	8.7%	13.1%	1.3%	0.8%
Growth in acquired revenue	11.9%	5.5%	16.4%	7.2%	11.1%
Trading margin	6.2%	6.3%	6.1%	5.8%	5.8%
Free cash flow after dividends (£ million)	285	321	(60)	269	248
Return on gross capital employed	18.8%	19.1%	18.4%	16.7%	16.7%

Note: 2006 and 2005 figures prepared under IFRS. 2004, 2003 and 2002 figures prepared under UK GAAP.

People performance indicators

Wolseley's 70,000 plus people are the cornerstone of providing service to its customers and are one of its key competitive advantages. As much of the customer experience is generated through ongoing relationships with the Group's branch personnel or outside sales force, staff turnover rates are considered an important indicator and these are reviewed as part of the monthly reporting.

The overall summary turnover rate for 2006 was 22% (2005: 27%), reflecting an improved performance and a rate management considers to be in line with industry standards. Turnover in 2006 at the management level of staff is estimated to be at much lower rates. Enhanced measures and information collection mechanisms are being designed as part of the Group's new human resources management system.

The safety of Wolseley's people is also regarded as paramount and lost time incident rates are monitored closely by health and safety committees established in each of the major businesses. The lost day incident rate used is affected both by the severity of the cause of the absence from work but also the effectiveness of the handling of each absence and return to work programmes.

Incidence rates are quoted per 200,000 work hours (approximating to 100 people working for a year), an internationally used standard. The estimated incidence rate for 2006, using submissions from companies representing 80% of the Group in terms of total work days, was 35 (2005: 41).

Other performance areas

In order to measure the success of its strategy execution, the Group uses a variety of non-financial performance indicators which continue to be refined and developed.

Business diversity

A key element of the Group's growth strategy is the enhancement of business diversity, which has a number of elements. The Group is continuously seeking to enhance its branch network to provide improved service and a wider product offering to new and existing customers. The expansion of the branch network is detailed in the table below.

	2006	2005	2004	2003	2002
Europe	2,861	2,486	2,393	2,266	1,799
North America	1,797	1,434	1,244	1,183	1,156
Total	4,658	3,920	3,637	3,449	2,955

The Group also aims to increase its geographic footprint in its chosen areas of operation, Europe and North America. During the year, the Group expanded its geographic diversity by acquiring a business in Belgium, Centrtec, which contributed revenue for the year of €35 million. In addition, in North America, Stock Building Supply expanded operations into the states of Alabama, Louisiana and New Jersey.

Wolseley has continued its strategy of moving into new market segments within the construction materials and services industry. Wolseley UK acquired William Wilson and AC Electrical, which established a presence in the electrical distribution sector, while the acquisitions of Brandon Hire and Encon significantly expanded its presence in the plant hire and insulation distribution sectors respectively.

Another key element is the transfer of knowledge and expertise across the Group in order that local companies can establish operations in new market segments or channels. Examples during the past year include:

- The "XpressNet" network established by Ferguson in the USA, which mirrors Wolseley UK's Plumb CenterExpress model. By the 2006 year end, 124 locations had been established, with 64 added during 2006.
- The Wolseley UK Hire Center model is being rolled out to PBM in France and ÖAG in Austria, with further progress expected in the coming year.

The European division continues to seek opportunities to expand into other geographic areas such as Spain and other parts of Eastern Europe

- The Distribution Centre concept first developed by Ferguson is being expanded in Europe. In the UK, the National Distribution Centre has just opened with the Italian Distribution Centre expected to come on stream before the end of 2006.
- The blended branch concept where offerings from different brands or business groups are co-located to allow customers more convenience and choice is now in use in the UK, USA, Ireland and France.

Environmental

The Group's approach to environmental measures is set out in the Corporate social responsibility report on page 46. In accordance with the reporting guidelines suggested by the UK Government's Department for Environment, Food and Rural Affairs, the Group is developing a range of environmental measures, principally in the areas of carbon dioxide emissions and volume of waste sent to landfill. The Group is establishing mechanisms to capture and monitor this information for use in subsequent reporting.

Operations

Europe Market

The European division is managed through three geographic areas with senior management allocated responsibility for each. These areas are UK including Ireland, France and Central Europe. The latter is responsible for the division's operations in Austria, Belgium, the Czech Republic, Denmark, Hungary, Italy, Luxembourg, the Netherlands and Switzerland.

Market size

Management has estimated market sizes through evaluating the building materials suppliers' total market if all products were channelled through the distribution network. Management's best estimate of both Wolseley's activity in each market and the total size of these markets are set out below:

	Total for countries with Wolseley presence			UK and Ireland		
	Revenue £bn	Estimated market size £bn	Estimated market share %	Sales £bn	Estimated market size £bn	Estimated market share %
Plumbing, Heating & Air Conditioning	2.5	17.5	14%	1.4	4.7	30%
Electrical	0.1	14.7	0%	0.1	2.9	2%
Building Materials	2.1	95.6	2%	1.0	27.5	4%
Civils/Waterworks, Industrial & Commercial	0.5	8.9	5%	0.2	1.8	13%
Total	5.2	136.7	4%	2.7	36.9	7%

	France			Central Europe		
	Sales £bn	Estimated market size £bn	Estimated market share %	Sales £bn	Estimated market size £bn	Estimated market share %
Plumbing, Heating & Air Conditioning	0.5	4.7	11%	0.6	8.1	7%
Electrical	0.0	5.7	0%	0.0	6.1	0%
Building Materials	1.1	21.5	5%	0.0	46.6	0%
Civils/Waterworks, Industrial & Commercial	0.1	1.4	7%	0.2	5.7	3%
Total	1.7	33.3	5%	0.8	66.5	1%

Wolseley UK is managed through brands such as Hire Center, Plumb Center and Build Center. These brands allow focus on specific market groups of customers while being supported by the common logistics and operations infrastructure of Wolseley UK.

Europe in total represents a market estimated to be 450 million people and is experiencing the following demographic factors, all of which present market opportunities for Wolseley:

- Falling birth rates leading to less new build but more repair, maintenance and improvement work.
- Longer life expectancies and increasing divorce rates leading to an increase in apartment accommodation compared to family homes.
- An increasing number of high incomes resulting in more demand for second homes.
- Skill shortages leading to a more migrant population and an increased use of offsite fabrication.
- Increasing consumerism producing new routes to market, for example, the Internet.

These changes often represent shifts of activity within segments rather than shifts into segments where the division does not have a presence. Nevertheless the Group does employ a flexible business model which allows it to react quickly to market changes.

The European division continues to seek opportunities to expand into other geographic areas such as Spain and other parts of Eastern Europe. The Group will be present in the growing Nordic region following completion of the acquisition of DT Group.

£240bn

The estimated size of the total market opportunity in Europe

+11.1%

The increase in reported revenue of the European division

Significant opportunities are available to broaden the European division's reach both geographically and also in terms of market segment. The acquisition of DT Group is a significant step in this regard

An analysis of the estimated total market opportunity in Europe, including those territories where at 31 July 2006 Wolseley had no presence, is set out below:

	Europe (Total)			Nordic	Rest of Europe
	Sales £bn	Estimated market size £bn	Estimated market share %	Estimated market size £bn	Estimated market size £bn
Plumbing, Heating & Air Conditioning	2.5	28.7	9%	1.5	9.7
Electrical	0.1	24.3	0%	1.8	7.8
Building Materials	2.1	169.5	1%	12.9	61.0
Civils/Waterworks, Industrial & Commercial	0.5	17.4	3%	1.5	7.0
Total	5.2	239.9	2%	17.7	85.5

Note: Wolseley's small existing operation in Denmark has been excluded from this analysis.

Demand in the European markets is driven by activity in a number of key market sectors:

- the residential market analysed between new construction and repairs, maintenance and improvements;
- the non-residential market analysed between new construction and repairs, maintenance and improvements; and
- the civil infrastructure market.

The division's split of business by each of these key drivers is given below:

	Sales £bn	Sales %
Residential:		
New construction	1.4	28%
Repairs, Maintenance and Improvements	2.6	50%
Non-Residential:		
New construction	0.3	5%
Repairs, Maintenance and Improvements	0.6	11%
Civil infrastructure	0.3	6%
Total	5.2	100%

The division has more activity generated from residential compared to non-residential and civil infrastructure work, however the actions underway both through acquisitions and enhancement of business diversity, continue to broaden the business base.

Significant opportunities are available to broaden the division's reach both geographically and also in terms of market segment. The acquisition of DT Group represents a significant step in this regard. Its annual revenue in its last financial year was £1.6 billion.

Divisional performance

All of the continental European operations with the exception of the Czech Republic, which had marginally lower revenue, increased revenue and most achieved profit improvements in the year to 31 July 2006 despite markets in construction that showed very little growth. The results benefited from the effect of acquisitions but were adversely impacted by the fall in Brossette's profits due to its restructuring and lower profitability in Austria.

Reported revenue for the European division increased by 11.1% from £4,637 million to £5,150 million, of which 2.8% was from organic growth. Growth due to acquisitions accounted for £382 million (8.2%) of revenue. Trading profit, after European central costs, increased 2.9% from £307 million to £316 million. European central costs rose by £3 million to £7 million due to the planned expansion of the European infrastructure to drive future growth and profit initiatives.

The overall divisional trading margin, after European central costs, fell from 6.6% to 6.1% primarily due to the lower trading margins in Brossette, Austria and the UK and the effect of acquisitions. Margin improvements were achieved in PBM (France), Manzardo (Italy), Cesaro (Czech Republic), Electro Oil (Denmark) and Wasco (Netherlands).

In the year, a further net 375 branches were added to the European network, giving a total of 2,861 locations (2005: 2,486).

+375

The net additional branches added to the European network

+9.9%

The increase in trading profit reported by Wolseley UK

The new national DC in Royal Leamington Spa, which is located alongside Wolseley UK's new headquarters, commenced deliveries to branches in August 2006

UK and Ireland

Wolseley UK's performance held up well against a UK building materials market which is estimated to be around 4–5% down on the prior period. Whilst the fundamentals of the UK economy remained positive, with relatively low interest rates and low unemployment, repairs, maintenance and improvement ("RMI") spending slowed in the first half of the financial year in response to weaker consumer confidence, but sales trends started to show a gradual improvement in the final quarter. Government spending remained a relative bright spot, although there have been noticeable delays in planned social housing expenditure.

Against this more challenging background, Wolseley UK, which includes Ireland, recorded a 14.4% increase in revenue to £2,690 million (2005: £2,351 million). Organic growth of 2.1% outperformed the market generally, with Bathstore, the retail bathroom offering and Heatmerchants and Brooks, the Irish businesses, performing particularly well, producing double-digit organic revenue growth.

Wolseley UK's trading profit increased by 9.9% on the prior year mainly as a result of the acquisitions of William Wilson, Encon, AC Electrical and Brandon Hire, all of which have outperformed expectations at the time of acquisition. Although the gross margin improved, the trading margin fell slightly from 7.8% to 7.5%. This was the result of the ongoing investment in the business to increase the management resource, improve supply chain and logistics and expand the branch opening programme. These investments provide a platform for future growth in both the traditional brand areas as well as those recently entered.

The new national distribution centre ("DC") in Royal Leamington Spa, which is located alongside Wolseley UK's new headquarters, commenced deliveries to branches in August 2006. The regional DC, in the north west, is scheduled to open in Autumn 2007. These investments and the current initiatives to centralise control of transport and branch inventory management should enhance customer service, improve efficiency and support continued growth in the business.

During the year, 288 net new locations were added in the UK and Ireland, including 262 branches added as a result of acquisitions, taking the total number of branches for Wolseley UK to 1,858 (2005: 1,570 branches).

France

In France, government tax incentives continued to underpin growth in the new residential market, but RMI, representing approximately two-thirds of revenue for both Brossette and PBM, continued to show only marginal improvement against the background of little growth in the overall economy, weak consumer confidence and persistent high levels of unemployment.

Wolseley's French operations, which since May have been managed through one central team, generated revenue up 4.8% to €2,515 million (2005: €2,399 million), including organic growth of 2.1%. Trading profit for France was down to €132 million (2005: €143 million) with a trading margin of 5.3% (2005: 6.0%) as a result of the lower level of profitability in Brossette.

PBM achieved an increase in revenue of 6.8% in local currency, almost half of which was organic growth. The sales trends in PBM improved in the second half and this upward momentum is expected to continue. Gross margin was down slightly. PBM's branch numbers increased by 57 during the year to 347 branches including the opening of 8 new satellites and 12 hire locations. The underlying trading profit, excluding the previously announced €11.5 million (£8 million) wood import duties rebate, showed an improvement, as did the underlying trading margin.

Local currency revenue in Brossette was 1.8% up on the prior year. Trading profit was significantly lower, before taking account of the previously announced €7.6 million (£5 million) fine from the French Competition Authorities relating to matters which took place more than ten years ago. Brossette's results reflect the ongoing reorganisation of the district, branch and management structures and the move to centralisation of purchasing and logistics, all of which are designed to enhance customer service and facilitate future expansion. In order to accelerate the changes being made at Brossette a number of management and employee changes were made during the year with associated one-off severance costs of approximately €3.5 million.

PBM is expanding the number of joint sites with Brossette, continuing to cross-sell each others' products in their respective branches and exploiting opportunities to create purchasing synergies and indirect cost savings in cooperation with other Group companies.

+14.6%

The increase in reported revenue of Central Europe

Tobler, in Switzerland, had another record year with revenue up 17.8% to more than CHF300 million for the first time, including 10% organic growth

Central Europe

The Group's other continental European operations enjoyed generally good results despite broadly flat markets. Revenue in Central Europe was up by 14.6% to £735 million (2005: £642 million), reflecting organic growth of 7.4% and the benefit of acquisitions. Trading profit was up 3.9% to £31 million (2005: £30 million).

Tobler, in Switzerland, had another record year with revenue up 17.8% to more than CHF300 million for the first time, including 10.1% organic growth. Despite competitive market conditions exerting some pressure on prices and a change in the business mix to lower margin products, its trading margin improved.

In the Netherlands, Wasco continued to make good progress expanding its product range into sanitaryware, developing its offering to the more profitable RMI market and focusing on cost control. It achieved organic revenue growth of 16.1% and trading profit improved by 57.0%. In Luxembourg, CFM's revenue increased by 3.6% although trading profit was down, reflecting an increasingly competitive market. Centratec, the Belgian business acquired in October 2005, performed in line with expectations and is now working with Wasco and CFM to achieve improvements in sourcing, logistics and inventory management.

ÖAG, in Austria, increased revenue by 2.7% although trading profit fell due to continued competitive pressure on prices as a consequence of difficult housing and RMI markets and business restructuring. In Hungary and the Czech Republic, local market conditions remained difficult but Wolseley Hungary achieved strong organic revenue growth and Cesaro in the Czech Republic improved profits.

In Italy, Manzardo increased revenue by 21.4% compared to the prior year, including 6.7% organic growth in a flat market and the incremental effect of Iser Zauli acquired in January 2005. The branch opening programme of the past few years continued to benefit Manzardo's revenue growth. Trading profit rose 13% reflecting the costs of branch openings and preparations for the DC opening. Four new branches were opened during the year. Progress on the €20 million new central DC in northern Italy continues and the first branch deliveries are expected to commence before the end of 2006, with other branches being rolled out over the following 12 to 18 months.

Further progress was made during the year to manage the businesses in a more integrated way across Europe. The focus was on sharing best practice in areas such as branch format and product/service offerings, rationalising the product and supplier base, improving the supply chain and sourcing from low cost countries. All of these initiatives are designed to enable the Group to benefit from cross-border synergies and accelerate growth in Europe.

North America Market

The Group's activities in North America centre around two main market areas – plumbing and heating distribution, which are served by Ferguson and Wolseley Canada and building materials distribution, which is served by Stock Building Supply.

Ferguson is the largest wholesale distributor of plumbing supplies, pipes, valves and fittings in the USA and a major distributor of heating, ventilation and air conditioning systems¹. The company also distributes waterworks products, fire protection products and industrial pipes, valves and fittings as well as operating a number of speciality businesses, serving markets such as the nuclear industry and a maintenance, repairs and operations management services business. Ferguson is managed through "business groups" such as Heating Ventilation and Air Conditioning ("HVAC") and Waterworks. These business groups allow management to focus on the specific needs of key groups of customers. Ferguson is present in 50 states, as well as the District of Columbia and has 1,237 branches (2005: 941 branches).

Wolseley Canada distributes plumbing, heating and piping products, including heating, ventilation and air conditioning, waterworks, refrigeration, industrial pipes, valves and fittings and fire protection products as well as industrial plumbing supplies to customers through its 246 branches (2005: 238 branches).

Stock Building Supply is the largest supplier of building materials to professional home builders and contractors in the USA². Stock Building Supply is present in 33 states with 314 locations (2005: 255 locations) and provides contractors with building materials such as structural timber products, roofing products, windows, insulation and hardware. Stock Building Supply also assembles and sells a variety of engineered wood products and offers customer delivery, design, installation as well as financing and credit services.

¹Source: Supply House Times, May 2006

²Source: ProSales, 2006

The number of US States where Wolseley has a presence, as well as the District of Columbia

In North America, Wolseley has shown impressive organic growth, outperforming the market and gaining market share

In general, the North American plumbing and heating distribution market is fragmented with an estimated 95% of distribution operations employing less than 100 people. Consolidation of market players has accelerated with some of the major retailers having moved more significantly into the market. The North American building materials market is also very fragmented with no company enjoying more than a 3% market share¹.

Both markets have shown good growth in recent years reflecting low unemployment rates, relatively low interest rates and strong real GDP growth. Wolseley has shown impressive organic growth, outperforming the market and gaining market share.

Demographic trends support high rates of home ownership and residential construction with "baby boomers" entering their peak earnings time and purchasing second or trade-up homes while immigrants are buoying the entry-level market. Baby boomers, who are thought to control a majority of

the wealth in the USA, are also expected to have a significant effect on the repair and remodel market as their decision to improve their existing homes will be less influenced by the state of the economy.

The plumbing and heating distribution market is driven by new construction and remodelling sales. The latter market is less cyclical. The building materials market is influenced similarly although Stock Building Supply's business is currently more focused on the new residential construction sector. Annualised housing starts in the USA at 31 July 2006 were just below 1.8 million per annum², but there are indications that the market will continue to soften.

Splitting the US into four geographic regions using US Census information, it is possible to analyse the number and growth in new housing starts by region. This can then be compared to Wolseley's share of its business in each of these regions although it should be noted that this will also reflect sales into non-residential sources.

Region	New residential		Remodelling		Wolseley Share of revenue in 2005/6
	Calendar 2005 share of starts	Growth versus 2004	Calendar 2005 share	Growth versus 2004	
Northeast	9.2%	8.0%	17.3%	12.6%	6.9%
Midwest	17.3%	0.6%	23.4%	8.3%	15.0%
South	48.2%	9.6%	35.7%	14.9%	46.5%
West	25.3%	1.7%	23.6%	13.8%	31.6%

Note: US Census information relates to calendar years whereas the Group information relates to the year to 31 July 2006.

In the South and West areas which in 2005 represented 73.5% of new housing starts and 59.3% of remodelling activity, the division had 78.1% of its business and hence is well placed to exploit these key markets.

¹Source: IBISWorld

²Source: US Census Bureau

£460bn

The estimated size of the total market opportunity in North America

+36.1%

The increase in reported sterling revenues of the North American division

Trading profit, in sterling, increased by 41.5% from £426 million to £603 million

Management has estimated overall market sizes for North America. For the materials market, market size is based on the final selling cost to the installer or end user. For construction services, the market only includes those activities currently serviced by Wolseley. Management's best estimate of both Wolseley's activity in each market and the total size of these markets are set out below:

	Wolseley North America			USA		
	Sales £bn	Estimated market size £bn	Estimated market share %	Sales £bn	Estimated market size £bn	Estimated market share %
Plumbing, Heating & Air Conditioning	3.0	38.1	8%	2.6	32.7	8%
Electrical	0.1	37.9	0%	0.1	30.9	0%
Building Materials	2.7	187.4	1%	2.7	173.1	2%
Civils/Waterworks, Industrial & Commercial	2.7	111.6	2%	2.5	107.4	2%
Construction Services	0.5	84.7	1%	0.5	64.5	1%
Total	9.0	459.7	2%	8.4	408.6	2%

	Canada		
	Sales £bn	Estimated market size £bn	Estimated market share %
Plumbing, Heating & Air Conditioning	0.4	5.4	7%
Electrical	0.0	7.0	0%
Building Materials	0.0	14.3	0%
Civils/Waterworks, Industrial & Commercial	0.2	4.2	5%
Construction Services	0.0	20.2	0%
Total	0.6	51.1	1%

Management has also estimated the business drivers for its revenues in a consistent manner to the European division. The results are shown below:

	Sales £bn	% Sales
Residential:		
New construction	4.1	46%
Repairs, Maintenance and Improvements	1.4	16%
Non-residential:		
New construction	1.8	20%
Repairs, Maintenance and Improvements	0.9	10%
Civil infrastructure	0.8	8%
Total	9.0	100%

In general the division shows a broad spread of business across the categories. While residential new construction has slowed, the other segments continue to show growth. Actions are being taken to widen the business base and increase Wolseley's presence in these other market segments. The use of the business group model providing dedicated focus on customer segments in North America is providing focus towards this objective.

Wolseley remains confident that with the continued development in the strength and depth of its management and the investment being made in the supply chain, the business is well placed to succeed in meeting its growth targets and improve margins over time.

Divisional performance

Wolseley's North American division performed strongly in the year to 31 July 2006 with significant

risers in revenue and profits, maintaining its position as the leading distributor of construction products to the professional contractor market in North America.

Reported revenue of the division was up 36.1% from £6,619 million to £9,008 million, reflecting organic growth of 16.4%, net gains from price fluctuations in commodities, acquisitions and the beneficial impact of currency translation. Trading profit, in sterling, increased by 41.5% from £426 million to £603 million, after an increase of £10 million in North American central costs, reflecting the creation of the new North American management structure with effect from 1 August 2005.

Currency translation increased divisional revenue by £274 million (4.1%) and trading profit by £18 million (4.2%). There was a net increase of 363 branches in North America to 1,797 (2005: 1,434).

+35.1%

The increase in reported revenue of Ferguson

+27.4%

The increase in reported revenues of Stock Building Supply

Volumes through the DC network grew by 34% compared to the prior year and more than 50% of branch sales now go through the network

US Plumbing and Heating

Ferguson produced another outstanding performance generating strong organic growth from its focus on selected markets, new branch openings and driving further commercial advantage from its distribution centre ("DC") network. These factors contributed to significant market out performance in the year.

Local currency revenue in the US plumbing and heating operations rose by 35.1% to \$9,651 million (2005: \$7,144 million) with trading profit up by 40.4% to \$676 million (2005: \$481 million). Organic revenue growth was 24.3%. The second half gross margin benefited from further increases in commodity prices, mainly copper towards the latter part of the financial year. Ferguson's scale and distribution capability allowed it to take advantage of price movements in a rising commodity market to secure additional one-off profits amounting to around \$35 million in the second half in addition to the one-off gains of around \$8 million in the first half. Taking into account the one-off gains, the trading margin increased from 6.7% to 7.0%. The underlying trading margin was approximately 20 basis points higher, year on year, increasing from 6.5% to 6.7%, despite significant revenue investments.

Volumes through the DC network grew by 34% compared to the prior year and more than 50% of branch sales now go through the network. Further investment was made in the DCs with an additional 700,000 square feet of capacity added through the expansion of four existing facilities. Board approval has recently been given for new DCs in both Florida and northern California, which should be operational within 12 months.

Of the markets in which Ferguson operates, the commercial and industrial sectors continued to improve and although new housing slowed towards the end of the financial year, other housing related activity remained strong, with the positive economic environment benefiting the repairs, maintenance and improvement sector. RMI is becoming an increasingly important element of overall construction spend in the USA. To address this opportunity, Ferguson opened a further 64 XpressNet branches and 30 new showrooms during the year. More than 60 new specialist branches for heating, ventilation and air-conditioning or waterworks were also opened and this focus should lead to further growth opportunities.

As well as new branch openings, investment in people and IT continued during the period. More than 4,300 people joined the business and the new warehouse management system is being introduced into the large branches. This should lead to better customer service as a result of faster and more accurate product picking and more efficient inventory management.

Ferguson's total branch numbers increased by 296 during the year to 1,237 locations (2005: 941 branches).

US Building Materials

The strong performance of Stock Building Supply benefited from improved market focus which was brought about by the recent business restructuring and from acquisitions. Reported figures also benefited from currency translation.

In local currency, Stock Building Supply's revenue was up 27.4% to \$5,305 million (2005: \$4,164 million) with trading profit up by 40.6% from \$244 million to \$343 million. Organic revenue growth was 4.1%, reflecting some commodity price deflation in lumber and structural panels. These commodity price movements had the effect of decreasing Stock Building Supply's local currency revenue by \$167 million (4.0%) in the year compared to the prior year with the greater impact being in the second half. Acquisitions contributed \$970 million (23.3%) to revenue growth.

Stock Building Supply's trading margin increased significantly from 5.9% to 6.5% primarily as a result of a more favourable sales mix arising from increased management focus on value added products and installed services, both of which represent significant growth opportunities.

For the majority of the financial year, new residential housing starts were around record levels at between 1.9 and 2.0 million starts, although there were significant regional variations. The markets in Georgia, Utah, Texas and the Carolinas have been the strongest throughout the year whereas the weakest markets have been in the upper Midwest and the Northeast. As expected, housing starts declined in the final quarter of the year as a result of rising interest rates, increased inventory of unsold houses and a reversal in the trend of house price inflation. Housing starts ended the year at just below 1.8 million per annum, with the previously buoyant markets such as Washington DC, Florida and Las Vegas showing significant fourth quarter year on year declines. Management action has already been taken to reduce headcount and indirect costs and to shift emphasis to the more resilient housing markets and increase penetration of the RMI and industrial and commercial markets. Initiatives are also being taken to expand the product range throughout the branch network, which should help Stock Building Supply continue to outperform in these softening market conditions.

Value-added sales were up 31%, construction service and installed business sales were up more than 140% and sales to commercial and RMI contractors increased by 47% and 20%, respectively. As well as achieving this through its existing branch network and acquisitions, Stock Building Supply opened 19 new greenfield branches and these initiatives further complement Stock Building Supply's installed service expertise.

+13.0%

The increase in reported revenues of Wolseley Canada

The Board expects another year of good progress, benefiting from the diversity of the Group in terms of geography, customer and product

Stock Building Supply's branch numbers increased by 59 during the year to 314 locations (2005: 255 branches). The branch opening programme has continued so that Stock Building Supply currently operates in 33 states.

Wolseley Canada

In Canada, the construction and housing markets remained mostly strong, while the buoyant energy sector in Western Canada helped sales in the industrial and commercial sector.

Local currency revenue increased by 13.0% to C\$1,330 million (2005: C\$1,177 million). Of this, 10.7% of the revenue growth was organic, ahead of the market generally. Gross margin improved and local currency trading profit rose by 12.4%, resulting in an unchanged trading margin of 6.9%.

Work continued to consolidate back offices, recruit additional people to fill management and trainee positions and to improve logistics. The second of three regional supply centres for larger inventory items was opened in Quebec in October 2005, with the third likely to open near Toronto in Spring 2007. These regional supply centres should lead to lower inventory levels and enable the branch network to be utilised more effectively.

Wolseley Canada's total branch numbers increased from 238 to 246 locations.

Future outlook

In the USA, the new residential housing market, which is expected to account for around 30% of Group revenue, is likely to continue to soften with significant regional variations. Against a more uncertain economic background, but with relatively low unemployment and good levels of business investment, the RMI and industrial and commercial markets should continue to grow and more than outweigh the slowing new residential market. The diversity of the Group's US operations should enable them to outperform the market and make good progress overall. However, for Stock Building Supply, the outlook is more challenging due to the slowing housing market and lumber prices which are likely to remain lower than the equivalent period in the prior year.

In Canada, the overall environment is expected to remain positive and although the new residential housing market is slowing from recent high levels, the industrial and commercial markets are expected to remain strong, driven by a buoyant energy sector.

The UK market is expected to continue to show a gradual improvement into the calendar year 2007, with Wolseley operations in the UK and Ireland also benefiting from the recent acceleration of acquisition activity, product expansion and improved supply chain efficiency.

In France, growth in the RMI market is likely to remain modest. PBM is expected to continue to show good momentum, benefiting from acquisitions, new branch openings and other business improvement initiatives. The reorganisation of Brossette will continue and further investments in the business will be made to create a platform for future growth. Brossette is expected to make progress in the coming year.

The integration of DT Group into Wolseley will provide additional growth and opportunities for synergies against the backdrop of a positive economic outlook in the Nordic region.

Whilst the majority of markets in the rest of continental Europe are likely to remain broadly flat, Wolseley's operations are expected to show solid progress.

There are a number of business improvement initiatives in place relating to supply chain, sourcing and procurement that should deliver enhanced performance. The Group will continue to pursue its objective of achieving, on average, double-digit sales and profit improvements through a combination of organic growth and acquisitions.

The 10% placing of new ordinary shares, announced on 25 September 2006, will enable the Group to continue to pursue its growth strategy and its programme of bolt-on acquisitions.

The Board expects another year of good progress, benefiting from the diversity of the Group in terms of geography, customer and product.

The Group's businesses closely monitor both market and geographic trends and understand lead and lag indicators in order to take timely actions to address issues affecting trading

Risk management

In any business, there are a number of risks and uncertainties which could have an impact on its long-term performance. The Group has an extensive risk management structure in place which is designed to identify, manage and mitigate business risk. The Group recognises that the risks and uncertainties facing its businesses are constantly changing and it therefore empowers local companies to monitor these and deploy mitigation resources as appropriate.

Risk assessment and evaluation is an essential part of the annual planning cycle and an important aspect of the Group's internal control system. The relevant structures and processes across the Group are more fully described on page 58.

The ability of Wolseley to monitor, assess and respond to these business risks can often provide it with competitive advantages and hence the business' resources are carefully managed in these areas. The principal risks faced by the Group and its management response thereto are summarised below:

Risk

Resource management

Market conditions

Wolseley's products are distributed to professional contractors in connection with commercial, industrial and residential construction projects and the Group's results are consequently dependent on the levels of activity in their markets. The level of activity varies by market depending on many factors including general economic conditions, mortgage and other interest rates, inflation, unemployment, demographic trends, weather, the price of fuel and consumer confidence.

The Group's businesses closely monitor both market and geographic trends and understand lead and lag indicators in order to take timely actions to address issues affecting trading.

The diversity of the Group's operations, the nature of its customer base and its ability to react to market changes also provide a degree of protection. The Group actively manages both its acquisitions activity and new branch openings to ensure it is best placed to exploit market opportunities.

Product prices and availability

The market price and availability of products distributed by the Group, such as stainless steel, copper, plastic and other products (or commodities used in such products), can fluctuate. These fluctuations can affect operating results.

Lumber prices are affected both by changes in the availability of the raw logs and by changes in the volume and age profile of production capacity in the industry.

Product shortages may arise as a result of unexpected demand or production difficulties and this could have an effect on the Group's operations.

The Group's businesses actively review market prices for their supplies and take steps to protect themselves or, indeed, maximise opportunities arising from significant anticipated price rises. In many cases, the businesses are able to cooperate with their supplier base to manage the effects of such product price changes. Generally, the Group is able to pass on price increases from its suppliers to customers.

The Group sources products from a wide variety of manufacturers and suppliers with none of these accounting for more than 5% of its total material and supply purchases during the 2006 financial year. Increasing collaboration with suppliers including joint demand forecasting initiatives is also helping to better manage product shortage issues.

Wolseley's value proposition centres around the service, expertise and the product breadth it offers

Risk	Resource management
<p>Competitive pressures</p> <p>The Group operates in a number of different markets with differing characteristics. The principal aspects of the Group's offerings that have an impact on its competitive position in a market are product availability, supply chain efficiency, pricing, customer service, branch location, availability of credit, technical product knowledge with respect to application and usage and advisory and other service capabilities.</p> <p>In its markets, Wolseley competes with and is affected by the actions of many local and regional distributors together with product manufacturers. Consolidation in the building materials market may produce pressure on prices and margins.</p>	<p>The Group actively works with its customers to find innovative ways to meet their changing needs in order to remain at the forefront of its chosen markets. Wolseley's value proposition centres around the service, expertise and the product breadth it offers rather than strictly competing on price.</p> <p>The combination of Wolseley's international scale, allowing it to continually invest efficiently in people, technology and logistics, thus reducing the underlying cost base, together with local company autonomy for managing the customer base, is designed to enhance the Group's competitive position.</p>
<p>Systems and infrastructure capabilities</p> <p>Wolseley targets sustained double-digit expansion from acquisitions and organic growth. This growth places increasing demands on Wolseley's existing systems and on its supply chain and logistics infrastructure. Additionally, to support and enable future growth, the Group is undertaking multiple business change initiatives.</p>	<p>Wolseley is committed to investing to support its short, medium and long-term growth targets and ensure the appropriate infrastructure is in place. There are a variety of business improvement initiatives underway relating to supply chain, sourcing, human resources, the deployment of technology and customer service.</p> <p>These initiatives are actively and carefully planned with defined governance procedures in place. An important component of this planning process is to ensure that the risks of disruption to the business are controlled and monitored.</p>
<p>Identification and successful integration of acquisitions</p> <p>Wolseley's growth strategy is in part dependent on acquiring businesses but market consolidation may, over a period of time, lead to increased competition for targets and as a result higher acquisition prices or fewer value-creating prospects.</p> <p>The integration of acquisitions also involves a number of unique risks, including diversion of management's attention, failure to retain key personnel of the acquired business and risks associated with unanticipated events or liabilities.</p>	<p>The Group continually reviews acquisition targets through established processes and searches. The status of targeting and progress in making acquisitions is reported regularly to the Board and the Executive Committee.</p> <p>The Group employs dedicated acquisition and integration teams whose processes have given the Group a successful track record of integrating acquisitions and achieving expected results. Recent changes have been made to the Group's management structure to increase the central resource focused on identifying and integrating acquisitions.</p> <p>The Group typically targets high quality businesses for acquisition, which not only quickly contribute to cash flow and earnings, but also expand the depth of management knowledge and expertise and provide opportunities for best practice sharing with existing businesses.</p> <p>The Group continues to expect to find sufficient, suitably priced acquisitions, to enable it to meet its growth targets. The Group also has the advantage of being able to expand and leverage its extensive existing network as an alternative means to achieving growth in certain areas.</p>

One of Wolseley's key competitive advantages is the quality and experience of its people

Risk	Resource management
<p>Governmental regulations</p> <p>The Group's operations are affected by various statutes, regulations and laws in the countries and markets in which it operates. While the Group is not engaged in a regulated industry, it is subject to the laws governing businesses generally, including laws affecting land usage, zoning, environmental (including laws and regulations affecting the supply of lumber), health and safety, transportation, labour and employment practices (including pensions), competition and other matters. In addition, building codes or particular tax treatments may affect the products Wolseley's customers are allowed to use and consequently, changes in these may affect the saleability of some Wolseley products.</p>	<p>The Group monitors regulations across its markets to ensure that the effects of changes are minimised.</p> <p>Certain changes in regulations may also positively impact the businesses. For instance, changes in building regulations in the UK with regard to the level of heat insulation required in new buildings has presented a growth opportunity for Wolseley UK through the acquisition of Encon. Such changes may also provide demand for a broader and higher margin product range.</p>
<p>Litigation</p> <p>The international nature of Wolseley's operations exposes it to the potential for litigation from third parties. In the USA, the risk of litigation is generally higher than that in Europe in such areas as workers' compensation, general employer liability and environmental and asbestos litigation.</p> <p>There is risk that due to the increasing sourcing of products from lower cost countries, recourse to the manufacturer may be more difficult were a product to fail for a customer.</p>	<p>Wolseley has a culture and approach which is designed to resolve disputes directly with the party in question in a spirit of openness and cooperation. Litigation is regarded as a last resort.</p> <p>In the case of asbestos litigation, Wolseley employs independent professional advisers to actuarially determine the potential gross liability, which necessitates the application of certain assumptions relating to claims development and the cost of settling such claims over the remaining lifetime of the potential litigants, which is approximately 50 years. There are a number of factors which could enable actual experience to differ from the assumptions made. Actual experience is reviewed against the assumptions each year and the liability adjusted in the financial statements.</p> <p>Wolseley has insurance which significantly exceeds the current estimated liability relating to asbestos claims. Based on current estimates, no profit or cash flow impact is therefore expected to arise in the foreseeable future. Wolseley has recognised a discounted liability of £31 million in respect of asbestos litigation. An equal receivable amount of £31 million is shown in other receivables reflecting the discounted sum recoverable from insurers in respect of this liability.</p>
<p>People</p> <p>Wolseley's ability to provide leadership and products and services to customers is dependent on retaining sufficiently qualified, experienced and motivated personnel.</p> <p>In order to achieve its growth strategy and increase productivity, Wolseley must continue to increase this skill and experience base to develop the managers of the future.</p>	<p>One of Wolseley's key competitive advantages is the quality and experience of its people. Local companies have allocated specific responsibilities for reviewing the performance of senior managers and employees with high potential. Development and succession planning for these individuals is planned and strong performance is actively rewarded.</p> <p>The Group continues to invest significant time and money in senior management, manager development and graduate trainee and graduate recruitment programmes.</p>

Increasingly, the Group's businesses are working together to meet customers' needs and to ensure the Group achieves more international leverage

Risk	Resource management
<p>Risks related to international operations</p> <p>Wolseley has its principal operations in North America and Europe and is therefore subject to the specific risks of conducting business in these regions. In addition, there are particular risks arising from managing operations internationally:</p> <ul style="list-style-type: none"> • fluctuations in currency exchange rates may affect Wolseley's reported operating results and its financial position; • changes in tax regulation and international tax treaties could affect the financial performance of Wolseley's foreign operations; and • changes in other regulations/treaties may also affect the ability of the Group to repatriate profits from its foreign operations. <p>The management of Wolseley's businesses and personnel across 19 countries can also present logistical and management challenges due to different business cultures, laws and languages.</p>	<p>Wolseley believes that the benefits of its geographical spread outweigh the associated risks. The portfolio effect of economic conditions, exchange rates and other associated factors of having operations in Europe and North America provide some protection in terms of the long-term performance of Wolseley.</p> <p>The Group continually seeks opportunities to increase its business diversity and has programmes in place to share best practice. Increasingly, the Group's businesses are working together to meet customers' needs and to ensure the Group achieves more international leverage.</p> <p>The Group seeks to manage its foreign currency risk and the steps it takes are described in the Financial Risk Management section on pages 39 to 41. The Group actively works with its taxation advisors to minimise its tax exposure and risk.</p>
<p>Credit risk</p> <p>Wolseley provides sales on credit terms to many of its customers. There is an associated risk that customers may not be able to pay outstanding balances.</p> <p>Stock Building Supply also provides loans to finance the construction of properties. There is an associated risk that customers may not be able to pay outstanding loan balances.</p>	<p>Each of the businesses have established procedures in place to review and collect outstanding receivables. Significant outstanding and overdue balances are reviewed on a regular basis and resulting actions are put in place on a timely basis. In many cases, protection is provided through lien rights on projects or through credit insurance arrangements.</p> <p>All of the major businesses use professional, dedicated credit teams, in some cases field based. Not only does this lessen the risk of non-payment but it can also provide opportunities where these teams can work with higher risk customers to provide innovative, secured credit arrangements.</p> <p>Historic write off rates are low and appropriate provisions are made for debts that may be impaired on a timely basis.</p> <p>Stock Building Supply's construction loans are secured on the related properties and are managed by a dedicated lending team within that business. Policies are also applied to provide further protection and Key Performance Indicators are monitored regularly by management outside the business.</p>

+19.7%

The increase in earnings
per share

25,322

The reported revenue
expressed in millions
of US Dollars

**Group revenue
increased by
25.8% from
£11,256 million to
£14,158 million**

**Shareholders'
funds increased
by £291 million
from £2,301
million to
£2,592 million**

Financial review

Revenue and operating profit

After taking account of currency translation, Group revenue increased by 25.8% from £11,256 million to £14,158 million.

Operating profit increased by 18.8% from £702 million to £834 million. Trading profit rose by 24.7% from £708 million to £882 million, before deducting amortisation of acquired intangibles of £48 million (2005: £6 million).

Currency translation

Currency translation increased Group revenue by £274 million (2.4%) and Group trading profit by £18 million (2.5%). Over the past five years the constant currency growth of the Group is as follows:

Annual growth in constant currency 2006	2006	2005	2004	2003	2002
Revenue growth	22.8%	14.2%	29.5%	8.5%	11.0%
Trading profit growth	21.6%	19.7%	37.2%	6.9%	12.6%

Note: 2006 and 2005 figures prepared under IFRS. 2004, 2003 and 2002 figures prepared under UK GAAP.

The effect of US dollar appreciation has been to increase translated US profits by £14 million (2.5%) compared to 2005. US dollar denominated profits account for 63.3% of the Group's trading profit.

There has been little movement in the Euro translation rate. Euro denominated profits accounted for 15.2% of Group trading profit in 2006. If the results of the Group are translated into dollars at the average rate for the respective year the results of the Group are as follows:

US\$ million	2006	2005	2004	2003	2002
Revenue in US\$	25,322	20,839	17,746	13,113	11,608
Trading profit in US\$	1,577	1,311	1,085	754	676
Operating profit in US\$	1,491	1,300	1,017	706	637

Note: 2006 and 2005 figures prepared under IFRS. 2004, 2003 and 2002 figures prepared under UK GAAP.

Further US\$ figures and the basis of computation of the above figures can be found within the *Information in US dollars* section on page 145.

Finance costs

Net finance costs of £65 million (2005: £37 million) reflect an increase in Group debt as a result of acquisitions and an increase in interest rates, partly offset by strong operating cashflow and £5 million (£3 million) of interest received on the previously announced French wood tax refund. Net interest receivable on construction loans amounted to £12 million (2005: £9 million). Interest cover was 14 times (2005: 23 times).

Tax

The effective tax rate, being tax payable on profit before tax and amortisation of acquired intangibles, increased marginally from 27.7% to 28.4%.

Earnings per share

Before the amortisation of acquired intangibles, earnings per share increased by 19.7% from 82.60 pence to 98.90 pence. Basic earnings per share were up by 11.2% to 90.77 pence (2005: 81.61 pence). The average number of shares in issue during the year was 592 million (2005: 587 million).

Dividends

The Board is recommending a final dividend of 19.55 pence per share (2005: 17.60 pence per share) to be paid on 30 November 2006 to shareholders registered on 6 October 2006. The total dividend for the year of 29.40 pence per share is an increase of 11.4% on last year's 26.40 pence. Dividend cover is 3.1 times (2005: 3.1 times). The increase in dividend for the year reflects the Board's confidence in the future prospects of the Group and its strong financial position. The dividend reinvestment plan will continue to be available to eligible shareholders.

Financial position

Shareholders' funds increased by £291 million from £2,301 million to £2,592 million. The net increase comprised the following elements:

	2006 £m	2005 £m
Retained profits	537	479
Dividends	(162)	(145)
New share capital subscribed (exercise of share options)	31	33
Purchase of own shares by ESOP trusts	(27)	(19)
Exchange translation (including related taxes)	(131)	82
Share based payments (including related taxes)	34	27
Other	9	(10)
Increase in shareholders' funds	291	447

£346m

The capital expenditure
invested in the year

14 times

The interest cover for the year
ended 31 July 2006

**During the period
the DC and
branch network
in the USA was
expanded,
investment
continued in DCs
in the UK and
Italy and further
expenditure was
incurred on the
common IT
platform**

During the year the Group entered into certain foreign exchange transactions to hedge the Group's foreign currency net assets. Gains and losses on these transactions were taken to reserves. The gains and losses are subject to taxation and accordingly the taxation arising has been charged to reserves.

The Group's employee benefit trusts purchased 2 million shares for £27 million, including dealing costs, during the period in order to allow greater flexibility in the settlement of long-term employee incentives.

Net debt, excluding construction loan borrowings, at 31 July 2006 amounted to £1,950 million compared to £1,171 million at 31 July 2005, giving gearing of 75.2% compared with 50.9% at the previous year end and up from 68.1% at the half year. The movement of sterling against overseas currencies, particularly the US dollar, resulted in a translation difference of £22 million which decreased borrowings on the balance sheet.

The Group seeks to maintain a level of gearing, generally in the range of 40% to 100%, to strike an appropriate balance between maintaining an efficient capital structure and having sufficient flexibility to fund further acquisitions. Interest cover for the year was 14 times (2005: 23 times). The Group is content to see interest cover in the 7-10 times range over a number of years but would allow the cover to reduce to 5 times in appropriate circumstances.

In the USA, construction loan receivables, financed by an equivalent amount of construction loan borrowings, were £313 million (2005: £262 million).

The increase is due to an expanding loan book and additional business generated from the opening of five new construction lending offices.

Return on gross capital employed ("ROGCE") decreased slightly from 19.1% to 18.8% as a result of acquisitions, partly offset by the significant organic growth. The ROGCE remains well above the Group's weighted average cost of capital, demonstrating significant shareholder value creation.

The unamortised balance of acquisition goodwill in the balance sheet as at 31 July 2006 is £1,173 million (2005: £815 million) with the increase being due to the goodwill arising on acquisitions in the year. As set out in note 12, the Group recognised, in accordance with IAS 38, acquired intangibles of £251 million. These represent principally customer relationships and brand names.

Provisions in the balance sheet (note 26) include the estimated liability for asbestos claims on a discounted basis. This liability has been determined by independent professional actuarial advisers. The asbestos related litigation is fully covered by insurance and accordingly an equivalent insurance receivable has been included in receivables. The level of insurance cover available significantly exceeds the expected level of future claims and no profit or cash flow impact is therefore expected to arise in the foreseeable future. There were 246 claims outstanding at 31 July 2006 (2005: 235).

Details of the pension schemes operated by the Group are set out in note 27 to the accounts.

Cash flow

The cash flow performance of the Group over the last five years is summarised below.

	2006 £m	2005 £m	2004 £m	2003 £m	2002 £m
Cash flow from operating activities	850	765	325	608	584
Maintenance capex*	(140)	(117)	(108)	(93)	(93)
Tax	(206)	(151)	(128)	(108)	(120)
Dividends	(162)	(145)	(136)	(113)	(100)
Interest	(57)	(31)	(13)	(25)	(23)
Free cash flow	285	321	(60)	269	248
Acquisitions less disposals	(820)	(401)	(123)	(504)	(162)
Expansion capex	(206)	(122)	(28)	(15)	(7)
Other	(38)	1	96	(31)	69
Movement in debt	(779)	(201)	(115)	(281)	148

Note: 2006 and 2005 figures prepared under IFRS. 2004, 2003 and 2002 figures prepared under UK GAAP.

*Maintenance capex is considered as equivalent to depreciation

£6,814m

The market capitalisation of the Group at 31 July 2006

On 24 July 2006 Wolseley agreed, conditional on regulatory approval, to acquire DT Group, the Nordic region's leading distributor of building materials

Net cash flow from operating activities increased from £765 million to £850 million, despite the increase in working capital required to support higher organic growth in the USA. Free cash flow after dividends was £285 million (2005: £321 million).

Capital expenditure increased from £239 million to £346 million reflecting continued investment in the business. During the period the DC and branch network in the USA was expanded, investment continued in DCs in UK and Italy and further expenditure was incurred on the common IT platform. Capital expenditure is expected to remain at a relatively high level over the next few years with further investments in DCs, new branch openings and IT as the Group continues to put in place the infrastructure required to support substantial growth and improved margins.

Investments in acquisitions completed during the year, including any deferred consideration and net debt, amounted to £914 million (2005: £431 million). These 53 acquisitions are expected to add around £1,418 million per annum of incremental revenues in a full year. Further details regarding acquisitions are included in note 31.

Shareholder return

The Group monitors relative Total Shareholder Return ("TSR") for incentive purposes (as set out within the Remuneration report on pages 64 and 65) and for assessing relative financial performance.

For the year ended 31 July 2006, Wolseley achieved an annualised TSR of 7.4% based on the average closing price achieved during July 2006, which put it in 54th position against the monitored peer group of 71 companies drawn from the FTSE 100 and the building materials and construction sectors utilised for the latest award under the long-term incentive plan. Details of TSR performance since 2002 and the composition of the peer group are set out in the Remuneration report. We continue to monitor return on capital including goodwill, throughout the Group, as one of the key measures of business performance. Return on gross capital employed (as defined in the Five year summary on pages 143 to 144) was 18.8% (2005: 19.1%), well ahead of the Group's weighted average cost of capital, thereby generating shareholder value. At the close of business on the date of the Report of the Directors, the value of an ordinary share as quoted in the Financial Times was 1094.0 pence per share (2005: 1156.0 pence) a decline of 5.4%. The decrease primarily reflects adverse market sentiment relating to the Group's exposure to the slowing US housing market. The market capitalisation of the Group at the date of this Report was £7,190 million (2005: £6,845 million) reflecting the placing of 59.5 million shares on 25 September 2006. The total dividend

of 29.4 pence per share in respect of the financial year gives a yield of 2.7%.

Post balance sheet events

Acquisition of DT Group

On 24 July 2006 Wolseley entered into an agreement, conditional on regulatory approval, to acquire DT Group, the Nordic region's leading distributor of building materials for cash consideration of €1,498 million together with the assumption of the indebtedness of DT Group. Regulatory approval has now been received and it is anticipated that the acquisition will complete on 25 September 2006.

Placing

On 25 September 2006, a placing of approximately 10% of the issued ordinary share capital was undertaken to raise approximately £650 million. The placing will reduce the debt which has built up as a result of the £914 million of acquisitions in 2006 and the £1.35 billion acquisition of DT Group. The placing will also restore the Group's financial flexibility to enable it to continue to pursue its strategy of organic and acquisitive growth.

Pro forma gearing, following the acquisition of DT Group and the expected net proceeds from the placing, is 79.1% whilst pro forma interest cover is 14 times.

Other post balance sheet events

There have been no other significant post balance sheet events.

Other financial matters

Financial risk management

The Group is exposed to market risks arising from its international operations. The Group has well defined and consistently applied policies for the management of foreign exchange and interest rate exposures. There has been no change since the year end in the major financial risks faced by the Group. The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and foreign currency risk.

The treasury committee of the Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies are regularly reviewed. The Group's financial instruments, other than derivatives, comprise borrowings, cash and liquid resources and various items, such as trade receivables and trade payables that arise directly from its operations. The Group also enters into derivative transactions (principally interest rate swaps and forward foreign currency contracts). The purpose of such transactions is to hedge certain interest rate and currency risks arising from the Group's operations and its sources of finance.

US\$1,200m

The amount raised through
the Private Placement

In September 2005, the Group diversified its core funding by launching a US Private Placement

Details of financial instruments are shown in note 20 to the accounts.

Derivatives are also used to a limited extent to hedge movements in the price paid for lumber. These options and futures hedging contracts mature within one year and all are with organised exchanges. The Group's policy is to control credit risk by only entering into financial instruments with authorised counterparties after taking account of their credit rating.

It is and has been throughout the period under review, the Group's policy that no trading in financial instruments or speculative transactions be undertaken.

Interest rate risk

The Group finances its operations through a mixture of retained profits and bank and other borrowings. The Group borrows in the desired currencies principally at floating rates of interest and then uses interest rate swaps to generate the desired interest rate profile, so managing the Group's exposure to interest rate fluctuations.

At the year end approximately £1,023 million of the Group's net debt were at fixed rates for one year or more, after taking account of swaps.

The Group reviews deposits and borrowings by currency at treasury committee and Board meetings. The treasury committee gives prior approval to any variations from floating rate arrangements.

Liquidity risk

The Group seeks a balance between certainty of funding and a flexible, cost-effective borrowings structure. The Group's policy is to ensure that, as a minimum, all projected net borrowing needs are covered by committed facilities arranged and provided by the corporate office, supplemented where appropriate by local facilities.

The Group's strong earnings and low gearing are such that the ratio of net debt to EBITDA (earnings before interest, taxes, depreciation and amortisation) for the year was 1.91:1 (2005: 1.42:1). This increase on the prior year is principally due to the high level of acquisitions in the year. In the absence of significant acquisitions or exceptional organic growth, the Group would anticipate having surplus funds within the medium term. The Group does, however, actively seek opportunities to secure long-term funding at attractive rates.

In September 2005, the Group diversified its core funding by launching a US Private Placement. The issue was a great success raising US\$1,200 million (£643 million) consisting of 8 tranches ranging in

maturity from 3 to 15 years. This is the largest Private Placement ever by a foreign issuer. The Group took advantage of favourable market conditions to obtain long-term debt funding at rates comparable to the 5 year bank syndicated debt market. This diversification of funding marks another step in the growth of the Group and reduces its reliance solely on the bank market for debt funding.

In May 2006, the Group refinanced the great majority of its bank debt with a highly successful bank syndication, which raised €2,800 million with a maturity of just over 5 years. The syndicate reaffirmed the Group's core banks which provide financial services to subsidiaries in all the countries in which the Group operates.

The year-end maturity profile of the Group's centrally managed facilities was as follows:

	2006 Facility £m	2005 Facility £m
Maturity		
Less than one year	200	277
1-2 years	34	709
2-3 years	174	378
3-4 years	343	72
4-5 years	111	396
Greater than 5 years	2,282	-
Total	3,144	1,832

At 31 July 2006, the Group had committed undrawn loan facilities of £780 million available to fund working capital, investments and general corporate purposes, as follows:

	2006 Facility £m	2005 Facility £m
Less than one year	200	200
1-2 years	-	143
Over two years	580	48

Foreign currency risk

The Group has significant overseas businesses whose revenues are mainly denominated in the currencies of the countries in which the operations are located. Approximately 59.1% of the Group's revenue is in US dollars. The Group does not have significant transactional foreign currency cash flow exposure. However, those that do arise are generally hedged with either forward contracts or currency options. The Group does not normally hedge profit translation exposure since such hedges have only temporary effect. Most of the foreign currency earnings generated by the Group's overseas operations are reinvested in the business to fund growth in those territories. The Group's policy is to maintain the majority of its debt in the currencies of its operating companies as this hedges both the net assets and cash flows of the Group.

Details of average exchange rates used in the translation of overseas earnings and of year-end exchange rates used in the translation of overseas balance sheets, for the principal currencies used by the Group are shown in the Five year summary on page 144 to the accounts. The net effect of currency translation was to increase revenue by £274 million (2.4%) and to increase trading profit by £18 million (2.5%).

These currency effects reflect a movement of the average sterling exchange rate against each of the major currencies with which the Group is involved as follows:

	2006 (Strengthening)/ weakening of sterling	2005 (Strengthening)/ weakening of sterling
US dollar	3.5%	(5.4)%
Euro	0.1%	0.3%

Commodity risk

The Group's operating performance is affected by price fluctuations in stainless steel, nickel alloy, copper, aluminium, plastic, lumber and other commodities. The Group seeks to minimise the effects of changing prices through economies of purchasing and inventory management, resulting in cost reductions and productivity improvements as well as price increases to maintain reasonable profit margins. With the exception of lumber futures held to hedge future sales commitments, no trading instruments are held in respect of these commodities. At 31 July 2006, the Group held no lumber futures contracts.

Market price risk

The Group regularly monitors its interest rate and currency risk by reviewing the effect on profit before tax over various periods of a range of possible changes in interest rates and exchange rates. On the basis of the Group's analysis it is estimated that the maximum effect of a rise of one percentage point in the principal interest rates on the Group's continuing businesses would result in an increase in the interest charge of approximately £9 million. Similarly, it is estimated that a strengthening of sterling by 10% against all the currencies in which the Group does business would reduce operating profit before amortisation of acquired intangibles by approximately £75 million (8.5%) due to currency translation.

Financial reporting

These financial statements are the Group's first prepared under IFRS. Note 45 to the accounts sets out the restatement of the results for the year ended 31 July 2005 from UK GAAP to IFRS.

The Group's accounting policies set out on pages 75 to 79 of the accounts have been updated to reflect the requirements of IFRS. There have been no other amendments or changes to the Group's selected accounting policies.

Insurance

The insurance arrangements of the Group are reviewed annually. The Group has a captive insurance company which is registered and operational in the Isle of Man. No policies are written for third parties. The administration is undertaken by a specialist management company.

Going concern

The Directors are confident, on the basis of current financial projections and facilities available, that the Company and the Group have adequate resources to continue in operation for the foreseeable future. Accordingly the Directors continue to adopt the going concern basis in preparing the financial statements.

Our Board

1 John W Whybrow^c **Chairman**

First appointed to the Board on 1 August 1997, Mr Whybrow became Chairman on 13 December 2002. He is Chairman of the Nominations Committee. Mr Whybrow is a Non Executive Director of DSG International plc and Chairman of CSR plc. He was President and Chief Executive Officer of Philips Lighting Holding B.V., based in the Netherlands, until 2001 and Executive Vice President, Philips Electronics from 1998 until March 2002, when he returned to the UK. Mr Whybrow is Chairman of Petworth Cottage Nursing Home. Age 59.

EXECUTIVE DIRECTORS

2 Claude 'Chip' A S Hornsby^{b, c, e} **Group Chief Executive**

First appointed to the Board on 3 May 2001, Mr Hornsby was appointed Group Chief Executive on 1 August 2006, following Mr Banks' retirement. He was previously the Chief Executive North America, having been President and Chief Executive Officer of Ferguson Enterprises Inc, the US Plumbing and Heating Division since 2001. He has spent 28 years with Ferguson. Mr Hornsby is a Non Executive Director of Virginia Company Bank. Age 50.

3 Fenton N Hord^b **Chief Executive, US Building Materials Distribution**

First appointed to the Board on 2 October 2000. He joined the Group as Chief Executive of Stock Building Supply Inc. in 1987. Prior to then, Mr Hord was President of Eskimo Pie Corporation, a subsidiary of Reynolds Metals Co. He is a Non Executive Director of Investors Management Corporation. Age 59.

4 Robert H Marchbank^b **Chief Executive, Europe**

First appointed to the Board on 24 January 2005, Mr Marchbank is responsible for all the European businesses. He first joined Ferguson Enterprises Inc. in 1982 and in 2001 he moved to the UK to join the newly created Wolseley Group headquarters as Director of Strategic Planning and was then appointed as the Director of Information and Processes. Age 46.

5 Frank W Roach^b **Chief Executive, North America**

First appointed to the Board on 16 December 2005. Mr Roach is responsible for the North American businesses. He first joined Ferguson Enterprises Inc. in 1976 and held a number of business roles. In 2005, Mr Roach was appointed as Senior Vice President of the Wolseley North America management team, playing a key part in further developing and expanding the Group's North American businesses. Age 55.

6 Stephen P Webster^{b, e} **Group Finance Director**

Chartered Accountant. First appointed to the Board on 1 August 1994 as Group Finance Director designate. Appointed as Group Finance Director on 9 December 1994. Formerly a partner in Price Waterhouse. He is a Non Executive Director of Bradford & Bingley plc. Age 53.

NON EXECUTIVE DIRECTORS

7 Gareth Davis^{a, c, d}

First appointed to the Board on 1 July 2003. He is a member of the Audit, Remuneration and Nominations Committees and is the Senior Independent Non Executive Director. Mr Davis has been Chief Executive of Imperial Tobacco Group plc since its incorporation in 1996, having spent the last 34 years in the tobacco industry. Age 56.

8 Andrew J Duff^{c, d}

First appointed to the Board on 1 July 2004. He is Chairman of the Remuneration Committee and a member of the Nominations Committee. Mr Duff is Chief Executive of RWE npower plc. He spent 14 years at BP plc where he held leading positions in marketing and oil trading and was latterly the Director of Strategic Planning for BP Oil, USA. Mr Duff is a member of CBI President's committee. Age 47.

9 James I K Murray^a

A Chartered Accountant. First appointed to the Board on 12 April 2002. He is Chairman of the Audit Committee. Mr Murray was Finance Director of Land Securities PLC from 1991 until his retirement in 2001. Mr Murray is the Chairman of Trustees of the Land Securities Pension Fund. Age 60.

10 Nigel M Stein^a

First appointed to the Board on 1 December 2003. He is a member of the Audit Committee. A Chartered Accountant, Mr Stein has been Finance Director of GKN plc since August 2001 and has also worked in a number of other senior financial roles in his 11 years with the GKN Group. Prior to GKN, he held senior financial positions with Laird Security Systems and Hestair Duple Limited. Age 50.

11 Robert M Walker^{c, d}

First appointed to the Board on 1 July 1999. He is a member of the Remuneration and the Nominations Committees. Mr Walker is Non Executive Chairman of WH Smith PLC and a Non Executive Director of Tate & Lyle plc, Williams Lea Group Limited and Signet Group plc. Mr Walker was, until February 2005, Group Chief Executive of Severn Trent Plc and a Non Executive Director of BAA plc. He also previously worked for Procter & Gamble, McKinsey and Company and for over 20 years with PepsiCo Inc., where he was a Division President. Mr Walker is an advisor to Cinven. Age 61.

12 Mark J White^{b, f} **Group Company Secretary and Counsel**

A solicitor who joined Wolseley on 1 July 2002. Mr White is secretary to the Audit, Nominations, Treasury and Remuneration Committees. He is a member of the Executive Committee and a Trustee of the UK and Irish Defined Benefit Pension Schemes. Mr White was previously Company Secretary of Enterprise Oil plc and Rotork plc. Age 46.

- a) Member of the Audit Committee
- b) Member of the Executive Committee
- c) Member of the Nominations Committee
- d) Member of the Remuneration Committee
- e) Member of the Treasury Committee
- f) Trustee of the UK and Irish Defined Benefit Pension Schemes

Corporate social responsibility report

In March 2006 we became a member of the FTSE4Good Index

Although the Board believes that the environmental impact of our distribution activities is comparatively low, we are committed to sound Corporate Social Responsibility ("CSR") policies and practices for good business reasons. Our commitment to CSR is not simply a response to increased market attention in this area, but such issues reinforce the way that our various businesses operate.

We regard CSR as a sustainable approach to business that seeks benefits for all of our stakeholders, be they customers, employees, communities, the environment or the Company and its shareholders. During the year we have maintained our dialogue with stakeholders in this important area. We are committed to the highest standards of corporate governance and environmental as well as other CSR issues form part of the overall internal control process. The Board believes that the businesses are best served by creating a safe working environment that encourages and supports high levels of business performance.

We focus on issues such as safety, training, behaviour-based performance and the provision of opportunities for our employees' career growth and development. Local community initiatives are considered to be investments providing support that will assist those communities, complement the aspirations of our customers, give our employees opportunities for professional development and help us to achieve our business objectives. The Board believes that the progressive integration of CSR throughout the business and the incorporation of broader social and environmental issues into day-to-day decision making will better enable us to achieve our goals.

In March 2006, we became a member of the UK's FTSE4Good Index Series following its Policy Committee's decision that we had met its inclusion criteria. The FTSE4Good Index is designed to measure the performance of companies that meet globally recognised corporate responsibility standards and to facilitate investment in those companies where CSR issues are an influencing factor in the investor's decision making process.

Health, safety and environment

A key driver of the Group's success has been the high degree of autonomy which has been afforded to local managements, allowing them to serve local markets in the most appropriate manner. Within this decentralised structure, the Board has set down a number of health, safety and environment principles with which all the Group's businesses are required to comply. The principles relating to environment cover: the integration of environmental management into

business operations; a commitment to the adoption and achievement of best practice wherever this is practicable; a commitment to prevent pollution; compliance with local environmental legislation; the adoption where practicable of local formal environmental management systems; a commitment to strive for continual improvement; and a commitment to ensure proper communication with employees on environmental matters.

Timber

PB & M ("PBM"), the French heavyside business, purchased 940,000m³ of timber in the financial year ended 31 July 2005 and 957,971m³ in the financial year ended 31 July 2006. More than 91% in the financial year ended 31 July 2006 (2005: 88%) of such timber was softwood, mainly sourced from countries such as Russia, Finland, France and Sweden. A little over 3% of the timber purchased in the year to 31 July 2006 was hardwood (2005: 5%), sourced from suppliers who have not been censured by the United Nations as part of resolution number 2001/1343. PBM works with its suppliers to ensure that timber is sourced from forests which have been certified by recognised forestry associations which promote sustainable forestry management. During the year further investment has been made in PBM's IT systems to enable more accurate tracking of the sources of timber purchased. PBM saw a 4% reduction to 44% in the timber purchased in the year from certified suppliers, although much of the reduction is attributable to increased reporting accuracy from the enhanced IT system. PBM, like Build Center and Stock Building Supply, has engaged with its suppliers of Indonesian plywood with a view to ensuring that any illegal logging is excluded from the supply chain. Imports of Indonesian plywood accounted for a little over 1% of all timber purchased by PBM in the financial year ended 31 July 2006 (2% in the year ended 31 December 2005). Stock Building Supply's purchases of Luan plywood remained under 0.05% of its timber purchases in the year ended 31 July 2006. None of Build Center, PBM or Stock Building Supply purchase without appropriate permits any species of timber included in any of the Appendices to the Convention on International Trade in Endangered Species of Wild Fauna and Flora, which, inter alia, identify threatened species of trees. Le Commerce du Bois, the French timber trade federation of which PBM is a member, submitted a code of practice to the French environment ministry in June 2005. The code, which is based on both French domestic and internationally recognised standards, has been developed by the federation working with importers and distributors and is intended to set the standards for timber sourcing, purchasing and distribution in France. The code

Chain of custody volumes in Build Center exceeded target by 28%

is expected to be agreed by all relevant parties in September 2006. In the UK, Build Center purchased 350,000m³ of timber in the financial year ended 31 July 2005 and 347,483m³ in the financial year ended 31 July 2006. More than 90% in 2005, and 88% in 2006 of such timber was sourced from Finland, Germany, Latvia, the UK and other European countries. Less than 0.9% in 2005 and 0.5% in 2006 of such purchases were of hardwood. Some 72% of Build Center's raw material purchases made in the year ended 31 July 2006 (2005: 67%) were from certified sources. During the year Build Center continued to engage with its suppliers with regard to the responsible sourcing of timber and the elimination of illegal timber from the supply chain. In June 2006 the governing board of the UK Timber Trade Federation ("TTF"), of which Build Center is a member, voted to make its Responsible Purchasing Policy ("RPP") which had been successfully trialled by Build Center in 2004, a condition of its membership, subject to the consent of its members. Formulated by the TTF to meet the requirements of the UK Government's own timber procurement policy, the RPP was developed with the benefit of input from principal suppliers, with a view to ensuring that increasing volumes of sustainable timber are progressively being made available to businesses especially where timber is sourced from forests where certification schemes are not widely in place. Wolseley UK continues to promote the use of its web-based interface onto which its suppliers can log their responses to specific questions and submit documentary evidence in support of their provenance, such as chain of custody certificates. Following a successful round of supplier audits in 2005, 80% of timber supplies to Wolseley UK are documented through the interface. It is intended that over the next 12 months the interface will be extended to collect and store data related to timber supplies from Stock Building Supply and PBM.

Stock Building Supply purchased some 4,580,000m³ of timber in the year ended 31 July 2005 and 5,398,000m³ in the year ended 31 July 2006 of which a little under 1,600,000m³ were structural panels. Over 95% of timber purchased by Stock Building Supply in the financial years 2005 and 2006 were sourced from the USA and Canada, with approximately 3% being sourced from Europe. The percentage of such purchases made from suppliers who hold certifications from recognised forestry sustainability agencies, such as the American Forest Products Association and the Canadian Standards Association remained at 90% for the third consecutive year. The American Forest Products Association's Sustainable Forest Initiative programme requires participants to meet an exacting standard of environmental principles, objectives and performance measures. The standard integrates the perpetual

growing and harvesting of trees with the protection of wildlife, plants, soil and water quality, together with a wide range of conservation goals. Stock Building Supply maintains a constant dialogue with its suppliers, reviewing their environmental practices and policies, encouraging sustainable forestry management practices and seeking opportunities to improve the use of natural resources. Sales of engineered wood products, which are substitutes for wide dimension solid-sawn timber, increased by a further 10% in the year ended 31 July 2006 (2005: 21.6%). Such substitutes improve structural performance, thereby reducing the need to harvest as many larger, older trees.

Chain of custody

It is well recognised that whilst sustainable sourcing is vital, it is also key that illegal timber is eliminated from the supply chain, from the forest of origin to the end user. In the UK, Build Center began work in 2003 on a chain of custody project that initially saw the implementation of new procedures in five branches with 16 products within scope, all of which had been independently audited and approved by, or on behalf of, both the Forest Stewardship Council ("FSC") and Programme for the Endorsement of Forest Certification ("PEFC"). The project required Build Center to identify certified sources for these initial 16 products, adapt management systems to identify and capture relevant data, undertake on-site training, create a dialogue with suppliers and create new documentation to ensure that despatch notes and invoices contain chain of custody certification numbers and references to the certified status of the product. Internal and independent third party audits have also been conducted. From the original 16 products, the number of products within the chain of custody scheme now exceeds 3,000 and certification has been achieved at a further 41 branches during the year ended 31 July 2006 (2005: 15 branches), bringing the total to 61 branches by the end of the financial year. Work continues to secure accreditation at all of its remaining branches with the current target being to achieve accreditation at a further 59 branches by 31 July 2007. The volume of timber controlled within the chain of custody scheme in the year ended 31 July 2006 was 104,500m³ (2005: 30,000m³), some 30% of total timber purchased (2005: 8.6%). This exceeded the target of 75,000m³ for the year ended 31 July 2006 by 28%. PBM's hardwood business, as well as its garden products business, Cerland, achieved certification for their chain of custody procedures in 2003. Significant progress has been made during the year to achieve the same recognition in PBM's softwood import business, with the requisite pre-audit report having been completed in March 2004 and PEFC

More than 4,800 tonnes of landfill avoided by Stock Building Supply

certification awarded in November 2005. In line with the target set last year, 100% of all PBM's imported softwood in the year ended 31 July 2006 had either PEFC or FSC chain of custody certification.

Stock Building Supply does not have a formal chain of custody procedure for its timber as it relies upon the chain of custody procedures in place within its suppliers. As noted above, the vast majority of purchases made by Stock Building Supply are from suppliers who hold recognised certifications and whose harvests are strictly controlled by US and Canadian Federal and State law. Stock Building Supply maintains an extensive dialogue with its suppliers regarding sustainability issues including chain of custody.

Waste management

All of the Group's European companies comply with EU and domestic waste management regulations. In Ireland, Heatmerchants continues to reduce compliance costs by back-loading secondary waste paper, cardboard, wood pallets and plastic from branches to the main distribution centre for recycling. In the year to 31 July 2006, over 900 tonnes of such material was recycled (2005: 800) and thus saved from landfill resulting in cost savings of €144,000. Brossette in France has installed containers at each of its branches for the collection of plastic/paper, wood and metal for recycling. ÖAG in Austria continues to operate its waste management strategy that has been in place since 1994 and which streams waste for collection and reprocessing by specialist contractors. Stock Building Supply has optimised the use of off-cuts in its truss manufacturing facilities and, where possible, off-cuts which cannot otherwise be used are recycled by wood product manufacturers in order to minimise waste, reduce the need to use landfill sites and reduce costs. Stock Building Supply estimates that more than 4,800 tonnes of landfill was avoided in the year ended 31 July 2006 (2005: 4,800) which has resulted in savings of more than \$345,000 (2005: \$290,000) in waste management costs. Stock Building Supply intends to extend the recycling of off-cuts to its new truss manufacturing facilities which is expected to increase the number of tonnes of landfill that will be avoided. In the UK, equipment has been installed at our distribution warehouses to bale and recycle cardboard and hard plastic. Recycling programmes operate in all of the businesses' corporate offices.

Environment

Wolseley UK has formed an Environmental Steering Group comprising senior managers and local board directors. The Group identifies ways in

which environmental issues can be captured and improvements made. Wolseley UK has agreed an environmental policy which sets out the company's position to customers, suppliers and other stakeholders in relation to environmental matters. Commitment has been made to continuous improvement in environmental performance, the prevention of pollution and to improving efficiency in the use of resources including energy, water, packaging and other raw materials. During the year Wolseley UK continued to promote the use of energy-efficient products in the boiler market, working closely with power suppliers and major boiler manufacturers to incentivise the installation of high efficiency boilers. Carbon emissions saved through this and other schemes since 2001 are in excess of 180,000 tonnes. Following the establishment of its Environmental Management System in 2004, which structures its approach to environmental matters, Wolseley UK attained ISO 14001 accreditation in May 2005 for three of its branches; this accreditation was maintained in the year ended 31 July 2006 and work is underway to complete the accreditation process at a further three Wolseley UK branches by autumn 2006.

Construction will begin in October 2006 of Wolseley UK's Sustainable Building Center ("SBC"), a 6,800 square feet living, interactive showcase for renewable and sustainable building materials. The products used in the construction of the building and those displayed within it, will be commercially available through Wolseley UK's existing branch network. Wolseley UK intends that the SBC, planned for completion in July 2007, will become the leading UK industry resource for sustainable building products and supporting information as well as the promotion of sustainable building practices.

In common with other businesses within the Group, transport is a key area of focus for Wolseley UK. Tight controls are enforced to ensure that the minimum number of vehicles operate out of each Wolseley UK site and emphasis is placed upon route planning to minimise delivery journeys and the number of kilometres travelled. Progress continues to be made across the whole UK transport fleet to improve this utilisation. During the year, the Group introduced a Groupwide standard for transport management systems, with initial implementation in Wolseley UK. The standard will enable transport management to work in real time to improve route planning and resource scheduling across different business sectors and between multiple sites helping to ensure that while utilisation of commercial vehicles increases, the kilometres covered are reduced. The UK rollout of the transport management system will take place over the next 12 months with the aim

More than 2,200 vehicles replaced with more fuel efficient models

to deliver an 8% reduction in kilometres covered, equivalent to 5 million kilometres and reducing carbon emissions by around 2,000 tonnes per annum. The transport management system is an important tool in the Group's drive to support environmentally friendly transport initiatives, alongside a reduction in vehicle sizes and numbers and backloading, which in the UK has saved suppliers over 7,000 journeys each year.

In March 2006, Wolseley UK took part in a fleet efficiency survey of delivery vehicle activities, the results of which will be used by the UK Department for Transport sponsored Freight Best Practice programme in its work towards encouraging fleets to improve their operational efficiency. The survey covered a range of measures including fuel use, number of deliveries and operating costs. A benchmarking report is expected to be published by the Freight Best Practice programme in October 2006. The use of high capacity trailers has continued to reduce the number of vehicles operating between each of the UK distribution centres and significant investment continues to be made in distribution warehousing. Multiple stock replenishment deliveries to branches from suppliers have been reduced as loads are consolidated in Wolseley UK's own distribution warehouses for onward delivery. Consolidating loads further reduces the number of supplier vehicles on the road while minimising the local impact around branches. There is a continued focus on pooling branch vehicles across each of the Wolseley UK brands, which will ensure that the fleet eliminates wasteful multiple deliveries and reduces the number of kilometres travelled. During the year, Wolseley UK has continued with its project to improve fuel consumption across its primary distribution fleet, switching its commercial vehicle fuel use to bio-diesel at its three regional distribution centres which now use around two million litres of bio-diesel annually; this is set to increase as the fuel becomes more available within the UK. Further initiatives include individual vehicle monitoring, combined with driver training programmes and the replacement of older, less fuel-efficient vehicles. Some 265 (2005: 216) vehicles were replaced during the year with vehicles that are more than 3% more fuel-efficient. Wolseley UK's transport group also pays continuous attention to servicing programmes which include regular emissions checks to ensure vehicle efficiency and has adopted a reduced emissions and tyre pressure management system for optimal fleet use.

Ferguson in the USA has been using a transportation management system for its fleet of more than 2,000 diesel powered delivery vehicles. The system optimises the delivery of goods from distribution

centres to branches as well as directly to customers, thereby reducing handling and transport costs together with vehicle emissions. Ferguson has a policy of sourcing vehicles from a supplier with a leading reputation in environmentally friendly diesel technology. The engines for all replacement vehicles are certified to meet the US Government's standards for particulate emissions. Approximately 508 vehicles or 25% of the fleet replaced during the year were equipped with emissions technology that meets such standards. Ferguson is also seeking to take full advantage of new digital valve technology to improve air quality and fuel economy throughout its entire distribution network. In the previous financial year Ferguson purchased a hybrid electric/petrol vehicle to assess the benefits of improved fuel economy and reduced emissions which such vehicles may be able to offer compared to conventional vehicles. The assessment revealed that the reduction in fuel consumption is minimal and concluded that the particular vehicle is commercially unviable. However, further work continues both within Ferguson and Stock Building Supply to identify suitable alternatives.

As part of Stock Building Supply's transport management programme, many suppliers back-load their delivery vehicles to avoid wasteful return journeys. This initiative is part of a modernisation programme that also includes investment in a national fleet management, fuel and servicing system aimed at achieving optimal fleet efficiency and curbing excessive emissions and which has also ensured that an appropriate level of capital expenditure is invested in new environmentally friendly vehicles. These vehicles incorporate emission and fuel economy technologies which already comply with, or exceed, forthcoming US Government standards. During the year ended 31 July 2006, over 420 such vehicles were replaced (a little under 11%) (2005: 300 or a little over 8% of such vehicles). These new vehicles are approximately 70% more fuel-efficient than the ones they replaced. In common with other Wolseley companies, Stock Building Supply's maintenance programme seeks to improve both safety and fuel-efficiency by increasing reliability through the direct purchase of spare parts and also by rigorous tyre management. In 2004 Stock Building Supply successfully tested a GPS (Global Positioning System) pilot programme, which indicated that further efficiencies could be achieved and would allow the company to plan more efficient delivery routes to enhance customer service and further reduce the number of kilometres driven. The pilot also demonstrated that safety could be improved as drivers' speed can be monitored. Stock Building Supply has now rolled out the initiative such that in the year ended 31 July 2006, 371 vehicles

2006 UK Fleet Safety Awards: Road Risk Manager of the Year awarded to Wolseley UK

benefited from the GPS programme (2005: 225). The initiative, having estimated the avoidance of over 350,000 additional kilometres being driven in the last year, is expected to be rolled out to a further 150 vehicles in the next year. Stock Building Supply's regional distribution centres were designed to facilitate product delivery by rail. More than 70% (2005: 55%) of deliveries to the distribution centres are made in this way, with over 17,000 wagon loads (equivalent to some 68,800 (2005: 60,000) lorry loads) received during the last year alone. Delivery by rail continues to be encouraged and is expected to continue to grow with our investment in distribution centres designed to receive more product in this way.

Brossette's new organisational structure has reduced the number of warehouses and has regrouped branches to improve productivity and customer service while at the same time reducing the number of delivery journeys and transport costs. Brossette has a national fleet maintenance programme in place, which seeks to secure optimal use of its delivery vehicles while minimising the impact on the environment. Brossette seeks to take advantage of technological improvements when renewing its fleet to both reduce emissions and to optimise fuel consumption. All new vehicles are fitted with the latest software technology to improve efficiency and to reduce the number of kilometres driven. Some 170 vehicles (around 13% of such vehicles) (2005: 102, around 10%) were replaced during the year. PBM has continued with its fleet renewal programme to increase fuel efficiency, improve safety and reduce both emissions and transport costs. In the year to 31 July 2006, 872 vehicles were replaced (2005: 486) representing a little over 22% of PBM's fleet (2005: 13%). Fleet efficiency is underpinned by a national fleet management programme, which ensures uniform operating standards. PBM ensures that its drivers' training is maintained and seeks ways of encouraging responsible driving.

Health and safety

The Company has developed a health and safety framework which requires local management to have suitable procedures in place to ensure compliance with applicable laws and regulations and, wherever possible, to employ best practices. One of the key issues for the Group is the creation of a work environment free from injury and illness and how to achieve improvements in our health and safety performance. This is driven not only by legal responsibility, but also by the ethical desire to protect our employees. Wolseley UK has an Executive Safety Steering Group, supported by its health and safety department. This comprises senior managers and local board directors. The Steering Group

reviews the UK businesses' performance in health and safety matters, promotes good practice and ensures appropriate consultation on any intended changes to its health and safety management systems. All branch and area managers are trained in this area and all employees are trained to complete their daily tasks in a safe manner. In July 2006, Wolseley UK received recognition for its health and safety initiatives by winning two awards at the UK Fleet Safety Awards. The awards are a national event organised by Brake, the UK road safety charity, and are designed to promote risk management best practice among businesses by recognising organisations and professionals who have worked significantly to improve the safety of vehicle operations. The awards for "Road Risk Manager of the Year" and "Best Crash Analysis Procedures" recognise the work undertaken by the company's Fleet Safety Steering Group which introduced a fleet safety handbook, newsletters, an occupational road risk policy, regular management review meetings with industry experts and insurers as well as benchmarking against best in class. Online driving assessments and a "Commercial Vehicle Driver of the Year" award to promote safety amongst employees have also contributed towards increased awareness of safety issues and an overall reduction in commercial vehicle and company car accidents.

Brossette has a central health and safety committee which oversees the work carried out by the health and safety committees in individual branches. Representatives of Brossette and its employees sit on each local committee, together with an occupational health doctor. All new employees and managers receive appropriate induction and training which includes matters related to health and safety. PBM seeks to increase awareness of the importance of health and safety matters throughout its business using a programme which reinforces the fact that each of its employees has both a responsibility and a part to play in maintaining and improving health and safety standards. Stock Building Supply has a safety committee with responsibility for developing, introducing and monitoring the effectiveness of its overall safety programme and objectives. Stock Building Supply recognises that it must work together with its employees towards the common goal of eliminating hazards and accidents and employees are expected to participate in actively promoting a positive safety culture. The safety committee comprises employees with different perspectives and from varied disciplines. Each branch manager is responsible and accountable for health and safety at his or her branch, including compliance with regulations, safety awareness and accident prevention. All new employees are given

Driven to Safety initiative to be rolled out within Ferguson in 2006/7

induction training relating to safe working practices and hazards present in the workplace. Training is also provided when an employee is requested to manage new processes, procedures or equipment. Monthly mandatory safety meetings are held at each branch during which, as a minimum, topics designated by the safety committee must be discussed. Safety issues within each branch are dealt with by a safety coordinator or local safety committee consisting of a cross-section of employees.

Stock Building Supply and Ferguson have been working together over the last three years to improve their performance in the areas of both health and safety and traffic accidents. The joint initiative has been driven not only by the costs to the business of increasing medical and other expenses associated with claims for workers' compensation but also the desire to reduce the incidence of injury and to reduce the consequential effect that such incidences have on other employees and the business. Each of the businesses set targets during the year to reduce the frequency and cost of both workers' compensation and traffic incidents, enhance their programmes to help employees to return to work even if this is on modified duty, improve the reporting of claims to ensure that prompt action is taken and increase measures to ensure that employees are able to seek any required medical attention. This joint initiative has resulted in a significant improvement to the longer term trends in both companies' health and safety records. Ferguson, having seen a 14% reduction in the number of work-related injuries in the six months to 31 March 2005, saw an increase of 24% in the number of such injuries in the year to 31 July 2006 against a background of a 19% increase in its workforce. Whilst Stock Building Supply achieved a 21% reduction in work-related injuries in the six months to 31 March 2005 it experienced an increase of 22% in the number of such injuries in the year to 31 July 2006 during which period its workforce increased by 23%. Measures have been taken to increase focus to return to the results achieved in 2005. These include the appointment of a director of health and safety for the North American businesses and, with effect from 1 August 2006, the creation of a North American safety committee which will oversee such matters across both the US and Canada. Ferguson achieved a 100% rate of returning injured employees to work either on modified duty or to their original jobs, with Stock Building Supply achieving 90% in the year ended 31 July 2006. Both companies have continued to make progress in reducing vehicle accidents and the impact of such accidents over the last year. Ferguson saw an increase of 6.5% in vehicle accidents in the year ended 31 July 2006 in a period when its vehicle fleet expanded by 23% and Stock Building Supply held its accident frequency rate at prior year levels. In May 2005, Stock Building Supply

introduced its "Driven to Safety" programme, a proactive safe driver training programme. Since then, every delivery driver has been trained in a variety of ways to recognise hazardous conditions, plan the appropriate response and take decisive action. Every new driver joining Stock Building Supply receives such bespoke training and each driver's knowledge and ability to practice safe driving techniques will be assessed. Ferguson intends to roll out a Driven to Safety initiative within its own business during the year ending 31 July 2007. Ferguson has continued to promote its Customer "CARE" (Customers and Associates Require Excellence) programme which is intended to symbolise Ferguson's determination to achieve a culture of excellence throughout the organisation. The programme includes two goals aimed at communicating the importance of safety and quality and to promote a safe working environment for all of its employees. In common with Mart in Hungary which obtained its accreditation in 1997, Cesaro in the Czech Republic has also continued to demonstrate its commitment to customer care during the year following its achievement of ISO 9001 accreditation in June 2005 for its quality management processes. The continued accreditations acknowledge the companies' ability to fulfil their customers' quality requirements and applicable regulatory requirements while aiming to enhance customer satisfaction and achieve continual improvement of performance in pursuit of these objectives.

Acquisitions

A great deal of importance is placed on environmental matters during the due diligence process for acquisitions. External environmental consultants review and assess environmental risks to which the Group could potentially become exposed. Depending upon the type of proposed acquisition, this assessment could include reviews of environmental management systems, compliance with laws and regulations and the respect and care shown for the environment. Health and safety compliance and processes are also considered as part of the process. Appropriate dialogue with, and indemnities from, the proposed vendors are sought where appropriate.

Code of Ethics

A Groupwide Code of Ethics has been in place since 2003. This sets out a number of fundamental principles which all companies and employees are required to follow. In keeping with our decentralised approach, businesses are required to adopt their own codes which respect local cultures and businesses but which also set standards that are still no less exacting than those detailed in the Groupwide Code. To a large extent, these individual

£21 million spent on more than 142,000 days of employee training

codes simply underpin and endorse existing practices. New companies joining the Group are required to adopt codes of ethics on the same basis as existing businesses. The Groupwide Code covers many areas including fair competition, compliance with laws, including anti-trust laws, maintenance of the Group's reputation for integrity (including a prohibition on bribery and general principles for dealing with suppliers and authorities) and can be viewed on the Company's website at www.wolseley.com or a printed copy is available from the Group Company Secretary. Wolseley UK, for example, has incorporated the Code of Ethics into a wider document which sets out the principles on which business is transacted. This includes principles related to diversity, safety, inducements, communication, the environment and human rights. The human rights policies and procedures are based on the principles set out in the United Nations *Universal Declaration on Human Rights*.

The workplace

One of the Board's objectives is to ensure that we provide a workplace environment that encourages and supports our employees in achieving their best personal performance. Further work was undertaken during the year in this area coordinated by the Groupwide human resource function that resides in Theale. The development of leadership skills of senior managers is also a key objective and further progress has been made to enable more participants than ever before to attend programmes at Darden and IMD. Training and development programmes for all employees are crucial to the ability of the business to achieve its goals. Significant attention and resources continue to be devoted to this issue. Just under £21 million (2005: £12 million) was spent on training of employees during the year, with over 142,000 (2005: 75,250) days of training provided. Whilst Wolseley is committed to promoting equal opportunities for all, it is believed that, overall, women and minorities continue to be under-represented. We believe that we have the right policies in place to meet or exceed legal requirements in this area although we continue to explore the factors that are critical to achieving greater diversity. Further work continues to be undertaken in this area.

Wolseley UK and Stock Building Supply both undertook company-wide employee surveys during the year allowing employees to suggest areas for improvement and voice concerns. Wolseley UK's 2005 survey highlighted the need for better internal communications; in response, the company introduced a monthly online chat session which generated over 700 questions in the first two sessions. Each session is hosted by a senior

manager from Wolseley UK and the level of interest to date has proved very encouraging. Themes and topics that do not receive sufficient coverage during the online sessions gain a response in the weeks following the live event and all questions and answers are posted on the company's intranet to allow employees who were not able to join the live event an opportunity to participate. Stock Building Supply's survey compared results to its previous survey in 2002 and to the US national norm; the results showed that of the 13 areas covered by the survey, including such matters as working conditions, supervisor's skills, communication and benefits, nine were statistically above the US national norm and four were at that level. Overall, Stock Building Supply's employees expressed far greater satisfaction with their jobs compared with the US national norm and demonstrated a significant amount of goodwill towards the company.

Community relations

Notwithstanding the international nature of the business, the Group continues to operate with a high degree of autonomy, working in and with our local communities. We recognise our responsibility to invest in the communities in which our businesses operate and to act as a good corporate citizen. We are members of Business in the Community in the UK and continue to work with that organisation to help develop our approach and practice. The Group's businesses are involved in a wide range of initiatives for the benefit of local communities, of which the following are representative:

The Group's businesses, customers, suppliers and employees were directly affected by the devastation in the southern states of the US caused by Hurricane Katrina in August 2005. Just a few weeks before the hurricane began the Group had announced the creation of Wolseley North America to leverage the combined resources of all of its North American businesses. The groundwork was thus in place to enable Ferguson and Stock to make a strong joint response to those affected in the Gulf Coast region by formulating plans to develop pre-existing relationships with local businesses and customers in order to offer joint premises staffed by local people to assist some of the hardest hit areas in re-establishing water and sewer systems and supplying pipe used to pump flood waters out of the area. Assistance was also given to the US Federal Emergency Management Agency to provide emergency housing. Among the numerous local efforts to help the victims of the hurricane and in addition to the Groupwide and local company cash donations noted on page 51 of this Report, Ferguson delivered emergency response products, including generators, batteries, torches and pumping equipment to the affected area. Stock

Habitat for Humanity supported by all three North American businesses

Building Supply worked in partnership with a school in Raleigh, North Carolina to deliver donations of school supplies and books to a school in Gulfport, Mississippi where several of the classrooms and more than 10,000 library books had been destroyed. Teams of Stock Building Supply management trainees also travelled to areas where the families of colleagues had been affected by the hurricane to help with the relief effort. As well as school supplies donated by employees, supplies of tools were donated by many Stock Building Supply branches.

A Relay for Life team from Ferguson's corporate offices in Newport News, Virginia, participated in this year's event for the ninth consecutive year, raising \$16,500 for cancer charities. In May 2006, Ferguson employees participated in a food drive in aid of the Virginia Peninsula Food Bank. The goal was to collect 1,000lbs of non-perishable foods ranging from individual meals and soups to baby food and rice. Within just 12 days, 10,350lbs of food had been collected, surpassing the goal by over ten times. Employees from Ferguson's Waterworks division in San Marco raised over \$3,000 for the city's Rescue Mission, taking part in a fancy dress bed race around the city's Fletcher Park. In November 2005, employees from Ferguson's Fort Myers branch raised nearly \$4,000 in a Turkey Drive allowing the Salvation Army to purchase over 400 Christmas turkeys for families in the local area.

In April 2006, numerous initiatives by employees at Stock Building Supply's corporate headquarters in Raleigh, North Carolina, raised over \$5,000 for the US National Multiple Sclerosis Society. Stock Building Supply supported a project with the US television show *Extreme Makeover: Home Edition* to build a new home for the members of a family in Cincinnati who had experienced severe personal difficulties. Stock Building Supply, together with local contractors, donated time and materials to build a new home for the family in just five days. An initiative in Fort Worth, Texas, saw Stock Building Supply and Ferguson join forces to help a local contractor rebuild the home of a local family who were struggling to cope with the ongoing medical problems of their seven-year-old son and whose home had fallen into a state of disrepair. Between them, Stock Building Supply and Ferguson donated timber, windows, doors, plumbing fixtures, fittings and appliances for the project.

Wolseley UK supported the renovation of an old jetty at a special needs centre near Birmingham by donating materials from a local branch. The new jetty has been designed for children who are blind, partially sighted or wheelchair users so that they can get closer to the local wildlife. Many of Wolseley

UK's employees took part in the 2006 Race for Life including three employees from the company's Ripon office who raised over £3,000 for Cancer Research UK. Wolseley UK and the Variety Club Golf Society raised £15,000 towards the 15th Variety Club coach which has been sponsored by the company. The 16 seat coach will be used to take pupils from a local school, 60% of whom are involved in the Special Olympics, to sporting events around the UK and overseas.

Habitat for Humanity

All three of the Group's North American businesses once again supported the efforts of Habitat for Humanity, the non-profit organisation that seeks to eliminate substandard housing and homelessness from the world. Ferguson and Stock Building Supply participated in the organisation's Home Builders Blitz with donations of materials and over 100 employees in 32 states working to help build 700 Habitat homes in a week. Wolseley Canada, through its membership of the Canadian Institute of Plumbing and Heating ("CIPH"), has helped to raise over C\$1,000,000 for Habitat for Humanity Canada ("HFHC") in 2006. CIPH has raised over C\$3,500,000 for HFHC since 1994, helping over 500 Canadian families across the country move into their own homes.

Donations

In response to the devastation of Hurricane Katrina, Wolseley plc together with its three operating companies in North America (Ferguson, Stock Building Supply and Wolseley Canada), committed \$200,000 to the relief effort. In many cases, the Group's companies also match dollar-for-dollar employee donations to charitable causes, such as the \$68,000 in hurricane relief donations made by its employees which were matched by Stock Building Supply. Ferguson made a \$10,000 donation to Cancer Services of Greater Baton Rouge to help improve the quality of life for cancer sufferers in the hurricane affected region. In addition to these initiatives, the Group supports charities relevant to the countries and to the locations in which its businesses operate. These are wide-ranging and cover health, welfare, education, civic and community projects as well as culture and the arts. Each year, several hundred donations are made. In the USA, many of our employees make regular contributions to the United Way, an organisation which distributes funds to charities. In the UK, a Give As You Earn Scheme operates with the assistance of the Charities Aid Foundation which distributes funds to UK charities. Further details of the donations made during the year are set out on page 59.

Report of the Directors

Including the statement of remuneration policy for the year ended 31 July 2006

The Directors submit their annual report and the audited consolidated accounts of the Company and its subsidiaries for the year ended 31 July 2006.

Principal activities and business review

Wolseley plc is a holding company; its subsidiaries are organised into two geographical divisions which are set out on pages 25 to 32. The principal activities of the Group are the distribution of plumbing and bathroom materials, central heating and air conditioning equipment and pipes, valves and fittings within Europe and North America. Additionally in the UK, Ireland and France, it distributes heavyside building materials, whilst in the USA, the Group distributes timber and other building materials, as well as supplying other construction services. In the UK, France and Austria, it operates tool hire centres and, in the UK, France and USA, it also distributes electrical components and supplies.

Details of the development of the Group's businesses during the year and information which fulfils the requirements of the Business Review (as required by the Companies Act 1985 (Operating and Financial Review and Directors' Report Regulations 2005)), are given in the Performance review on pages 20 to 41 and in the Group Chief Executive's review on pages 8 to 19, which are incorporated in this report by reference.

Results and dividends

The Group's consolidated income statement, set out on page 72, shows an increase of 18.8% in Group operating profit from £702 million (restated under IFRS) in 2005 to £834 million. An analysis of revenue and operating profit is given on page 82 in note 2 to the accounts. Shareholders were paid the 2006 interim dividend of 9.85 pence per share (2005: 8.8 pence) on 31 May 2006. The Directors recommend a final dividend of 19.55 pence per share (2005: 17.6 pence) making a total dividend for the year of 29.4 pence per ordinary share, an increase of 11.4% on the 26.4 pence paid in respect of last year. Payment of the recommended final dividend, if approved at the Annual General Meeting, will be made on 30 November 2006 to shareholders registered at the close of business on 6 October 2006.

On 24 July 2006 the Group entered into an agreement, conditional on regulatory approval, to acquire DT Group, the Nordic region's leading distributor of building materials for cash consideration of €1,498 million together with the assumption of the indebtedness of DT Group. Regulatory approval has now been received and it is anticipated that the acquisition will complete on 25 September 2006.

On 25 September 2006, a placing of approximately 10% of the Company's issued ordinary share capital was undertaken to raise approximately £650 million. The placing will reduce the debt which has built up as a result of the £914 million of acquisitions in 2006 and the £1.35 billion acquisition of DT Group. The placing will also restore the Group's financial flexibility to enable it to continue to pursue its strategy of organic and acquisitive growth.

There have been no other significant post balance sheet events.

The Wolseley plc 2004 Overseas Employee Benefit Trust, the Wolseley plc 2004 Employee Benefit Trust and the Wolseley plc 2004 Directors Benefit Trust were established on 5 October 2004 in connection with the Wolseley Share Option Plan 2003 and the Wolseley plc 2002 Long Term Incentive Scheme, details of which are set out in the remuneration report on pages 64 to 67. The trustees of each of the trusts have waived their rights to receive dividends on any shares held by them. Following purchases of shares in the capital of the Company made between November 2004 and April 2006, the trustees of the Wolseley plc 2004 Employee Benefit Trust hold 4,011,478 ordinary shares in the capital of the Company. The average purchase price was 1247.36 pence per share excluding dealing costs. The amount of dividends waived in respect of the year ended 31 July 2006 was £300,425 (2005: £176,000). The Directors of Wolseley QUEST Limited have also waived their right to receive dividends on any shares held by that company under the Wolseley Employees Savings Related Share Option Scheme 1981. For the year ended 31 July 2006, Wolseley QUEST Limited held no shares and no such dividend waiver was required (2005: £0).

The Company's dividend reinvestment plan will continue to be available to eligible shareholders. Shareholders who do not currently participate in the plan and wish to do so can obtain an application form and explanatory booklet from the Company's registrars, Lloyds TSB Registrars. Contact details for the Registrars are shown on page 147. The latest date for receipt of new applications to participate in respect of the 2006 final dividend is 9 November 2006.

Acquisitions and disposals

Details of acquisitions made during the year are contained in the Performance review on page 23 and in note 31 on page 110. There were no disposals of businesses during the year.

Future development

It remains your Board's intention to develop the Group through organic growth and by selective acquisitions.

Share capital

At the date of this report, 657,210,884 ordinary shares of 25 pence each have been issued and are fully paid up and are quoted on the London Stock Exchange. In addition, the Company has entered into a level II American Depositary Receipt programme with the Bank of New York, under which the Company's shares are traded in the form of American Depositary Shares on the New York Stock Exchange. During the year ended 31 July 2006, options were exercised pursuant to the Company's share option schemes, resulting in the allotment of 5,553,785 new ordinary shares. A further 14,668 new ordinary shares have been allotted under these schemes since the end of the financial year to the date of this report. Details of these issues including, where appropriate, the amounts subscribed for new shares are set out in note 28 to the accounts on page 106, which also contains details of options granted over unissued capital.

The Directors propose (Resolution 10 in the Notice of Meeting set out on pages 149 to 152) to renew the authority granted to them at the Annual General Meeting held in 2005 to allot equity shares up to an aggregate nominal value of £35,697,279 (representing the authorised but unissued ordinary share capital at the date of this report) (the "section 80 authority"). If approved at the forthcoming Annual General Meeting, the authority will expire no later than 15 months from the date on which the resolution is passed, or at the conclusion of the Annual General Meeting to be held in 2007, whichever is the sooner.

The limited power granted to the Directors at last year's Annual General Meeting to allot equity shares for cash other than pro rata to existing shareholders expires no later than 17 February 2007. Subject to the terms of the section 80 authority, your Directors recommend (Resolution 11 in the Notice of Meeting) that this authority should be renewed so as to give them the ability (until the Annual General Meeting to be held in 2007) to issue ordinary shares for cash, other than pro rata to existing shareholders, in connection with a rights issue or up to a limit of 5% of the ordinary share capital issued at the date of this report. Your Directors have no present intention to issue ordinary shares, other than pursuant to the Company's employee share schemes and any share dividend alternatives. The Directors recommend that you vote in favour of Resolutions 10 and 11 to maintain the Company's flexibility in relation to future share issues, including any issues to finance business opportunities should appropriate circumstances arise.

A Special Resolution will also be proposed (Resolution 12 in the Notice of Meeting) to renew the Directors' limited authority last granted in 2005 to repurchase ordinary shares in the market. The authority will be limited to a maximum of 65,721,088 ordinary shares (being 10% of the Company's issued share capital at the date of this report) and also sets the minimum and maximum prices which may be paid. This authority will enable your Directors to continue to respond promptly should circumstances arise in which they consider such a purchase would result in an increase in earnings per share and would be in the best interests of the Company.

The Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 allow shares repurchased by the Company to be held as treasury shares that may be cancelled, sold for cash or used for the purpose of employee share schemes. The Company holds no shares in treasury but the Directors currently intend that any shares which are repurchased will be held in treasury. The authorities to be sought by each of Resolutions 11 and 12 are intended to apply equally to shares to be held by the Company as treasury shares and to the sale of treasury shares. The Directors consider it desirable for these general authorisations to be available to provide flexibility in the management of the Company's capital resources.

Substantial share interests

The following interests of 3% or more in the Company's issued ordinary share capital appeared in the register maintained under the provisions of section 211 of the Companies Act 1985:

Name	%
Lloyds TSB Group plc	4.126
Barclays plc	3.020
Legal & General Investment Management Limited	3.000

Directors

Brief particulars of the Directors in office at the date of this report are listed on pages 42 and 43 and further details of the Board composition are contained in the Corporate governance report. The Directors standing for re-election at the Annual General Meeting are Gareth Davis, Fenton Hord and Nigel Stein. Each Director, being eligible, offers himself for re-election and each, following a performance evaluation during the year, continues to be effective and demonstrates commitment to their respective roles. It is the view of the Board that Messrs Davis and Stein each bring considerable management experience and independent perspective to the Board's discussions and both are considered to be independent of management and free from any relationship or circumstance that could affect, or appear to affect, the exercise of their independent judgement. In addition, Frank Roach, who joined the Board as an Executive Director on 16 December 2005, will stand for election.

Directors' interests in shares

The register kept by the Company pursuant to section 325 of the Companies Act 1985 shows that the Directors in office at 31 July 2006 and their families had the following interests in the ordinary shares of the Company.

	31 July 2006	1 August 2005 (or on appointment)
C A Banks	212,267	200,137
G Davis	10,664	10,664
A J Duff	3,993	3,993
F N Hord	91,470	83,179
C A S Hornsby	57,709	48,017
R H Marchbank	26,462	12,802
J I K Murray	5,000	5,000
F W Roach	27,248	26,970
N M Stein	4,500	2,500
R M Walker	2,208	2,160
S P Webster	50,220	38,205
J W Whybrow	45,284	45,284

There were no changes to the shareholdings of those Directors in office at the date of this report between 1 August 2006 and 25 September 2006.

Corporate governance

Including the report of the audit committee

Compliance with the Combined Code

The Board is committed to the highest standards of corporate governance set out in the Combined Code on corporate governance published by the Financial Reporting Council ("FRC") in July 2003 (the "Code"). The Board has also applied the principles and provisions in the form set out in the revised draft Combined Code published by the FRC in June 2006 (the "Revised Code") in advance of its commencement date. The Board is accountable to the Company's shareholders for good governance and this report describes how the Board applied the principles of good governance set out in the Code and the Revised Code during the year under review.

The Board

As at 31 July 2006, the Board of Directors was made up of 12 members comprising the Chairman, six Executive Directors and five Non Executive Directors. The Non Executive Directors are considered by the Board to be independent of management and free of any relationship which could materially interfere with the exercise of their independent judgement. The Board considers that each of the Non Executive Directors brings his own senior level of experience, gained in their own fields of mainly international operations. Frank Roach was appointed to the Board with effect from 16 December 2005. Mr Roach was appointed as Chief Executive Officer of North America to succeed Mr Hornsby, who became Group Chief Executive on 1 August 2006 following Mr Banks' retirement on 31 July 2006. For the period from Mr Roach's appointment until Mr Banks' retirement, the provisions of the Code requiring a balance between executive and non executive directors were not met, albeit that this was a temporary position in advance of Mr Banks' retirement. At the date of this report, there are 11 members of the Board, comprising the Chairman, five Executive Directors and five Non Executive Directors. Accordingly, the Board considers that the Company once again satisfies the obligations under the Code.

Biographical details of the Directors currently in office are shown on pages 42 and 43. The Company's policy relating to the terms of appointment and the remuneration of both the Executive and Non Executive Directors is detailed in the Remuneration report on pages 62 to 70.

The Board meets regularly during the year as well as on an ad hoc basis, as required by time critical business needs. The Board has a formal schedule of matters reserved to it for its decision, which was reviewed in July 2005, although its primary role is to provide entrepreneurial leadership and to review the overall strategic development of the Group as a whole. Day-to-day operational decisions are delegated to the executive committee referred to on page 57. The Board met 11 times during the year and Director attendance for each meeting is shown in the table on page 57. The Board has established a procedure for Directors, if deemed necessary, to take independent professional advice at the Company's expense in the furtherance of their duties. This is in addition to the access that every Director has to the Company Secretary, who is charged with ensuring that Board procedures are followed and that good corporate governance and compliance is implemented within the Group. Together with the Group Chief Executive and the Company Secretary, the Chairman ensures that the Board is kept properly informed and is consulted on all issues reserved to it. Board papers

and other information are delivered at times to allow Directors to be properly briefed in advance of meetings. In accordance with the Company's Articles of Association, Directors are granted an indemnity from the Company to the extent permitted by law in respect of liabilities incurred as a result of their office. The indemnity would not provide any coverage to the extent that a Director is proved to have acted fraudulently or dishonestly. The Company has also arranged appropriate insurance coverage in respect of legal action against its Directors and officers. The differing roles of Chairman and Group Chief Executive are acknowledged and set out in writing. The Chairman has confirmed that he would not chair any other major company's Board.

The Chairman has addressed the developmental needs of the Board as a whole, with a view to developing its effectiveness as a team and assists in the development of individual skills, knowledge and expertise. During the year, the Board took forward the results of previous ongoing evaluation processes to assess its performance and that of its committees and to identify areas in which its effectiveness, policies and processes might be enhanced, utilising both a questionnaire (in relation to the performance of the Non Executive Directors) and discussions with all Board members.

Performance evaluations, including the skills brought to the Board and the contributions each Director made to it, were carried out for each member of the Board. Executive Directors' performance has been assessed by the Chairman and Mr Banks. Mr Banks' performance was evaluated by the Chairman and the Non Executive Directors. The Senior Non Executive Director led the review of the Chairman's performance in consultation with the Executive and Non Executive Directors. The Non Executive Directors' performance was reviewed by both Mr Banks and the Chairman, as well as by the Board as a whole, which considered the results of the questionnaires referred to above.

Meetings between the Non Executive Directors, both with and without the presence of the Chairman and the Group Chief Executive, are scheduled in the Board's annual timetable. The Board has also arranged to hold at least two Board meetings each year at divisional locations to help all Board members gain a deeper understanding of the business. This also provides senior managers from across the Group the opportunity to present to the Board as well as to meet the Directors on more informal occasions.

As part of their ongoing development, the Executive Directors are encouraged to take up an external non executive position on a non competitor board, for which they may retain payments received in respect of the appointment. In order to avoid any conflict of interest, all appointments are subject to the Board's approval. Generally outside appointments for Executive Directors are limited to one company board only, although Mr Banks, by exception, served on two outside boards. The Board is satisfied that these appointments did not conflict with his duties to the Company. The Board monitors the extent of Directors' other interests to ensure that the effectiveness of the Board is not compromised. Succession planning is considered to be a matter for the whole Board rather than for a committee. The Company's Articles of Association provide that one-third of the Directors retire by rotation each year and that each Director will seek re-election at the Annual General Meeting every three years. Additionally, new Directors are subject to election by shareholders at

the first opportunity after their appointment. It is Board policy that Non Executive Directors are normally appointed for an initial term of three years, which is then reviewed and extended for a further three-year period. It is also Board policy that Non Executive Directors should not generally serve on the Board for more than nine years and that, in cases where it is proposed to exceed this period, the Director concerned will retire annually and offer himself for re-election. Following their appointment, formal comprehensive and tailored induction is offered to all Non Executive Directors, supplemented by visits to key locations within the Group and meetings with members of the executive committee and other key senior executives. All of the Directors being proposed for re-election have been subject to a performance evaluation during the year ended 31 July 2006 and the Board is content that each has continued to be effective and has demonstrated his commitment to his respective role.

Although the Non Executive Directors are not asked, at present, to meet the shareholders of the Company, their attendance at presentations of the annual and interim results is encouraged. The Chairman ensures that the Board maintains an appropriate dialogue with shareholders. Gareth Davis is the Company's Senior Independent Non Executive Director.

The formal terms of reference for the main Board committees, approved by the Board and complying with the Code to assist in the discharge of its duties, are available from the Company Secretary and can also be found on the Company's website at www.wolseley.com. Membership of the various committees is shown on page 147. The Company Secretary acts as secretary to all Board committees.

Nominations committee

The nominations committee meets on an as needed basis and, at the date of this report, is comprised of Mr Whybrow (Chairman), Mr Davis, Mr Duff, Mr Hornsby and Mr Walker. Mr Banks stepped down as a member of this committee upon his retirement on 31 July 2006 and was succeeded by Mr Hornsby. Mr Whybrow would not chair the committee when it considers the appointment of a successor chairman. The committee reviews the structure, size and composition of the Board and its committees and makes recommendations with regard to any changes that are considered necessary, both in the identification and nomination of new Directors and the continuation of existing Directors in office. The committee retains external search consultants as appropriate. The committee also advises the Board on succession planning for executive board appointments although the Board itself is responsible for succession generally. The committee met once during the year and Director attendance for such meeting is shown in the table on page 57, although, as reported last year, a working party was established, which met on a number of occasions, to consider the issues arising out of Mr Banks' retirement.

Audit committee

The audit committee comprises Messrs Davis, Stein and Murray (who chairs the committee). The committee's membership is reviewed by the nominations committee and by Mr Murray at regular intervals. Members of the committee are appointed by the Board following recommendations by the nominations committee. The committee is normally comprised of three independent Non Executive Directors. Two members constitute a quorum.

Each member of the committee brings relevant financial experience from senior executive levels. The expertise and experience of the members of the committee are summarised on pages 42 and 43. The Board considers that each member of the committee is independent within the definition set out in the Code. Mr Stein is considered by the Board to have significant, recent and relevant financial experience, as he is currently Finance Director of GKN plc.

All members of the committee receive appropriate induction, which is in addition to the induction which all new Directors receive and includes an overview of the business, its financial dynamics and risks. Audit committee members are expected to have an understanding of the following areas: the principles of, contents of and developments in, financial reporting, including the applicable accounting standards and statements of recommended practice; key aspects of the Company's approach, including corporate policies; company financing; systems of internal control; and matters that require the use of judgement in the presentation of accounts and key figures as well as the role of internal and external auditors. Members of the committee undertake ongoing training as required.

The committee meets regularly throughout the year and its agenda is linked to events in the Company's financial calendar. The agenda is mostly cyclical such that the committee Chairman approves the agenda on behalf of all members of the committee; each member of the committee may require reports on matters of interest in addition to the regular items. Members' attendance at the meetings held during the year is set out in the table on page 57.

The committee invites the Chairman, the Group Chief Executive, the Group Finance Director, the Director of Financial Reporting and Strategic Planning, the Group Financial Controller and the Head of Internal Audit together with senior representatives of the external auditors to attend each meeting although it reserves part of each meeting for discussions without the invitees being present. Other senior management are invited to present such reports as are required for the committee to discharge its duties.

The Chairman of the audit committee attends the Annual General Meeting to respond to any shareholder questions that might be raised on the committee's activities. The remuneration of the members of the committee is set out on page 63 and the policy with regard to the remuneration of Non Executive Directors is set out on page 70.

The committee is required to assist the Board to fulfil its responsibilities related to external financial reporting and associated announcements. During the year, the committee reviewed the proposed introduction of a statutory operating and financial review and its subsequent replacement by a business review; the progress made towards financial reporting under International Financial Reporting Standards ("IFRS"); the interim and annual financial statements and the restatement of the 2005 preliminary statement under IFRS; the interim and preliminary announcements made to the London and New York Stock Exchanges and the Form 20-F, which is filed with the Securities and Exchange Commission in the USA, having received the appropriate information on the accounting principles, policies and practices adopted in the preparation of the accounts; changes proposed to those principles, policies and practices; significant accounting issues; operation of the Company's whistleblowing policy; litigation and contingent liabilities and tax matters, including contingencies against tax liabilities together with compliance with statutory tax obligations.

Corporate governance

Including the report of the audit committee

The committee is also responsible for the development, implementation and monitoring of the Company's policy on external audit. The committee reserves oversight responsibility for monitoring the independence, objectivity and compliance with ethical and regulatory requirements. The committee recommends the appointment and reappointment of the Company's external auditors. The committee reviews the scope, results (including schedules of unadjusted errors and representation letters) and cost-effectiveness of the audit as well as the auditors' remuneration and performance. The committee also ensures that key partners within the external auditors are rotated from time to time in accordance with both UK and US rules. In line with this policy, there was a rotation of the engagement partner for the year ended 31 July 2006. The Committee also monitors the extent of non-audit work which the external auditors can perform, to ensure that the provision of those non-audit services that can be undertaken by the external auditors falls within the agreed policy and does not impair their objectivity or independence. Under the policy, the external auditors cannot be engaged to perform any of the following services:

- Bookkeeping services related to accounting records or financial statements;
- Financial information systems' design and implementation;
- Appraisal or valuation services, fairness opinions and contributions in kind reports;
- Actuarial services;
- Internal audit outsourcing services;
- Management functions including human resources;
- Broker or dealer, investment advisor or investment banking services; or
- Legal and other services unrelated to the audit.

The policy requires pre-confirmation by the committee of any non-audit work subject to de minimis levels. The external auditors provide audit related services such as regulatory and statutory reporting as well as formalities relating to shareholder or other circulars. The external auditors report to the committee any material departures from Group accounting policies and procedures that they identify during the course of their audit work. Within the constraints of applicable US and UK rules, the external auditors undertake due diligence reviews and provide assistance on tax matters given their in-depth knowledge of the Group's business. The provision of non-audit services within such constraints and the agreed policy is assessed on a case-by-case basis so that the best-placed advisor is retained. During the year the committee reviewed the effectiveness of the external auditors and considered whether the agreed plan had been fulfilled and the reasons for any variation from the plan. The committee also considered the external auditors' robustness and the degree to which the external auditors were able to assess key accounting and audit judgements and the context of the management letter.

The committee reviews annually a formal letter provided by the external auditors confirming their independence and objectivity within the context of applicable regulatory requirements and professional standards.

The committee also reviewed the terms, areas of responsibility and scope of the audit as set out in the external auditors' engagement letter; the overall work plan for the forthcoming year, together with the associated fee proposal; any major issues which arose during the course of the audit and their resolution; key accounting and audit judgements; the level of errors identified during the audit; and the recommendations made to management by the auditors and management's response.

The total fees paid to PricewaterhouseCoopers LLP in the year ended 31 July 2006 were £9.6 million (2005: £7.2 million) of which £4.2 million (2005: £3.4 million) related to non-audit work. Further disclosure of the non-audit fees paid during the year ended 31 July 2006 can be found in note 3 on page 86.

The committee also reviews the effectiveness of the Group's internal audit function and its relationship with the external auditors, including internal audit plans and performance. Throughout the year, the committee reviewed the internal audit function's plans and its achievements against plans. The committee considered the results of the audits undertaken by the internal audit function and considered the adequacy of management's response to matters raised, including the time taken to resolve any such matters.

The committee also reviews, where practicable, all proposed announcements to be made by the Company to the extent that they contain material financial information. It also reviews disclosures made by the Group Chief Executive and Group Finance Director during the certification process for the Form 20-F concerning the design and operation of internal controls or material weaknesses in the controls, including any fraud involving management or other employees involved in the Group's financial controls. The committee monitors and reviews the effectiveness of the Group's internal control systems, accounting policies and practices, standards of risk management and risk management procedures and compliance controls as well as the Company's statements on internal controls before they are agreed by the Board for each year's annual report. The committee has also monitored the Company's response to the requirements of the US Sarbanes-Oxley Act as they apply to foreign private issuers with particular focus on the progress made in evaluating internal controls as required by Section 404 of that Act. The Board retains overall responsibility for internal control and the identification and management of business risk. During the year, the committee also reviewed the processes which have been embedded throughout the Group to implement compliance with IFRS reporting requirements.

The Company's whistleblowing policy (which is an extension of the Groupwide Code of Ethics) sets out arrangements for the Company Secretary to receive, in confidence, complaints on accounting, risk issues, internal controls, auditing issues and related matters which would, as appropriate, be reported to the committee. A copy of the Code of Ethics is available on the Company's website at www.wolseley.com.

Each year the committee critically reviews its own performance and considers where improvements can be made. The committee's terms of reference, which had been approved in October 2004, were reviewed during the year.

Remuneration committee

The committee comprises Messrs Davis, Walker and Duff (who chairs the committee), all of whom are independent within the definition set out in the Code. Mr Duff succeeded Mr Walker as chairman of the committee on 1 November 2005. The committee met five times during the year and Director attendance for each meeting is shown in the table below. The committee is responsible for making recommendations on remuneration to the Board. The Board's Remuneration report is set out on pages 62 to 70. During the year as part of its evaluation process the committee reviewed its terms of reference, which had been approved in July 2004. It was agreed that no amendments were required. Copies of these terms of reference are available from the Company Secretary or on the Company's website at www.wolseley.com.

The Chairman of the remuneration committee attends the Annual General Meeting to respond to any shareholder questions that might be raised on the committee's activities.

Meetings attendance

The following table shows the attendance of Directors at meetings of the Board, audit, remuneration and nominations committees during the year:

	Board meetings		Audit committee meetings		Remuneration committee meetings		Nominations committee meetings	
	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend
C A Banks	10	11	—	—	—	—	—	1
G Davis	8	11	4	4	5	5	1	1
A J Duff	11	11	—	—	5*	5	1	1
F N Hord	8	11	—	—	—	—	—	—
C A S Hornsby	11	11	—	—	—	—	—	—
R H Marchbank	11	11	—	—	—	—	—	—
J I K Murray	10	11	4*	4	—	—	—	—
F W Roach†	6	6	—	—	—	—	—	—
N M Stein	10	11	4	4	—	—	—	—
R M Walker	10	11	—	—	5	5	—	1
S P Webster	10	11	—	—	—	—	—	—
J W Whybrow	11*	11	—	—	—	—	1*	1

*Chairman

This table shows only those meetings which each Director attended as a member rather than as an invitee.

†Appointed as a Director on 16 December 2005.

Internal audit

The internal audit function is involved in the assessment of the quality of risk management and internal control and helps to promote and further develop effective risk management within the businesses. Certain internal audit assignments (such as those requiring specialist expertise) continue to be outsourced by the Head of Internal Audit to KPMG LLP as required. A policy has been established regarding the recruitment of staff from both KPMG LLP and PricewaterhouseCoopers LLP. The audit committee reviews internal audit reports and considers the effectiveness of the function.

Internal control

In a highly decentralised Group, where local management has considerable autonomy to run and develop their businesses, a well designed system of internal control is necessary to safeguard shareholders' investment and the Company's assets. The Directors

Treasury committee

The committee comprises the Group Chief Executive, the Group Treasurer and the Group Finance Director, who acts as its Chairman. Mr Banks stepped down as a member of this committee upon his retirement on 31 July 2006 and was succeeded by Mr Hornsby. The committee's role is to consider treasury policy, tax matters and certain transactions on behalf of the Group within a framework delegated by the Board.

Executive committee

The Executive Directors of the Company together with Mr Barden, who has been responsible for Wolseley UK Limited since 1 August 2003, and Mr White, the Group Company Secretary & Counsel, meet at least eight times each year, often on the day before formal Board meetings. The committee addresses operational business issues and shares best practice, thereby allowing the Directors more time at Board meetings to focus on strategy.

acknowledge that they have overall responsibility for the Group's systems of internal control and for reviewing their effectiveness. In accordance with the guidance set out in the Turnbull Report "Internal Control: Guidance for Directors on the Combined Code", an ongoing process had been established for identifying, managing and evaluating the risks faced by the Group. This process has been in place for the full financial year and up to the date on which the financial statements were approved.

The systems are designed to manage rather than eliminate the risk of failure to achieve the Group's objectives, safeguard the Group's assets against material loss, fairly report the Group's performance and position and to ensure compliance with relevant legislation, regulation and best practice including that related to social, environmental and ethical matters. The systems provide reasonable, not absolute, assurance against material misstatement or loss. Such systems are regularly reviewed by the Board to deal with changing circumstances.

Corporate governance

Including the report of the audit committee

A summary of the key financial risks inherent in the Group's business is given on pages 39 to 41. Risk assessment and evaluation is an integral part of the annual planning cycle. Each business documents the strategic objectives and the effectiveness of the Group's systems of internal control. As part of this review, each business area and function has been required to identify and document each significant risk, together with the mitigating actions implemented to manage, monitor and report to management on the effectiveness of these controls. Senior managers are also required to sign bi-annual confirmations of compliance with key procedures and to report any breakdowns in, or exceptions to, these procedures. Summarised results have been presented to senior management (including to the executive committee) and to the audit committee. These processes have been in place throughout the financial year ended 31 July 2006 and have continued to the date of this Report. The Board has reviewed the effectiveness of the Group's system of internal control for the year under review and a summary of the principal control structures and processes in place across the Group is set out below.

Control structures

Whilst the Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness, it has delegated responsibility for the internal control and risk management programme to the Group Finance Director. The detailed review of internal control and risk management has been delegated to the audit committee. The management of each Group company is responsible for internal control and risk management within its own business and for ensuring compliance with the Group's policies and procedures. Each Group company has appointed a risk director whose primary role in such capacity is to ensure compliance by local management with the Group's risk management and internal control programme. Both the internal and external auditors have reviewed the overall approach adopted by the Group towards its risk management activities so as to reinforce these internal control requirements.

Control processes

The Board reviews its strategic plans and objectives on an annual basis and approves Group company budgets and strategies in light of these. Control is exercised at both Group and subsidiary board level through monthly monitoring of performance by comparison to budgets, forecasts and cash targets and by regular visits to Group companies by the Group Chief Executive and Group Finance Director. Group companies approve and submit risk reports to the audit committee on a bi-annual basis, summarising the key risks facing *their businesses and the controls in place to manage those risks*. These reports, together with reports on internal control and departures, if any, from established Group procedures prepared by the internal and external auditors, are reviewed by the Group Finance Director and the audit committee. Group companies also submit annual risk and internal control representation letters to the Group Finance Director on internal control and risk management issues, with comments on the control environment within their operations. The Group Finance Director summarises these submissions for the audit committee and the Chairman of the audit committee reports to the Board on any matters which have arisen from the committee's review of the way in

which the risk management and internal control processes have been applied. Group companies are also required to support the disclosures and attestations that the Group Chief Executive and Group Finance Director are required to give under the Sarbanes-Oxley Act.

The Board has formal procedures in place for the approval of investment and acquisition projects, with designated levels of authority, supported by post investment review processes for selected acquisitions and major capital expenditure. The Board considers social, environmental and ethical matters in relation to the Group's businesses and assesses these when reviewing the risks faced by the Group. The Board is conscious of the effect such matters may have on the short and long-term value of the Company. The external auditors of the Company and the Head of Internal Audit attend audit committee meetings and receive its papers. The report of the audit committee is set out on pages 55 to 56 and the audit committee members regularly meet the Head of Internal Audit and the external auditors without the presence of executive management.

As noted on page 52, the Company has entered into a level II *American Depository Receipt programme with the Bank of New York* and has securities registered with the US Securities and Exchange Commission ("the Commission"). As a result, the Company is required to comply with applicable US regulations including the Sarbanes-Oxley Act, insofar as it applies to foreign private issuers. In accordance with the Commission's recommendations, the Company has established a disclosure committee comprising the Group Chief Executive, Group Finance Director, Group Financial Controller and the Group Company Secretary and Counsel.

The Group Chief Executive and Group Finance Director will also provide the certificates required by the Sarbanes-Oxley Act when the Form 20-F for 2006 is filed. There were no changes to the Company's internal control over financial reporting that occurred during the year ended 31 July 2006 that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting. During the year, work necessary to achieve compliance with the requirements of Section 404 of the Sarbanes-Oxley Act related to *internal controls has continued*.

Compliance statement

The Company applied all of the principles set out in section 1 of the Code and the Revised Code for the period under review and has, throughout the year, complied with the detailed provisions set out therein, save that, during the period from 16 December 2005 to 31 July 2006 there was an imbalance between Executive and Non Executive Directors on the Board and following the introduction of a new Directors' bonus scheme in 2000, the pensionable salary of one Executive Director includes his bonus capped at a fixed amount.

The Company's auditors, PricewaterhouseCoopers LLP, are required to review whether the above statement reflects the Company's compliance with the nine provisions of the Code specified for its review by the Listing Rules of the UK Listing Authority and to report if it does not reflect such compliance. No such report has been made.

New York Stock Exchange corporate governance requirements

Whilst the Company is not required to comply with the measures set by the board of the New York Stock Exchange, Inc. to strengthen corporate accountability as it is a private foreign issuer, it does comply in all material respects with those standards. Those standards state that companies should have a nominating/corporate governance committee composed entirely of independent Directors with written terms of reference, which develops and recommends to the board a set of corporate governance principles for the Company. Details of the Company's nominations committee are set out on page 55. The nominations committee does not develop corporate governance principles for the Board to approve. The Board itself approves the Group's overall system of internal controls, governance and authority limits. A majority of the members of the nominations committee are independent Non Executive Directors and all such Directors sit on the Board. The Company's practice, in accordance with the UK Companies Act and the Code in relation to the appointment and termination of the external auditors, is that a recommendation is made by the audit committee to the Board, which will then make a recommendation to shareholders in general meeting. This differs from the procedure in the USA, where the external auditors are accountable to the audit committee, which has the authority to appoint or dismiss the external auditors without reference to shareholders.

The US Sarbanes-Oxley Act, the Securities and Exchange Commission and the New York Stock Exchange introduced rules in July 2005 requiring the Company to comply with certain provisions relating to the audit committee. These include a requirement related to the independence of audit committee members and procedures for the treatment of complaints regarding accounting or auditing matters. The Company is fully compliant with these requirements.

Communications with shareholders

The Company places considerable importance on communication with its shareholders, including its employee shareholders. The Group Chief Executive and Group Finance Director are closely involved in investor relations and a senior executive has day-to-day responsibility for such matters. The views of our major shareholders are reported to the Board by the Group Finance Director and by the Chairman and discussed at its meetings. The Annual Report and Accounts are available to all shareholders either in paper form or electronically and can be accessed via the Company's website or via Shareview, an Internet service offered by the Company's registrars, Lloyds TSB Registrars, detailed on page 148.

There is regular dialogue with institutional shareholders and this has been extended to include private shareholders through the Annual General Meeting and meetings with shareholder representatives. Contact with institutional shareholders (and with financial analysts, brokers and the media) is controlled by written guidelines to ensure the protection of share price sensitive information that has not already been made generally available to the Company's shareholders. Contact is also maintained, when appropriate, with shareholders to discuss overall remuneration plans and policies. The Group's preliminary and interim results, as well as all announcements issued to the London and New York Stock Exchanges, are published on the Company's website, www.wolseley.com. The Company issues regular trading updates to the market and these, together with copies of presentations to analysts and interviews with the Group Chief Executive and Group Finance Director, are also posted on the Company's website. The Notice of the Annual General Meeting is circulated to all shareholders at least 20 working days before such meeting and it is Company policy not to combine resolutions to be proposed at general meetings. All shareholders are invited to the Company's Annual General Meeting at which they have the opportunity to put questions to the Board and it is standard practice to have the chairmen of the audit, nominations and remuneration committees available to answer questions. The proxy votes for and against each resolution, as well as abstentions (which may be recorded on the proxy form accompanying the Notice of Meeting), are counted before the Annual General Meeting and the results will be made available at the meeting after shareholders have voted on each resolution on a show of hands. The results are also announced to the London and New York Stock Exchanges and are published on the Company's website shortly after the meeting.

Donations

The Company's Corporate social responsibility report is set out on pages 44 to 51. The Group's charitable donations in 2006 totalled £2,445,000 (2005: £2,020,711).

At each of the Annual General Meetings held since 2002, shareholders have passed a resolution, on a precautionary basis, to approve donations to EU political organisations and to incur EU political expenditure (as such terms are defined in section 347A of the Companies Act 1985 (as amended)) not exceeding £125,000 per annum. The Board has repeatedly confirmed that it operates a policy of not giving any cash contribution to any political party in the ordinary meaning of those words and that it has no intention of changing that policy. The Directors, however, propose to seek once more, authority for the Group to make donations and incur expenditure of not more than £125,000 in total until the Company's next Annual General Meeting, which they might otherwise be prohibited from making or incurring under the terms of the Act and which would not amount to "donations" in the ordinary sense of the word. The authority sought by Resolution 13 in the Notice of Meeting will last until the Company's next Annual General Meeting.

Corporate governance

Including the report of the audit committee

Awards under employee share schemes

Options were granted under the Employee Share Purchase Plan in March 2006 to 8,151 US-based employees (2005: 9,036) and 442 Canadian-based employees (2005: 941) in respect of a maximum of 817,439 ordinary shares (2005: 2,780,555) exercisable at 1236 pence per share. Options were granted under the UK Employees Savings Related Share Option Scheme in April 2006 to 2,649 employees (2005: 2,246) in respect of a maximum of 621,422 ordinary shares (2005: 582,757) exercisable at 1164 pence per share. Options were granted under the Irish Sharesave Scheme in April 2006 to 229 employees (2005: 145) in respect of a maximum of 86,100 ordinary shares (2005: 70,878) exercisable at 1164 pence per share. In November 2005 options were granted under the Wolseley Share Option Plan 2003 over 4,473,070 ordinary shares (2005: 4,081,340) to senior employees of the Group at an option price of 1185 pence per share. A further award of 111,820 options were granted under the 2003 Plan in January 2006 at an option price of 1281 pence per share. These schemes are described in more detail on pages 64 to 68. Details of the total options outstanding at 31 July 2006 are set out in note 29 to the financial statements. Details of the cash awards under the 2001 Long Term Performance Related Incentive Scheme for Mr Banks and the cash and share awards under the Wolseley plc 2002 Long Term Incentive Scheme are set out on page 64.

Employee policies and involvement

The Group places particular importance on the involvement of its employees, keeping them regularly informed through informal bulletins, such as "Directions" and other in-house publications, meetings and the Company's internal website, on matters affecting them as employees and on the issues affecting their performance. A European Works Council has been operating since 1996 to provide a forum for dialogue and consultation with employees on significant developments in the Group's operations, management's plans and expectations, organisational changes within the Group and for employee representatives to consult management about concerns over any aspect of the Group's operations. At the date of this Report, there are 25 members comprising 14 employee representatives nominated from among employees from each European company with the balance being Company appointees.

Permanent UK employees are usually invited to join the Company's pension arrangements which include defined contribution and defined benefit pension schemes. The principal UK scheme has one corporate and two individual trustees. The Chairman of the trustees is David Tucker and, save for an independent trustee, all of the other trustees are UK-based employees or former employees of the Group. The other main UK scheme provides benefits for employees of the recently acquired William Wilson Group and has five trustees. The Chairman of the trustees is Ian Percy CBE and all of the other trustees are UK-based employees of the William Wilson Group or of the Company. Permanent employees outside the UK are usually offered membership of their employing companies' pension arrangements.

Employees are offered a range of benefits depending on the local environment, such as private medical cover. Employees are encouraged to become shareholders in the Company, where possible, through participation in the Company's share schemes. Priority is given to the training of employees and the development of their skills is of prime importance. Employment of disabled people is considered on merit with regard only to the ability of any applicant to carry out the function required. Arrangements to enable disabled people to carry out the function required will be made if it is reasonable to do so. An employee becoming disabled would, where appropriate, be offered retraining. The Group continues to operate on a highly decentralised basis. This provides the maximum encouragement for the development of entrepreneurial flair, balanced by a rigorous control framework exercised by a small head office team. Local managements are responsible for maintaining high standards of health and safety and for ensuring that there is appropriate employee involvement in decision-making.

Creditor payment policy

All Group companies are responsible for establishing terms and conditions of trading with their suppliers. It is the Group's policy that payments to suppliers are made within agreed terms and are, where applicable, consistent with the UK Government-backed Better Payment Practice Code. Copies of this Code can be obtained from the Group Company Secretary at the Company's registered office. At 31 July 2006 the Company had no trade creditors (2005: nil). The amount of trade creditors for the Group as at 31 July 2006 was equivalent to 52 days (2005: 55 days) of trade purchases.

Shareholder services

Shareview is a service offered by our registrars, Lloyds TSB Registrars, which allows shareholders on-line access to a range of shareholder information. Shareview provides access to details of shareholdings in the Company and practical help on transferring shares or updating personal details. It also allows shareholders to choose to receive shareholder communications electronically, rather than by post. To register, shareholders simply need to log on to www.shareview.co.uk with their shareholder reference number, which is shown on the form of proxy sent to all shareholders with this Report. First time users will need to enter certain information and choose a Personal Identification Number before they are able to access their shareholding details.

Shareview dealing is also available to UK-based shareholders. This is a simple and convenient telephone and Internet share purchase and sale service offered by the Registrars. For telephone purchases and sales call 0870 850 0852 between 8.30am and 4.30pm, Monday to Friday. For Internet purchases and sales, log on to www.shareview.co.uk/dealing. A postal dealing service is also available from Lloyds TSB Registrars and a form, together with terms and conditions, can be obtained by calling 0870 242 4244.

CREST

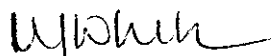
The Company's ordinary shares are in CREST, the settlement system for stocks and shares.

Auditors

PricewaterhouseCoopers LLP are willing to continue as auditors of the Company and Resolution 8 in the Notice of Meeting concerning their reappointment and Resolution 9 in the Notice of Meeting concerning the determination of their remuneration are to be proposed at the Annual General Meeting. The Directors in office at the date of this report confirm that, so far as they are each aware, there is no relevant audit information of which PricewaterhouseCoopers LLP are unaware and each Director has taken all the steps that ought to have been taken as a Director to be aware of any relevant audit information and to establish that PricewaterhouseCoopers LLP are aware of that information.

Annual General Meeting resolutions

The resolutions to be proposed at the Annual General Meeting to be held on 29 November 2006, together with explanatory notes, appear in the Notice of Annual General Meeting on pages 149 to 152 and which is also available on our website at www.wolseley.com.



On behalf of the Board
Mark J White
Group Company Secretary and Counsel
Wolseley plc, Registered No. 29846
Theale, Reading
25 September 2006

Directors' responsibility statement

The Directors are required by UK company law and International Financial Reporting Standards ("IFRS") as adopted by the European Union to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss for that period.

The Directors consider that, in preparing the accounts, appropriate accounting policies have been used and applied consistently, supported by reasonable and prudent judgements and estimates; they have been prepared in accordance with IFRS as adopted by the European Union and on the going concern basis. Applicable UK accounting standards have also been applied.

The Directors are also responsible for maintaining adequate accounting records which disclose with reasonable accuracy the financial position of the Company and the Group, which enable them to ensure that the financial statements comply with the UK Companies Act 1985 and Article 4 of the International Auditing Standards Regulation.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the [wolseley.com](http://www.wolseley.com) website. The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the UK governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and the Group and to prevent and detect fraud or other irregularities. The Directors, having prepared the financial statements, have permitted the auditors to take whatever steps and undertake whatever inspections they consider to be appropriate for the purpose of enabling them to give their audit opinion.

Remuneration report

Including the statement of remuneration policy for the year ended 31 July 2006

The Board sets the Company's remuneration policy. The remuneration committee ("the Committee") makes recommendations to the Board, within its agreed terms of reference (available on the Company's website, www.wolseley.com) on the Company's framework of executive remuneration and its cost. It also determines, on behalf of the Board, specific remuneration packages for each of the Executive Directors and for the Chairman. The Committee recommends and monitors the level and structure of remuneration for senior management who report to the Group Chief Executive and whose roles have a significant influence within the Group's business to meet its strategic objectives. The Board itself determines the remuneration of the Non Executive Directors. The Committee also administers the Company's share incentive schemes for employees. The current members of the Committee, all of whom are independent Non Executive Directors within the definition set out in the Code (and the Revised Code), are set out on page 57 and the Company Secretary acts as its secretary. The Committee has access to detailed external research on market data and trends from independent and experienced consultants. The Committee has, since March 2003, sought external advice from New Bridge Street Consultants LLP, who also provided certain pensions advice to the Company and has in the past also been provided with advice by Mercer Human Resource Consulting in the USA. The Group Chief Executive, the Chairman and the Director of Human Resources, Peter Buckingham, are normally invited to attend the meetings of the Committee to respond to specific questions raised by members of the Committee. This specifically excludes such matters concerning the details of their own personal remuneration.

The Company has followed the provisions of Schedules A and B of the Code (and the Revised Code) and has complied with the relevant provisions of the Companies Act 1985, as amended by the Directors' Remuneration Report Regulations 2002.

The Directors' report on remuneration has been approved by shareholders at each of the Annual General Meetings held since 2003. Shareholders will again be invited to approve this report at the Annual General Meeting to be held on 29 November 2006.

With the exception of the description of the performance bonus arrangements, service agreement details, performance graph, disclosure of remuneration to other senior executives, executive share ownership and external directorships, the information set out on pages 63 to 70 of this report represents the auditable disclosures referred to in the Auditors' report on page 130 as specified by the UK Listing Authority and under Schedule 7A of the Companies Act 1985.

Policy on remuneration of Executive Directors

The Company's policy now and for the future, is to provide remuneration packages that fairly reward executives for the contribution they make to the business, having regard to the size and complexity of the Group's operations and the need to attract, retain and motivate executives of the highest quality. Remuneration packages comprise competitive salary, performance bonuses, share options, long-term incentives, benefits in kind and pensions. The Company takes a total approach to remuneration, which includes all these elements. None of the long-term awards or options are pensionable. The packages, which link corporate and individual performance with an appropriate balance between short and long-term elements, are designed to be broadly comparable with those offered by other similar international businesses and reflect competitive practices in the countries and markets in which the Executive Directors operate. The policy is designed to incentivise the Executive Directors to meet the Company's financial and strategic objectives, such that a significant proportion of total remuneration is performance related. The Committee considers that the targets set for the different elements of performance related remuneration are appropriate and demanding in the context of the Company's trading environment and the business challenges it faces. The following chart shows the average proportions of salary, target bonus and the estimated value of long-term incentives granted during the financial year to Executive Directors in office at the date of this Report:

Salaries

Basic salaries are determined having regard to competitive market data, the degree of individual responsibility and individual performance. Market data is derived from a group of companies selected on the basis of comparable size, geographic spread and business focus. Due consideration is also given to the wider economic and employment backdrop, including general pay and employment conditions elsewhere in the Group. The target salary is at the median, with the opportunity to go above this level, subject to sustained individual performance. The Committee reviewed the salaries of the Executive Directors with effect from 1 August 2005, having sought the views of both the Chairman and (other than in the case of his own salary) Mr Banks, the Group Chief Executive in office at that time. As a US national, 40% of Mr Banks' salary was currency protected, based on an exchange rate of £1: \$1.50. Mr Hornsby will not benefit from such currency protection arrangements.

Benefits in kind

These principally comprise car benefits, life assurance, healthcare insurance and, in the case of Messrs Banks, Hornsby, Marchbank and Webster, relocation and housing allowances following their relocations from the USA to the UK (Messrs Banks, Hornsby and Marchbank) and from Droitwich to Theale (Mr Webster), where the Company's head office is located.

Performance bonuses

Performance bonus arrangements for the Executive Directors are designed to encourage individual performance, corporate operating efficiencies and profitable growth. The annual bonus awards are based on a mix of demanding financial targets, derived from the Company's historic performance, annual long-term strategic business plan and annual budget, as well as market expectations and will depend on performance against annual targets of return on capital employed, working capital, Group profit before tax and, where relevant, profit before tax for the appropriate division (which, in aggregate, account for 85% of the bonus, the majority of which relates to the profit before tax targets). The balance of 15% of the bonus depends on specific personal objectives set for each Executive Director.

The following percentages of base salary, which vary between Executive Directors depending on their particular responsibilities and spheres of influence, will be paid in bonus for the year ended 31 July 2006, subject to the achievement of the minimum, on-target and maximum levels of performance (with the percentages increasing on a linear basis for achievement between each level):

Name	Percentage of base salary payable on achievement of:			Actual bonus paid for the year (% of salary)
	Minimum target	On-target	Maximum target	
C A Banks	60	120	170	159.00
F N Hord	80	120	160	154.00
C A S Hornsby	80	130	180	172.50
R H Marchbank	40	70	100	42.38
F W Roach	80	110	140	127.00
S P Webster	40	70	100	87.25

Stretching targets are set for each element of the bonus, determined by the Committee each year, which also considers the levels of performance targets to be achieved for bonus payments to be made in the succeeding year. For the year ending 31 July 2007, the Committee has determined that there will be no change from 2006 for the minimum, on-target and maximum targets which will be 80/130/180% for Mr Hornsby, 80/120/160% for Mr Hord, 80/110/140% for Mr Roach and 40/70/100% for Messrs Marchbank and Webster.

Emoluments

The emoluments for 2005 and 2006 of the Directors who served during the financial year are set out below:

Directors' remuneration	Salary & fees £000	Bonuses £000	Benefits £000	Pension/life assurance ⁷ £000	2006 Total £000	2005 Total £000
Chairman						
J W Whybrow	300	—	—	—	300	210
Executive Directors						
F N Hord ¹	397	667	1	—	1,065	1,379
C A S Hornsby ²	453	847	92	38	1,430	1,201
R H Marchbank ³	400	213	238	17	868	693
F W Roach ⁴	247	283	20	31	581	—
S P Webster ⁵	475	481	51	70	1,077	1,084
Non Executive Directors						
G Davis	58	—	—	—	58	43
A J Duff	58	—	—	—	58	38
J I K Murray	63	—	—	—	63	48
N M Stein	50	—	—	—	50	38
R M Walker	50	—	—	—	50	46
Former Director						
C A Banks ⁶	936	1,407	234	94	2,671	2,329
Total	3,487	3,898	636	250	8,271	7,109
Pensions to former Directors	—	—	—	—	327	317
Pension contributions to money purchase plans	—	—	—	—	414	256
Aggregate gains on exercise of share options	—	—	—	—	1,339	2,313
Total	—	—	—	—	2,080	2,886

Notes:

- £50,176 (2005: £150,000) of the figure for bonuses relates to the vesting on 31 July 2006 of 34.5% of the award made in 2003 under the 2002 Long Term Incentive Scheme referred to on page 64.
- £55,913 (2005: £0) of the figure for benefits was paid by way of a one-off amount to assist with Mr Hornsby's purchase of a house in the UK. Mr Hornsby will receive an annual housing allowance of £75,000 pa from 1 August 2006. £65,283 (2005: £174,194) of the figure for bonuses relates to the vesting on 31 July 2006 of 34.5% of the award made in 2003 under the 2002 Long Term Incentive Scheme referred to on page 64.
- £165,080 (2005: £191,018) of the figure for benefits relates to relocation from the USA to the UK. £36,256 (2005: £101,935) of the figure for bonuses relates to the vesting on 31 July 2006 of 34.5% of the award made in 2003 under the 2002 Long Term Incentive Scheme referred to on page 64.
- Appointed 16 December 2005. £17,867 of the figure for bonuses relates to the vesting on 31 July 2006 of 34.5% of the award made in 2003 under the 2002 Long Term Incentive Scheme referred to on page 64.
- £26,120 (2005: £35,917) of the figure for benefits relates to relocation from Droitwich to Theale. £66,412 (2005: £167,500) of the figure for bonuses relates to the vesting on 31 July 2006 of 34.5% of the award made in 2003 under the 2002 Long Term Incentive Scheme referred to on page 64.
- Mr Banks retired from the Company on 31 July 2006 and the emoluments shown in the table relate to the period from 1 August 2005 to 31 July 2006. £70,000 (2005: £70,000) of the figure for benefits relates to relocation from the USA to the UK. £60,919 (2005: £66,633) of the figure for benefits relates to currency protection. £134,882 (2005: £369,908) of the figure for bonuses relates to the vesting on 31 July 2006 of 34.5% of the award made in 2003 under the 2001 Long Term Incentive Scheme referred to on page 64. In addition, the Company has agreed to pay the removal costs as well as the legal and estate agent fees in connection with the disposal of Mr Banks' home in the UK in advance of his return to the USA.
- The payments in respect of life assurance relate to arrangements established before Messrs Banks, Hord, Hornsby, Marchbank and Roach became Executive Directors. These payments will cease with effect from 1 August 2006 for Messrs Hornsby, Marchbank and Roach. A final payment of £54,235 was made in the year ended 31 July 2005 in respect of life assurance arrangements for Mr Hord. Payments totalling £1.55 million will be made over the next 16 years in respect of life assurance arrangements for Mr Banks.

Remuneration report

Including the statement of remuneration policy for the year ended 31 July 2006

Other senior executives and management

There are a number of senior executives whose roles influence the ability of the Group to meet its strategic objectives. They include the members of the Executive Committee and other senior employees. The Committee has regard to the level and structure of this group whose total remuneration including salary, target bonus and value of long-term incentives is summarised below:

Total remuneration 2005/06 £000	Number in band (2004/05 in brackets)
201 – 250	1 (1)
251 – 300	1 (0)
301 – 350	0 (0)
351 – 400	0 (2)
401 – 450	1 (0)
451 – 500	1 (0)
501 – 550	1 (0)
551 – 600	0 (0)
601 – 650	0 (1)
651 – 700	0 (1)
701 – 750	2 (0)
751 – 800	1 (0)

Service agreements

All service agreements with Executive Directors are subject to a maximum of 12 months' notice of termination if given by the Company and six months' notice of termination if given by the Executive Director. Such notice periods reflect current market practice and the balance that should be struck between providing contractual protection to the Directors that is fair and the interests of our shareholders. The date of each service agreement and the year in which each Director was last elected or re-elected are noted in the table opposite. There are no provisions in any service agreement for early termination payments and, in the event of early termination of any service agreement, the Committee will take a robust view of the mitigation, which should be taken into account when computing any compensation payable.

Name	Date of service contract	Year of election/ re-election
F N Hord	27 June 2003	2003
C A S Hornsby	18 July 2003	2004
R H Marchbank	18 March 2005	2005
F W Roach	27 February 2006	to be elected at the 2006 Annual General Meeting
S P Webster	25 September 2002	2005

Long-term incentives

The Company currently operates a long-term incentive plan which provides ordinary shares in the capital of the Company, conditional upon the Company's total shareholder return ("TSR") over single three-year periods. All awards are made subject to the achievement of stretching performance conditions and TSR has been selected as the performance measure to more closely align the interests of the Executive Directors and senior executives with those of shareholders over the long term. The plan rewards the relative out-performance of the Company against a defined list of comparator companies. Calculations are performed independently and are approved by the Committee.

The long-term incentive plan is discretionary. The Committee's current policy is to make annual awards to the Group Chief Executive, Executive Directors and other senior executives under the Wolseley plc 2002 Long Term Incentive Scheme ("2002 Scheme"), which was approved by shareholders in December 2002 and amended at the Annual General Meeting held on 18 November 2004. Prior to this date only cash awards were made. Since 2004, awards will normally be made in shares, save where there are material securities or tax law constraints in overseas jurisdictions where the scheme is to be operated, in which case conditional awards in cash would continue to be made.

Details of the awards conditionally made to the Executive Directors in office during the year under the amended 2002 Scheme and outstanding at 31 July 2006, as well as at the date of this Report, are shown in the table below.

Name of Director	Interests in £ held at 1 Aug 2005 (or date of appointment)	Interests in shares held at 1 Aug 2005 (or date of appointment)	Interests in shares awarded during the year	Interests in £ held at 31 Jul 2006 (or date of leaving) ²	Interests in shares held at 31 Jul 2006 and the date of this report (or date of leaving)	Performance period
C A Banks	369,908	95,308	106,862 ¹	0	202,170	1 Aug 2003 – 31 Jul 2008
F N Hord	145,439	38,843	35,347 ¹	0	74,190	1 Aug 2003 – 31 Jul 2008
C A S Hornsby	189,227	40,281	50,406 ¹	0	90,687	1 Aug 2003 – 31 Jul 2008
R H Marchbank	105,091	23,595	27,817 ¹	0	51,412	1 Aug 2003 – 31 Jul 2008
F W Roach	51,789	6,905	19,409 ²	0	26,314	1 Aug 2003 – 31 Jul 2008
S P Webster	192,500	34,884	42,147 ¹	0	77,031	1 Aug 2003 – 31 Jul 2008

1. The share price on the date of grant of the award was 1127 pence per share.

2. The share price on the date of grant of this award was 1127 pence per share in respect of 9,409 shares and 1281 pence per share in respect of 10,000 shares awarded on appointment as a Director.

3. Awards granted in 2003 (granted at 50% of salary as at 1 August 2003, save for Messrs Marchbank and Roach whose awards were granted at 40% of salary) vested at 34.5% of award on 31 July 2006. Subsequent awards were made in shares.

The maximum amount that can be granted under the amended 2002 Scheme for each award is 200% of base salary per annum; however awards made to date have not exceeded 125% (or 150% in the case of the Group Chief Executive) of base salary. Each year the Committee assesses the proportion of awards that should be made up of both share options and long-term incentive awards. It is the Committee's intention that for the year ending 31 July 2007, awards are made to the Group Chief Executive over 150% of salary with lower award levels for other Executive Directors. The vesting level for a maximum award under the amended 2002 Scheme requires performance to be in the upper decile. To better reflect market practice, shareholder approval was sought and received on 18 November 2004 so that 25% of awards made from that date would vest for achievement of performance at the median (with a straight line percentage to vest between median and upper decile). Extant awards remain subject to the achievement of performance conditions following a participant's agreed retirement and vesting is determined at the end of the performance period.

The following table sets out the percentage of each award which has vested and the percentage of each extant award, had it vested on 31 July 2006:

Year of award	Percentage vested on maturity or indicative vesting percentage based on performance as at 31 July 2006
2001	100% (vested 31 July 2004)
2002	100% (vested 31 July 2005)
2003	34.5% (vested 31 July 2006)
2004	45% (performance after 24 months)
2005	0% (performance after 12 months)

During the year, the Committee reviewed whether future grants under the amended 2002 Scheme should be subject to a financial performance underpin, in addition to the satisfaction of a TSR performance target. The Committee has decided that future awards under the amended 2002 Scheme may, if deemed appropriate, be subject to performance criteria in addition to the current TSR targets. The factors which would demonstrate a significant influence to their decision include: a substantial drop in the Company's share price; the presence of significant bid speculation in the sector; the adoption of weaker targets for the TSR condition; or, a significant change in policy away from granting options to granting only long-term incentive awards. The Committee will continue to monitor whether circumstances warrant the imposition of such additional criteria. The Committee decided that for the 2005 award, the continuing use of EPS as a performance target under the Wolseley Share Option Plan 2003 and the use of financial measures for the annual bonus plan provided an appropriate balance to the use of TSR within the amended 2002 Scheme.

The lists of comparator companies for awards made since 2001 under the 2001 cash plan (a plan introduced to facilitate Mr Banks' recruitment which is similar in structure to the 2002 Scheme) and, since 2002, under the 2002 Scheme are based upon the constituent members of the FTSE 100 as at the respective dates of grant, excluding banks, telecommunications, IT and utility companies but together with CRH plc and Travis Perkins plc, which compete in the same sector as the Company. A similar group of companies will be selected for the 2006 awards under the amended 2002 Scheme.

Performance graph

The following graph shows the Company's TSR performance against the performance of the FTSE 100 index over the five-year period to 31 July 2006. The FTSE 100 Index has been chosen as being a broad equity market index consisting of companies comparable in size and complexity to Wolseley.

Share options

The Wolseley Share Option Plan 2003 ("2003 Plan") received shareholder approval at the Annual General Meeting held in November 2003. Consequently, no further options will be granted under the Executive Share Option Scheme 1984 ("1984 Scheme") nor under the Executive Share Option Scheme 1989 ("1989 Scheme") which are now closed. No options under any such scheme have or will be granted at a discount to the relevant middle market price at the time of grant and no option under any such scheme can be exercised unless performance conditions have been satisfied.

All employees and Executive Directors of the Company, its subsidiaries and joint ventures, are eligible to participate in the 2003 Plan. Participants are selected by the Committee at its discretion. The Committee considers annually the levels of grant, which are phased over time and they determine the size of each award at the time of grant based on individual performance, the ability of each individual to contribute to the achievement of the performance conditions and market levels of remuneration. Awards may not exceed an amount equal to three times base salary for UK and other European-based executives and five times salary for US-based executives although the Committee may, as it so determines, also use the higher limit in exceptional circumstances. It is the Committee's intention that for the year ending 31 July 2007, awards will not exceed 225% of base salary (or 300% in the case of the US Executive Directors).

No options may be granted more than 10 years after the date on which the 2003 Plan was approved by the Company's shareholders and the Committee will formally review the 2003 Plan by no later than November 2008.

Remuneration report

Including the statement of remuneration policy for the year ended 31 July 2006

The Company monitors the awards made under the various employee and discretionary share plans, which it operates, in relation to their effect on dilution limits. Options are either satisfied by the issue of new shares or shares purchased in the market (including treasury shares). The number of new shares, as recommended by the Association of British Insurers ("ABI"), that may be issued to satisfy options granted under the 2003 Plan or any other employee share scheme is restricted to 10% of the issued ordinary share capital of the Company over any rolling 10 years. Further, as set out in the ABI principles and guidelines, the number of new shares that may be issued to satisfy options granted under the 2003 Plan or any other discretionary share scheme is restricted to 5% of the issued ordinary share capital of the Company over any rolling 10 years. In addition, for US-based participants, the 2003 Plan will be restricted such that the aggregate number of shares for which options may be granted to such participants during the life of the 2003 Plan will not exceed 5% of the issued ordinary share capital of the Company as at the date the 2003 Plan was approved by shareholders.

By 31 July 2006, awards had been granted resulting in shares being issued or capable of being issued during the preceding 10 years under all of the Company's employee share plans representing some 6.72% of the issued ordinary share capital at that date (3.70% of the issued ordinary share capital under the Company's discretionary share plans).

The extent to which the options will be capable of exercise depends on the satisfaction of a performance condition. The performance condition is based on the growth above UK inflation of the Company's earnings per share ("EPS"), before goodwill amortisation and exceptional items measured from the year ended immediately prior to grant.

For all grants made under the 2003 Plan on or after 25 November 2004 there is a single three-year performance period and, in the event that the performance conditions are not fully met on the third anniversary of the date of grant, the options will lapse.

The performance condition for options now granted under the 2003 Plan operates on the following sliding scale:

Multiple of salary worth of shares under option	Total margin over UK inflation after 3 years
First 100% of salary	9%
Second 100% of salary	12%
Next 50% of salary	15%
Greater than 250% of salary	15% to 21%

The performance of the Company is initially measured over three financial years, starting with the financial year in which the option grant takes place. For awards granted in 2003, to the extent that the performance target is not fully met at the end of the initial three-year period, a subsequent retest on the fourth anniversary of grant can be undertaken, but from the same performance-related base prevailing at the time the awards were made and with prorated targets for EPS growth. Should the performance target not be met on this subsequent date, the option will lapse.

Provided the performance condition has been satisfied an option may be exercised at any time until it lapses, 10 years from the date of grant. No amount is payable on the award of an option.

The Committee can set different EPS targets from those described above for future options, provided that the new conditions are no less challenging in the circumstances than the initial ones. Similarly, the Committee can vary the terms of existing options to take account of technical changes, for example, changes in accounting standards. The amended target will be materially no less challenging as a result of any such change. The Committee continues to believe that the EPS condition is appropriate for share options, as it requires substantial improvement in the Company's underlying financial performance and complements the inherent requirement for share price growth for an option to have value.

Following the introduction of International Financial Reporting Standards ("IFRS"), the Group now reports results on this new basis. EPS calculated under the IFRS basis will be utilised to measure performance in respect of options granted since 2005 but EPS and, to the extent required, return on capital employed, will be calculated on as near a UK GAAP basis as possible in respect of options granted prior to 2005 under which performance is still required to be measured in order to assess whether options have vested.

The table below shows the number of share options held by Directors in office during the year under the executive share option schemes as at 31 July 2006.

Executive share option schemes 2005/06

Name of Director	Subscription price (p)	Options exercisable between	Options at 31 July 2006	Options at 1 August 2005 (or date of appointment)
C A Banks	483.50	11.12.00 – 10.12.07	22,615	22,615
	381.00	12.11.01 – 11.11.08	9,235	9,235
	397.00	20.10.02 – 19.10.09	6,815	6,815
	468.00	03.05.04 – 02.05.11	400,000	400,000
	467.00	12.11.04 – 11.11.11	135,400	135,400
	543.00	04.11.05 – 03.11.12	213,161	225,000
	743.00	27.11.06 – 26.11.13 ^(a)	263,098	263,098
	949.00	04.11.07 – 03.11.14 ^(a)	153,429	153,429
	1185.00	03.11.08 – 02.11.15 ^(a)	138,010	–
F N Hord	349.75	20.10.03 – 19.10.10	40,000	50,000
	467.00	12.11.04 – 11.11.11	75,000	75,000
	543.00	04.11.05 – 03.11.12	60,000	60,000
	743.00	27.11.06 – 26.11.13 ^(a)	65,037	65,037
	949.00	04.11.07 – 03.11.14 ^(a)	78,162	78,162
	1185.00	03.11.08 – 02.11.15 ^(a)	68,474	–
C A S Hornsby	485.00	20.06.04 – 19.06.11	–	14,762
	467.00	12.11.04 – 11.11.11	–	14,600
	543.00	04.11.05 – 03.11.12	–	80,000
	743.00	27.11.06 – 26.11.13 ^(a)	101,871	101,871
	949.00	04.11.07 – 03.11.14 ^(a)	101,321	101,321
	1185.00	03.11.08 – 02.11.15 ^(a)	117,179	–
R H Marchbank	349.75	20.10.03 – 19.10.10	–	15,000
	467.00	12.11.04 – 11.11.11	30,000	30,000
	543.00	04.11.05 – 03.11.12	30,000	30,000
	743.00	27.11.06 – 26.11.13 ^(a)	30,000	30,000
	949.00	04.11.07 – 03.11.14 ^(a)	34,195	34,195
	1100.00	21.03.08 – 20.03.15 ^(a)	50,000	50,000
	1185.00	03.11.08 – 02.11.15 ^(a)	62,869	–
F W Roach	543.00	04.11.05 – 03.11.12	25,000	25,000
	743.00	27.11.06 – 26.11.13 ^(a)	30,000	30,000
	949.00	04.11.07 – 03.11.14 ^(a)	21,711	21,711
	1185.00	03.11.08 – 02.11.15 ^(a)	27,341	27,341
	1281.00	18.01.09 – 17.01.16 ^(a)	50,000	–
S P Webster	483.50	12.12.00 – 11.12.07	7,000	9,450
	381.00	13.11.01 – 12.11.08	5,000	25,000
	397.00	21.10.02 – 20.10.09	22,000	22,000
	349.75	23.10.03 – 22.10.10	50,000	50,000
	467.00	13.11.04 – 12.11.11	75,000	75,000
	543.00	05.11.05 – 04.11.12	80,000	80,000
	743.00	28.11.06 – 27.11.13 ^(a)	90,679	90,679
	949.00	05.11.07 – 04.11.14 ^(a)	79,293	79,293
	1185.00	04.11.08 – 03.11.15 ^(a)	90,189	–

Notes:

- (a) The highest mid-market price of the Company's ordinary shares during the year was 1462 pence and the lowest was 1079 pence. The year-end price was 1140 pence.
- (b) The performance conditions for options granted under the 1984 and 1989 Schemes between May 1994 and December 1996 are that they may not be exercised unless the growth in earnings per share over a period of three consecutive financial years exceeds the growth in the UK Retail Prices Index over the same period by at least 6%. Options granted in, and subsequent to, December 1997 may not be exercised unless growth in earnings per share over a period of three consecutive financial years exceeds growth in the UK Retail Prices Index over the same period by at least 9%. The number of options exercisable for Executive Directors under the 1984 and 1989 Schemes are, in addition, determined by the return on capital employed achieved over the same rolling three-year period. For options granted in 1997 and 1998, achieving a return on capital employed of 15% per annum will enable 50% of options granted to become exercisable, rising on a sliding scale to 100% for achieving a return on capital employed of 20% or more. With effect from October 1999 the return on capital employed required to permit exercise of 100% of options granted was reduced from 20% to 17.5% and the sliding scale was adjusted accordingly.
- (c) Performance targets not yet met.

Remuneration report

Including the statement of remuneration policy for the year ended 31 July 2006

Gains made on executive share options during the year to 31 July 2006

Name of Director	Option prices	Total options exercised	Value realisable 2006 £000	Value realisable 2005 £000
	483.5p 381p 349.75p 485p 467p 543p			
C A Banks		11,839 ^(a)	11,839	80
F N Hord		10,000 ^(b)	10,000	86
C A S Hornsby		14,762 ^(c) 14,600 ^(d) 11,839 ^(e) 68,161 ^(e)	109,362	781
R H Marchbank		15,000 ^(a)	15,000	149
S P Webster		2,450 ^(a) 20,000 ^(a)	22,450	213

Date of exercise	Closing market price on date of exercise (pence)
(a) 12 December 2005	1213
(b) 13 December 2005	1213
(c) 16 December 2005	1220
(d) 11 January 2006	1283
(e) 26 January 2006	1342

The value realisable from gains made on share options is the difference between the market value on the date of exercise and the original option price before any relevant tax deductions, although in most cases, some or all of the shares have been retained by the relevant director.

Savings related share option schemes

The UK- and US-based Executive Directors may, along with all eligible employees, also participate in the UK Savings Related Share Option Scheme ("SRSOS") and the Employee Share Purchase Plan ("ESPP") respectively. Under the SRSOS, participants who enter into a savings contract for three, five or seven years, to a maximum level of £250 per month, are granted options to subscribe for shares in the Company. Under the ESPP, a US Code 423 Plan, US participants may enter into a one-year savings contract to a maximum level of \$400 per month. The Board may determine that the options granted under either scheme may be granted at a discount. The maximum discount, as applied to the 2006 awards, is 20% for the SRSOS and 15% for the ESPP of the average market prices used to determine the price of the award. The following table sets out the number of share options held under the SRSOS and ESPP by the Executive Directors.

Savings related share option schemes 2005/06

Name of Director	Subscription price (pence)	Options exercisable on or between	Options at 31 July 2006	Options at 1 August 2005 (or date of appointment)
C A Banks	935.85	01.05.06 – 21.05.06	–	272
	881.00	01.06.08 – 30.11.08	1,075	1,075
	1236.00	01.05.07 – 21.05.07	222	–
F N Hord	935.85	01.05.06 – 21.05.06	–	272
	1236.00	01.05.07 – 21.05.07	222	–
C A S Hornsby	935.85	01.05.06 – 21.05.06	–	272
	1236.00	01.05.07 – 21.05.07	222	–
R H Marchbank	412.00	01.06.06 – 30.11.06	–	2,293
	935.85	01.05.06 – 21.05.06	–	272
	1164.00	01.06.09 – 30.11.09	803	–
F W Roach	935.85	01.05.06 – 21.05.06	–	272
	1236.00	01.05.07 – 21.05.07	222	–
S P Webster	412.00	01.06.06 – 30.11.06	–	917
	1164.00	01.06.09 – 30.11.12	803	–

Gains made on savings related share options during the year to 31 July 2006

Name of Director	Option prices	Total options exercised	Value realisable 2006 £000	Value realisable 2005 £000
	412p 935.85p			
C A Banks		270 ^(a) 270	1	11
F N Hord		270 ^(a) 270	1	1
C A S Hornsby		270 ^(a) 270	1	1
R H Marchbank	2,293 ^(b)	270 ^(a) 2,563	19	1
F W Roach		270 ^(a) 270	1	–
S P Webster	917 ^(b)	917	7	6

Date of exercise	Closing market price on date of exercise (pence)
(a) 15 May 2006	1242
(b) 5 June 2006	1203

The total number of options exercised by each of Messrs Banks, Hord, Hornsby, Marchbank and Roach under the Employee Share Purchase Plan ("ESPP") was reduced by 2 (which lapsed) from the total of 272 as listed at 1 August 2005, due to exchange rate fluctuations.

Pensions

Mr Webster, as a UK Executive Director, participates in the Wolseley Group Retirement Benefits Plan (the "Plan"). The Plan is a defined benefit scheme and provides benefits based on final pensionable salaries. The Company makes contributions to the Plan based on the recommendation of the Plan actuary. Bonuses payable to UK Executive Directors are not pensionable. Mr Webster currently contributes 7% per annum of his pensionable salary to the Plan.

The Finance Act 1989 introduced an earnings cap (the "Cap") for employees joining the Plan after 31 May 1989. This has the effect of limiting the amount of an employee's salary that can be pensioned through a tax approved pension scheme. A Plan specific earnings cap was introduced from 6 April 2006 when the Cap was prospectively abolished. The current Plan specific limit, to which Mr Webster is subject, is £107,400 per annum. The Company has agreed to provide Mr Webster with benefits which are broadly comparable with those that would have applied under the Plan had the Cap not been introduced. This was, until 6 April 2006, provided for by payments into a Funded Unapproved Retirement Benefits Scheme ("FURBS").

The Committee approved the Company's approach in response to the UK pensions simplification, which became effective on 6 April 2006 for those Executive Directors who are, or will become, members of the UK approved pension plan. Such Directors have the option of either maintaining the existing pension promise, in which case the executive would be responsible for any additional taxation arising; or ceasing to accrue pension benefit above the lifetime allowance in respect of service from 6 April 2006 and instead, receiving a cash retirement benefit allowance, subject to income taxation consistent with the Company's cost neutral objective. The Company will not compensate Board members for any change in their personal tax liability. Mr Webster elected to cease to accrue pension benefit above the lifetime allowance in the Plan and to receive a cash retirement allowance in respect of the excess and in respect of prior underfunding of the FURBS.

Past service benefit would remain linked to future salary increases subject to a cap similar to the existing Cap.

Additionally, the Finance Act 1989 capped life assurance payable through an approved pension scheme in respect of such executives. The Company has taken out an insurance policy to cover that part of the life assurance for Mr Webster which is in excess of the Cap. The amount charged to the profit and loss account during the year in respect of his future obligation was £2,988 (2005: £66,812).

Messrs Banks, Hornsby, Marchbank and Roach, who are US citizens, participate in the defined contribution pension arrangements of Ferguson Enterprises, Inc. In line with US practice, Messrs Banks, Hornsby and Marchbank received contributions at the level of 15% of their earnings (for this purpose \$420,000 for Mr Banks and \$400,000 for Messrs Hornsby, Marchbank and Roach of bonus was included with base salary). Bonus ceased to be included in the calculation of pension contributions from 1 August 2006. Contributions will increase (but will be limited to base salary) to 20% for Mr Hornsby and to 23% for Messrs Marchbank and Roach.

Mr Hord, also a US citizen, participates in the defined benefit and defined contribution plans of Stock Building Supply, Inc. Mr Hord's pensionable earnings include his bonus up to a maximum of \$742,400 as agreed when the bonus scheme was introduced in order to preserve his pension entitlement at that time. Mr Hord is also a member of a US non-qualified plan, which will provide a benefit for 20 years after retirement at age 60 of 40% of final pensionable salary. At Mr Hord's choice and with Company consent, the benefit can be paid over a period of 1, 5, 10 or 15 years with the total amount of the benefit, in cash terms, being the same.

The following table shows those Executive Directors participating in money purchase pension plans and the cost of the Group's contributions thereto:

	2006 £000	2005 £000
Pensions: Money Purchase Plans		
C A Banks	151	138
F N Hord	5	4
C A S Hornsby	99	88
R H Marchbank	107	26
F W Roach*	52	-

*Mr Roach was appointed to the Board on 16 December 2005.

A US subsidiary undertaking has a commitment to a former Director, who is a US citizen, to pay a joint survivor pension of \$300,000 per annum for 15 years from 1 August 1993. The net present value of the future obligation at 31 July 2006 was £298,000 (2005: £460,110), which has been charged in prior years' accounts.

Additionally, Brossette, a French subsidiary undertaking, has a commitment to a former Director, who is a French citizen, to pay an annual pension of €221,833 (2005: €215,392), with a widow's entitlement of 60%, subject to an annual increase based on the agreed French pension index. The full actuarial cost of this arrangement was provided in previous years as part of Brossette's ongoing pension obligations. The Company is guarantor of this future pension commitment which at 31 July 2006 was approximately £2.3 million (2005: £1.9 million).

The following table shows the Executive Directors in office on 31 July 2006 who participated during the year in the Group's defined benefits plans and the amounts of benefit accrued at the end of the year as if the Director had left service on 31 July 2006, the change in accrued benefit over the year, the transfer value at both the beginning and end of the year as well as the change in the transfer value over the year as required by the Directors' Remuneration Report Regulations 2002. The increase in transfer value figures represents an obligation on the pension fund or the Company – they are not sums due or paid to the Director. The Listing Rules of the UK Listing Authority require additional disclosure of the change in accrued benefit net of inflation and the transfer value of this change. These pension liabilities are calculated using the cash equivalent transfer value method prescribed in the Listing Rules.

Remuneration report

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Pensions

	Age at 31 July 2006	Directors' Remuneration Report Regulations 2002					Listing Rules		
		Pension accumulated 2006 £000	Increase in pension 2006 £000	Transfer value		Increase/ (decrease) in transfer value 2006 (excluding member contributions) £000	Pension accumulated 2006 £000	Increase in pension 2006 (net of revaluation) £000	Transfer value of the increase/ (decrease) 2006 (excluding member contributions) £000
				2006 £000	2005 £000				
F N Hord	59	326	4	4,518	4,470	(110)	326	(11)	(134)
S P Webster	53	43	24	634	267	354	43	23	328

As previously noted Mr Webster elected, with effect from 6 April 2006, to cease to accrue pension benefit above the lifetime allowance in the Plan and to receive a cash retirement allowance in respect of the excess and in respect of prior underfunding of the FURBS, which became a defined contribution arrangement from the same date. The figures shown in the table above reflect this change and show the information required under the Listing Rules and under the Directors' Remuneration Report Regulations 2002 in respect of that part of his arrangements that continue to accrue pension on a defined benefit basis notwithstanding the changes that came into effect from 6 April 2006. The figure of £70,000 included in the column headed "pension/life assurance" in the emoluments table on page 63 includes £23,117 in respect of the cash retirement allowance payable with effect from 6 April 2006.

External directorships

Executive Directors are encouraged to take on not more than one external Non Executive Directorship on a non-competitor board, as the Committee believes there are significant benefits to be achieved to both the Company and the individual. In order to avoid any conflict of interest, all appointments are subject to the Board's approval. Executive Directors may retain payments received in respect of these appointments. Mr Banks is a Non Executive Director of Bunzl plc and of TowneBank/Peninsula (formerly Harbor Bank), for which the annual rate of his fees is respectively £56,500 and \$600 per meeting attended. Mr Banks attended one meeting of the Board of TowneBank/Peninsula during the year (2005: £56,000 and \$0). Mr Hornsby is a Non Executive Director of Virginia Company Bank for which he received 3,000 stock options at \$10 each on appointment. Mr Hord is a Non Executive Director of Investors Management Corporation for which the annual rate of his fees is \$22,000 (2005: \$18,000). Mr Webster is a Non Executive Director of Bradford and Bingley plc, for which the annual rate of his fees is £60,000 (2005: £60,000).

Executive share ownership

A share ownership programme was introduced with effect from 1 August 2004. It is designed to encourage all Directors and members of the Executive Committee to build up a shareholding with a value of 1.5 times annual base salary for the Group Chief Executive; 1 times annual base salary for all Executive Directors; 1 times annual fees for all Non Executive Directors, including the Chairman; and 0.5 times annual base salary for all Executive Committee members. For Executive Directors and members of the Executive Committee this may be achieved by retaining shares received as a result of participating in a Company employee share plan (other than the shares sold to finance option exercises, or to pay a National Insurance or income tax liability or overseas equivalent). The programme specifically excludes the need for executives to make a personal investment should awards not vest. Normally these levels of shareholding should be expected to be achieved within three to five years from the time the individual is included in the programme. The Committee reviewed and noted the progress which has been made towards meeting these targets during the year. Directors' current shareholdings are set out on page 53.

Policy on remuneration of Non Executive Directors

The remuneration of Non Executive Directors during the year under review was made up of a basic fee and an additional fee where a Non Executive Director acts as Chairman of either the audit or remuneration committees and for the Director nominated as Senior Independent Non Executive Director. Fees are reviewed from time to time by the Board. The Non Executive Directors have letters of engagement rather than service contracts and do not participate in any incentive plan, nor is any pension payable in respect of their services as Non Executive Directors. The Board's policy is that Non Executive Directors are normally appointed for an initial term of three years, which is then reviewed and extended for a further three-year period. Appointments may, however, be terminated upon six months' notice. There are no provisions for compensation in the event of termination. The terms and conditions of appointment of the Non Executive Directors are available for inspection at the Company's registered office during normal business hours and at the Annual General Meeting.

The Board of Directors of Wolseley plc has approved this Remuneration report.



On behalf of the Board
Andrew J Duff
 Chairman of the Remuneration Committee
 25 September 2006

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Group income statement

Year ended 31 July 2006

	Notes	2006 £m	2005 £m
<i>Continuing operations</i>			
Revenue	2	14,158	11,256
Cost of sales		(10,222)	(8,174)
Gross profit		3,936	3,082
Distribution costs		(2,413)	(1,930)
Administrative expenses: amortisation of acquired intangibles		(48)	(6)
Administrative expenses: other		(665)	(468)
Administrative expenses: total		(713)	(474)
Other income		24	24
Operating profit	2, 3	834	702
Finance revenue	4	49	27
Finance costs	5	(114)	(64)
Profit before tax		769	665
Tax expense	6	(232)	(186)
Profit for the year attributable to equity shareholders		537	479
Earnings per share	8		
Basic earnings per share		90.77p	81.61p
Diluted earnings per share		90.02p	80.75p
Non-GAAP measures of performance	9		
Trading profit		882	708
Profit before tax and the amortisation of acquired intangibles		817	671

Group statement of recognised income and expense

Year ended 31 July 2006

	2006 £m	2005 £m
Profit for the financial year	537	479
Net exchange adjustments offset in reserves	(124)	57
Cash flow hedges		
– fair value gains and losses	14	(11)
– reclassified and reported in net profit for the year	(1)	–
Actuarial gain/(loss) on retirement benefits	7	(4)
Change in fair value of available-for-sale investments	(7)	–
Tax (charge)/credit recognised in the income statement	6 (13)	34
Net (losses)/gains not recognised in the income statement	(124)	76
Total recognised income for the year attributable to shareholders	413	555

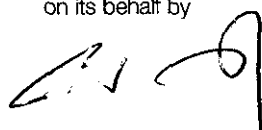
The accompanying notes are an integral part of these consolidated financial statements.

Group balance sheet

As at 31 July 2006

	Notes	2006 £m	2005 £m
Assets			
Non-current assets			
Intangible assets: goodwill	11	1,173	815
Intangible assets: other	12	333	133
Property, plant and equipment	13	1,144	883
Deferred tax assets	15	16	55
Trade and other receivables	17	36	37
Financial assets: available-for-sale investments	14	21	6
		2,723	1,929
Current assets			
Inventories	16	1,954	1,706
Trade and other receivables	17	2,650	2,198
Current tax receivable		1	7
Financial assets: trading investments	19	4	5
Derivative financial assets	20	10	3
Financial receivables: construction loans (secured)	21	313	262
Cash and cash equivalents	22	416	381
		5,348	4,562
Assets held for sale	18	7	8
Total assets		8,078	6,499
Liabilities			
Current liabilities			
Trade and other payables	23	2,294	1,943
Current tax payable		91	70
Borrowings: construction loans (unsecured)	21	313	262
Bank loans and overdrafts	24	192	439
Obligations under finance leases	25	18	4
Derivative financial liabilities	20	29	14
Provisions	26	29	22
Retirement benefit obligations	27	29	17
		2,995	2,771
Non-current liabilities			
Trade and other payables	23	25	18
Bank loans	24	2,084	1,045
Obligations under finance leases	25	57	58
Deferred tax liabilities	15	88	62
Provisions	26	77	63
Retirement benefit obligations	27	160	181
		2,491	1,427
Total liabilities		5,486	4,198
Net assets		2,592	2,301
Shareholders' equity			
Called up share capital	28	149	148
Share premium account	30	288	241
Foreign currency translation reserve	30	(49)	82
Retained earnings	30	2,204	1,830
Equity shareholders' funds		2,592	2,301

The consolidated financial statements on pages 72 to 129 were approved by the Board of Directors on 25 September 2006 and were signed on its behalf by


Chip Hornsby
 Group Chief Executive


Stephen P Webster
 Group Finance Director

The accompanying notes are an integral part of these consolidated financial statements.

Group cash flow statement

Year ended 31 July 2006

	Notes	2006 £m	2005 £m
Cash flows from operating activities			
Cash generated from operations	34	850	765
Interest received		45	26
Interest paid		(102)	(57)
Tax paid		(206)	(151)
Net cash generated from operating activities		587	583
Cash flows from investing activities			
Acquisition of businesses (net of cash acquired)	32	(822)	(406)
Disposals of businesses (net of cash disposed of)	33	2	5
Purchases of property, plant and equipment		(326)	(218)
Proceeds from sale of property, plant and equipment		52	74
Purchases of intangible assets		(20)	(21)
Purchases of investments		(23)	–
Proceeds from disposal of investments		–	1
Net cash used in investing activities		(1,137)	(565)
Cash flows from financing activities			
Proceeds from the issue of shares to shareholders		31	33
Purchases of shares by Employee Benefit Trusts		(27)	(19)
Proceeds from new borrowings		2,486	410
Repayments of borrowings and derivatives		(1,405)	(234)
Finance lease capital payments		(17)	(5)
Dividends paid to shareholders		(162)	(145)
Net cash generated from financing activities		906	40
Net cash generated		356	58
Effects of exchange rate changes		(8)	(26)
Net increase/(decrease) in cash, cash equivalents and bank overdrafts		348	32
Cash, cash equivalents and bank overdrafts at the beginning of the year	35	(56)	(88)
Cash, cash equivalents and bank overdrafts at the end of the year	35	292	(56)

The accompanying notes are an integral part of these consolidated financial statements.

Group accounting policies

Year ended 31 July 2006

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, including interpretations issued by the International Accounting Standards Board ("IASB") and its committees and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The disclosures required by IFRS 1, "First-Time Adoption of International Financial Reporting Standards" concerning the transition from UK GAAP to IFRS are given in note 45. The date of transition to IFRS is 1 August 2004.

A summary of the principal accounting policies applied by the Group in the preparation of the consolidated financial statements is set out below.

Basis of accounting

The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of available for sale investments and financial assets and liabilities held for trading.

First-time adoption of International Financial Reporting Standards

IFRS 1, "First-time Adoption of International Financial Reporting Standards" sets out the procedures that the Group must follow when it adopts IFRS for the first time as the basis for preparing its consolidated financial statements. The Group is required to establish its IFRS accounting policies as at 31 July 2006 and, in general, apply these retrospectively to determine the IFRS opening balance sheet at its date of transition, 1 August 2004.

Certain optional exemptions to this general principle are available under IFRS 1 and the significant first-time adoption choices made by the Group are as follows:

- The Group has elected not to apply IFRS 3 retrospectively to business combinations that took place before 1 August 2004. As a result, in the IFRS opening balance sheet, goodwill arising from past business combinations of £666 million remains as stated under UK GAAP at that date.
- The Group has elected to recognise all cumulative actuarial gains and losses in relation to post employment defined benefit schemes at the date of transition. In addition, the Group has elected to recognise actuarial gains and losses in full in the period in which they occur in a statement of recognised income and expense.
- The Group has elected to apply IFRS 2, "Share Based Payment" only to equity-settled awards that had not vested as at 1 August 2004 and were granted on or after 7 November 2002 and cash-settled awards that had not vested as at 1 August 2004.
- The Group has elected to reset the foreign currency translation reserve to zero at 1 August 2004. Going forward, IFRS requires amounts taken to reserves on the retranslation of foreign subsidiaries to be recorded in a separate foreign currency translation reserve and be included in the future calculation of profit or loss on sale of the subsidiary.
- The Group has elected to implement IAS 39, "Financial Instruments: Recognition and Measurement" and IAS 32, "Financial Instruments: Disclosure and Presentation" at its date of transition, 1 August 2004 and apply hedge accounting where the requirements of IAS 39 are met.

Consolidation

The consolidated financial information includes the results of the parent Company and its subsidiary undertakings drawn up to 31 July 2006.

The trading results of businesses acquired, sold or discontinued during the year are included in profit on ordinary activities from the date of effective acquisition or up to the date of sale or discontinuance.

Intra-group transactions and balances and any unrealised gains and losses arising from intra-group transactions are eliminated on consolidation.

Foreign currencies

Items included in the financial statements of each of the Group's subsidiary undertakings are measured using the currency of the primary economic environment in which the subsidiary undertaking operates (the "functional currency"). The consolidated financial statements are presented in sterling, which is the presentational currency of the Group and the functional currency of the parent Company.

The trading results of overseas subsidiary undertakings are translated into sterling using average rates of exchange ruling during the relevant financial period.

The balance sheets of overseas subsidiary undertakings are translated into sterling at the rates of exchange ruling at the period end. Exchange differences arising between the translation into sterling of the net assets of these subsidiary undertakings at rates ruling at the beginning and end of the year are recognised in the currency translation reserve as are exchange differences on foreign currency borrowings to the extent that they are used to finance or provide a hedge against foreign currency net assets.

Changes in the fair value and the final settlement value of derivative financial instruments, entered into to hedge foreign currency net assets and that satisfy the hedging conditions of IAS 39, are recognised in the currency translation reserve (see the separate accounting policy on derivative financial instruments).

In the event that an overseas subsidiary undertaking is sold, the gain or loss on disposal recognised in the income statement is determined after taking into account the cumulative currency translation differences that are attributable to the subsidiary undertaking concerned. As permitted by IFRS 1, the Group has elected to deem the cumulative currency translation differences of the Group to be £nil as at 1 August 2004. As a result the gain or loss on disposal of an overseas subsidiary undertaking does not include currency translation differences arising before 1 August 2004.

Foreign currency transactions entered into during the year are translated into sterling at the rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All currency translation differences are taken to the income statement with the exception of differences on foreign currency borrowings to the extent that they are used to finance or provide a hedge against foreign currency net assets as detailed above.

Group accounting policies

Year ended 31 July 2006

Revenue

Revenue is the amount receivable for the provision of goods and services falling within the Group's ordinary activities, excluding intra-group sales, estimated and actual sales returns, trade and early settlement discounts, value added tax and similar sales taxes.

Revenue from the provision of goods is recognised when the risks and rewards of ownership of goods have been transferred to the customer. The risks and rewards of ownership of goods are deemed to have been transferred when the goods are shipped to, or are picked up by, the customer.

Revenue from services, other than those that arise from construction service contracts (see below), are recognised when the service provided to the customer has been completed.

Revenue in respect of construction service contracts, where the Group is providing framing lumber installation services to residential property companies, is recognised using the percentage of completion method, with the percentage complete being determined by comparing the percentage of costs incurred to date with the estimated total costs of the contract. Losses on these contracts, if any, are recognised in the period when such losses become probable and can be reasonably estimated.

Revenue from the provision of goods and all services is only recognised when the amounts to be recognised are fixed or determinable and collectability is reasonably assured.

Vendor rebates

The Group enters into arrangements with certain vendors providing for inventory purchase rebates. These purchase rebates are accrued as earned and are recorded initially as a reduction in inventory with a subsequent reduction in cost of sales when the related product is sold.

Business combinations

The Group has applied the purchase method in its accounting for the acquisition of subsidiaries.

As permitted by IFRS 1, the Group has elected not to apply IFRS 3 "Business Combinations" to acquisitions of subsidiaries that were recognised before 1 August 2004 and as a result the carrying amount of goodwill recognised as an asset under UK GAAP has been brought forward unadjusted as the cost of goodwill recognised under IFRS as at 1 August 2004. IFRS 3 has been applied with effect from 1 August 2004 and goodwill amortisation ceased from that date.

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Group's share of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary undertaking at the date of acquisition. Goodwill on acquisitions of subsidiary undertakings is included in intangible assets.

Goodwill is not amortised but is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the lowest level within the Group at which the associated goodwill is monitored for management purposes and are not larger than the primary or secondary reporting segments determined in accordance with IAS 14 "Segmental Reporting".

Other intangible assets

An intangible asset, which is an identifiable non-monetary asset without physical substance, is recognised to the extent that it is probable that the expected future economic benefits attributable to the asset will flow to the Group and that its cost can be measured reliably. The asset is deemed to be identifiable when it is separable or when it arises from contractual or other legal rights.

Intangible assets, primarily brands, trade names and customer relationships, acquired as part of a business combination are capitalised separately from goodwill and are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the reducing balance method for customer relationships and the straight-line method for other intangible assets. The cost of the intangible assets is amortised over their estimated useful lives, which can range from less than a year to 25 years, depending on the nature of the intangible asset.

Computer software that is not integral to an item of property, plant and equipment is recognised separately as an intangible asset and is carried at cost less accumulated amortisation and accumulated impairment losses. Costs include software licences, consulting costs attributable to the development, design and implementation of the computer software and internal costs directly attributable to the development, design and implementation of the computer software. Costs in respect of training and data conversion are expensed as incurred. Amortisation is calculated using the straight-line method so as to charge the cost of the computer software to the income statement over its estimated useful life (3-5 years).

Property, plant and equipment ("PPE")

PPE is carried at cost less accumulated depreciation and accumulated impairment losses, except for land and assets in the course of construction, which are not depreciated and are carried at cost less accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. In addition, subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Depreciation on assets is calculated using the straight-line method to allocate the cost of each asset to its residual value over its estimated useful life, as follows:

Freehold buildings and long leaseholds	35–50 years
Short leaseholds	over the period of the lease
Plant and machinery	7–10 years
Fixtures and fittings	5–7 years
Computers	3–5 years
Motor vehicles	4 years

The residual values and useful lives of PPE are reviewed and adjusted if appropriate at each balance sheet date.

Borrowing costs attributable to assets under construction are charged to the income statement in the period in which they are incurred.

Leased assets

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have transferred to the Group, are capitalised in the balance sheet and depreciated over the shorter of the lease term or their useful lives. The asset is recorded at the lower of its fair value and the present value of the minimum lease payments at the inception of the lease. The capital elements of future obligations under finance leases are included in liabilities in the balance sheet and analysed between current and non-current amounts. The interest elements of future obligations under finance leases are charged to the income statement over the periods of the leases and represent a constant proportion of the balance of capital repayments outstanding in accordance with the effective interest rate method.

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. The cost of operating leases (net of any incentives received from the lessor) is charged to the income statement on a straight line basis over the periods of the leases.

Assets held for sale

Assets are classified as held for sale if their carrying amount will be recovered by sale rather than by continuing use in the business. For this to be the case, the asset must be available for immediate sale in its present condition, management must be committed to and have

initiated a plan to sell the asset which, when initiated, was expected to result in a completed sale within 12 months. Assets that are classified as held for sale are not depreciated and are measured at the lower of their carrying amount and fair value less costs to sell.

Impairment of assets

Assets that have an indefinite useful life, such as goodwill, are not subject to amortisation and are tested annually for impairment and whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are tested for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method or the average cost method as appropriate to the nature of the transactions in those items of inventory. The cost of goods purchased for resale includes import and custom duties, transport and handling costs, freight and packing costs and other attributable costs less trade discounts, rebates and other subsidies. It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Taxation

Current tax represents the expected tax payable (or recoverable) on the taxable income for the year using tax rates enacted or substantively enacted at the balance sheet date and taking into account any adjustments arising from prior years.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Group accounting policies

Year ended 31 July 2006

Derivative financial instruments

Derivative financial instruments, in particular, interest rate swaps and currency swaps, are used to manage the financial risks arising from the business activities of the Group and the financing of those activities. There is no trading activity in derivative financial instruments.

At the inception of a hedging transaction entailing the use of derivative financial instruments, the Group documents the relationship between the hedged item and the hedging instrument together with its risk management objective and the strategy underlying the proposed transaction. The Group also documents its assessment, both at the inception of the hedging relationship and subsequently on an ongoing basis, of the effectiveness of the hedge in offsetting movements in the fair values or cash flows of the hedged items.

Derivative financial instruments are recognised as assets and liabilities measured at their fair values at the balance sheet date. Where derivative financial instruments do not fulfil the criteria for hedge accounting contained in IAS 39, changes in their fair values are recognised in the income statement.

When hedge accounting is used, the relevant hedging relationships are classified as fair value hedges, cash flow hedges or net investment hedges. Where the hedging relationship is classified as a fair value hedge, the carrying amount of the hedged asset or liability is adjusted by the increase or decrease in its fair value attributable to the hedged risk and the resulting gain or loss is recognised in the income statement where, to the extent that the hedge is effective, it will be offset by the change in the fair value of the hedging instrument. Where the hedging relationship is classified as a cash flow hedge or as a net investment hedge, to the extent the hedge is effective, changes in the fair value of the hedging instrument arising from the hedged risk are recognised directly in equity rather than in the income statement. When the hedged item is recognised in the financial statements, the accumulated gains and losses recognised in equity are either recycled to the income statement or, if the hedged item results in a non-financial asset, are recognised as adjustments to its initial carrying amount.

Pensions and other post retirement benefits

Contributions to defined contribution pension plans and other post retirement benefits are charged to the income statement as incurred.

For defined benefit pension plans and other retirement benefits, the cost is calculated annually using the projected unit credit method and is recognised over the average expected remaining service lives of participating employees, in accordance with the recommendations of independent qualified actuaries. The current service cost of defined benefit plans is recorded within operating profit. The total expected return from pension scheme assets less the total interest on pension scheme liabilities is recorded within finance revenue if a gain and finance costs if an expense. Past service costs resulting from enhanced benefits are recorded within operating profit and recognised on a straight-line basis over the vesting period, or immediately if the benefits have vested. Actuarial gains and losses, which represent differences between the expected and actual returns on the plan assets and the effect of changes in actuarial assumptions, are

recognised in full in the statement of recognised income and expense in the period in which they occur. The defined benefit liability or asset recognised in the balance sheet comprises the net total for each plan of the present value of the benefit obligation at the balance sheet date, less any past service costs not yet recognised, less the fair value of the plan assets, if any, at the balance sheet date. Where a plan is in surplus, the asset recognised is limited to the amount of any unrecognised past service costs and the present value of any amount which the Group expects to recover by way of refunds or a reduction in future contributions.

Trade receivables

Trade receivables are recognised initially at fair value and measured subsequently at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet to the extent that there is no right of offset and practice of net settlement with cash balances.

Share capital

The Company only has one class of shares, ordinary shares, which are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of tax), is deducted from equity attributable to the company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related tax effects, is included in equity attributable to the Company's equity holders.

Borrowings

Borrowings are recognised initially at cost being the fair value of the consideration received net of transaction costs incurred.

Borrowings are subsequently stated at amortised cost with any difference between the proceeds (net of transaction costs) and the redemption value being recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Investments

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss

This category comprises financial assets held for trading which have been acquired principally for the purpose of selling in the short-term. Derivatives also fall within this category unless they are designated as hedges and the hedge is effective for accounting purposes. Assets in this category are classified as current.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and with no intention of trading. They are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. They are included in non-current assets unless the investment is due to mature within 12 months of the balance sheet date.

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the "Financial assets at fair value through profit or loss" category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Such provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money. Provisions are not recognised for future operating losses.

Provisions for insurance represent an estimate, based on historical experience, of the ultimate cost of settling outstanding claims and claims incurred but not reported at the balance sheet.

Share-based payments

Share-based incentives are provided to employees under the Group's executive share option, long-term incentive and share purchase schemes. The Group recognises a compensation cost in respect of these schemes that is based on the fair value of the awards, measured using Black-Scholes, Binomial and Monte Carlo valuation methodologies. For equity-settled schemes, the fair value is determined at the date of grant and is not subsequently re-measured unless the conditions on which the award was granted are modified. For cash-settled schemes, the fair value is determined at the date of grant and is re-measured at each balance sheet date until the liability is settled. Generally, the compensation cost is recognised on a straight-line basis over the vesting period. Adjustments are made to reflect expected and actual forfeitures during the vesting period due to the failure to satisfy service conditions or non-market performance conditions.

As permitted by IFRS 1, the Group has applied IFRS 2 "Share-based Payment" retrospectively only to equity-settled awards that had not vested as at 1 August 2004 and were granted on or after 7 November 2002 and cash-settled awards that had not vested as at 1 August 2004.

Dividends payable

Dividends on ordinary shares are recognised in the Group's financial statements in the period in which the dividends are approved by the shareholders of the Company (generally in the case of the final dividend) or paid (in the case of interim dividends).

Notes to the consolidated financial statements

Year ended 31 July 2006

1. Critical accounting estimates

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions in certain circumstances that affect reported amounts. The most sensitive estimates affecting the financial statements are in the areas of assessing the recoverability of receivables, the net realisable value of inventory, the impairment of goodwill and long-lived intangible assets, the reserves in respect of self-insured insurance, the consideration received from vendors and pensions and other post-retirement benefits.

Allowance for doubtful accounts

Provision is made against accounts that in the estimation of management may be impaired. Within each of the businesses assessment is made locally of the recoverability of accounts receivable based on a range of factors including the age of the receivable and the creditworthiness of the customer. The provision is assessed monthly with a detailed formal review of balances and security being conducted at the full year and half year. Determining the recoverability of an account involves estimation as to the likely financial condition of the customer and their ability to subsequently make payment. If the Group is cautious as to the financial condition of the customer the Group may provide for accounts that are subsequently recovered. Similarly if the Group is optimistic as to the financial condition of the customer the Group may not provide for an account that is subsequently determined to be irrecoverable. Furthermore, while the Group has a large geographically dispersed customer base, a slowdown in the markets in which the Group operates may result in higher than expected uncollectable amounts and therefore higher (or lower) than anticipated charges for irrecoverable receivables. In recent years the Group has not experienced significant variation in the amount charged to the income statement in respect of doubtful accounts, when compared to sales.

The Group held a provision for impairment of receivables at 31 July 2006 amounting to £41 million (2005: £32 million).

Inventories

For financial reporting purposes the Group evaluates its inventory to ensure it is carried at the lower of cost or net realisable value. Provision is made against slow moving, obsolete and damaged inventories. Damaged inventories are identified and written down through the inventory counting procedures conducted within each business. Provision for slow moving and obsolete inventories is assessed by each business as part of their ongoing financial reporting. Obsolescence is assessed based on comparison of the level of inventory holding to the projected likely future sales. Future sales are assessed based on historical experience and adjusted where the manufacturer has indicated that it will no longer continue to manufacture the particular item. To the extent that future events impact the saleability of inventory these provisions could vary significantly. For example, changes in specifications or regulations may render inventory, previously considered to have a realisable value in excess of cost, obsolete and requiring such inventory to be fully written off. The Group held allowances in respect of inventory balances at 31 July 2006 amounting to £134 million (2005: £99 million).

Impairment of long-lived assets

Wolseley periodically evaluates the net realisable value of long-lived assets, including goodwill, other intangible assets and tangible fixed assets, relying on a number of factors, including operating results, business plans and projected future cash flows.

Assets that have an indefinite useful life, such as goodwill, are not subject to amortisation and are tested annually for impairment and whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are tested for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The fair value is in most cases based on the discounted present value of the future cash flows expected to arise from the cash generating unit to which the goodwill relates, or from the individual asset or asset group. Estimates are used in deriving these cash flows and the discount rate.

The complexity of the estimation process and issues related to the assumptions, risks and uncertainties inherent with the application of the intangible and tangible fixed asset accounting policies affect the amounts reported in the financial statements. In particular, if different estimates of the projected future cash flows or a different selection of an appropriate discount rate were made, these changes could materially alter the projected value of the cash flows of the asset and as a consequence materially different amounts would be reported in the financial statements.

Self-insured insurance

The Group operates a captive insurance company, Wolseley Insurance Limited, which is registered and operational in the Isle of Man. This company provides reinsurance exclusively to certain companies within the Group, principally to cover US casualty and property damage risks. Provision is made based on actuarial assessment of the liabilities arising from the insurance coverage provided. The actuarial assessment of the reserve for future claims necessarily includes estimates as to the likely trend of future claims costs and the estimates as to the emergence of further claims subsequent to the year end. An actuarial review of claims is performed annually. To the extent that actual claims differ from those projected the provisions could vary significantly. At 31 July 2006, the provision for claims arising from this insurance was £47 million (2005: £35 million).

Consideration received from vendors

The Group enters into agreements with many of its vendors providing for inventory purchase rebates primarily upon achievement of specified volume purchasing levels with many of these agreements applying to sales in a calendar year. For certain agreements the rebate rises as a proportion of purchases as higher quantities or values of purchases are made. The Group accrues the receipt of vendor rebates as part of its cost of sales for products sold, taking into consideration cumulative purchases of inventory to date and projected purchases through to the end of the qualifying period. Rebates are accrued for each reporting period with an extensive reassessment of the rebates earned being performed at the end of the financial year and halfway through the financial year. The Group has agreements with numerous and geographically dispersed suppliers, but a slowdown in the markets in which the Group operates, or a significant change in the profile of products purchased may result in purchases for the remainder of the year differing significantly from those projected. Consequently the rebate actually received may vary from that accrued in the financial statements.

Pensions and other post retirement benefits

The Group operates defined benefit pension schemes in the United Kingdom and in a number of overseas locations, that are accounted for using methods that rely on actuarial assumptions to estimate costs and liabilities for inclusion in the financial statements. These actuarial assumptions include discount rates, assumed rates of return, salary increases, employee turnover rates and mortality rates.

While management believes that the actuarial assumptions are appropriate, any significant changes to those used would affect the balance sheet and income statement. The Group considers that the most significant assumptions are the discount rate and the expected return on plan assets. The Group has estimated the sensitivity of the financial statements to changes in these assumptions as follows:

	Impact on balance sheet		Impact on income statement	
	2006 £m	2005 £m	2006 £m	2005 £m
Effect of a change in discount rate				
Increase of 0.5%	55	37	3	2
Decrease of 0.5%	(64)	(40)	(4)	(2)
Effect of a change in expected return on assets				
Increase of 0.5%			2	2
Decrease of 0.5%			(2)	(2)

Notes to the consolidated financial statements

Year ended 31 July 2006

2. Segmental analysis

The Group has a single business segment, the distribution and supply of construction materials and services.

The Group's geographical segments are Europe, consisting of UK and Ireland, France and Central Europe and North America. The Group has determined that its geographical segments are its primary segments for IFRS reporting purposes. The revenue, operating profit and trading profit of the Group's geographical segments are detailed in the following three tables.

	2006 £m	2005 £m
Revenue		
UK and Ireland	2,690	2,351
France	1,725	1,644
Central Europe	735	642
Europe	5,150	4,637
North America	9,008	6,619
Group	14,158	11,256
Operating profit		
UK and Ireland	188	181
France	90	97
Central Europe	30	30
European central costs	(7)	(4)
Europe	301	304
North America	570	423
Group central costs	(37)	(25)
Group	834	702
Trading profit (note 9)		
UK and Ireland	201	183
France	91	98
Central Europe	31	30
European central costs	(7)	(4)
Europe	316	307
North America	603	426
Group central costs	(37)	(25)
Group	882	708

Other segmental information:

For the year ended 31 July 2006	UK and Ireland £m	France £m	Central Europe £m	North America £m	Group Centre £m	Total £m
Depreciation of property, plant and equipment	33	22	7	72	–	134
Amortisation of non-acquired intangibles	–	–	–	1	5	6
Amortisation of acquired intangibles	13	1	1	33	–	48
	46	23	8	106	5	188
Additions to property, plant and equipment	93	33	18	217	4	365
Additions to non-acquired intangible assets	–	–	1	3	21	25
	93	33	19	220	25	390
Additions to goodwill	192	19	11	165	–	387
Additions to acquired intangible assets	83	3	3	162	–	251
Segment assets	1,812	1,063	414	4,247	74	7,610
Reconciliation to total assets as reported in the Group Balance Sheet:						
Deferred tax assets						16
Financial assets – current and non-current						25
Current tax receivable						1
Derivative financial assets						10
Cash and cash equivalents						416
Total assets as reported in the Group Balance Sheet						8,078
Segment liabilities	668	532	136	1,489	102	2,927
Reconciliation to total liabilities as reported in the Group Balance Sheet:						
Current tax payable						91
Bank loans and overdrafts						2,276
Obligations under finance leases						75
Derivative financial liabilities						29
Deferred tax liabilities						88
Total liabilities as reported in the Group Balance Sheet						5,486

Notes to the consolidated financial statements

Year ended 31 July 2006

2. Segmental analysis continued

For the year ended 31 July 2005	UK and Ireland £m	France £m	Central Europe £m	North America £m	Group Centre £m	Total £m
Depreciation of property, plant and equipment	35	23	6	49	1	114
Amortisation of non-acquired intangibles	1	1	–	1	–	3
Amortisation of acquired intangibles	2	1	–	3	–	6
	38	25	6	53	1	123
Additions to property, plant and equipment	54	37	12	134	1	238
Additions to non-acquired intangible assets	–	–	–	2	19	21
	54	37	12	136	20	259
Additions to goodwill	34	7	2	78	–	121
Additions to acquired intangible assets	19	3	3	83	–	108
Segment assets	1,226	986	342	3,470	18	6,042
Reconciliation to total assets as reported in the Group Balance Sheet:						
Deferred tax assets						55
Financial assets – current and non-current						11
Current tax receivable						7
Derivative financial assets						3
Cash and cash equivalents						381
Total assets as reported in the Group Balance Sheet						6,499
Segment liabilities	631	491	124	1,241	19	2,506
Reconciliation to total liabilities as reported in the Group Balance Sheet:						
Current tax payable						70
Bank loans and overdrafts						1,484
Obligations under finance leases						62
Derivative financial liabilities						14
Deferred tax liabilities						62
Total liabilities as reported in the Group Balance Sheet						4,198

The Group will prepare segmental disclosures in accordance with US GAAP and disclose them in its Form 20-F for the year ended 31 July 2006. The disclosure requirements under US GAAP differ from those under IFRS, such that revenue, trading profit and operating profit for North America will be further analysed by operating segment in the Form 20-F. In order to ensure consistency of information disclosed to all investors, the following table is included in these financial statements.

	2006 £m	2005 £m
Revenue		
US Plumbing and Heating	5,396	3,858
US Building Materials	2,966	2,249
Canada	646	512
North America	9,008	6,619
Operating profit	£m	£m
US Plumbing and Heating	369	258
US Building Materials	168	130
Canada	44	36
North American central costs	(11)	(1)
North America	570	423
Trading profit (note 9)	£m	£m
US Plumbing and Heating	378	260
US Building Materials	192	131
Canada	44	36
North American central costs	(11)	(1)
North America	603	426

The change in revenue and trading profit between the years ended 31 July 2005 and 2006 can be analysed into the effects of changes of exchange rates, the effects of acquisitions made during the financial year and the effect of taking in a full year's revenue and trading profit of businesses acquired part way through the previous year, with the remainder being organic change.

	2005 £m	Exchange £m	New acquisitions 2006 £m	Increment on 2005 acquisitions £m	Organic change £m	Organic change %	2006 £m
Analysis of movement in revenue							
UK and Ireland	2,351	—	277	14	48	2.1	2,690
France	1,644	1	27	17	36	2.1	1,725
Central Europe	642	(1)	28	19	47	7.4	735
Europe	4,637	—	332	50	131	2.8	5,150
US Plumbing and Heating	3,858	135	264	168	971	24.3	5,396
US Building Materials	2,249	79	262	280	96	4.1	2,966
Canada	512	60	4	9	61	10.7	646
North America	6,619	274	530	457	1,128	16.4	9,008
Group	11,256	274	862	507	1,259	10.9	14,158

Notes to the consolidated financial statements

Year ended 31 July 2006

2. Segmental analysis continued

Analysis of change in trading profit (note 9)	2005 £m	Exchange £m	New acquisitions 2006 £m	Increment on 2005 acquisitions £m	Organic change £m	Organic change %	2006 £m
UK and Ireland	183	–	19	1	(2)	(1.1)	201
France	98	–	2	–	(9)	(9.2)	91
Central Europe	30	–	1	1	(1)	(2.1)	31
European central costs	(4)	–	–	–	(3)		(7)
Europe	307	–	22	2	(15)	(4.9)	316
US Plumbing and Heating	260	9	18	10	81	30.0	378
US Building Materials	131	5	20	27	9	6.0	192
Canada	36	4	–	1	3	10.0	44
North American central costs	(1)	–	–	–	(10)		(11)
North America	426	18	38	38	83	18.6	603
Group central costs	(25)	–	–	–	(12)		(37)
Group	708	18	60	40	56	7.8	882

3. Amounts charged in arriving at operating profit

	2006 £m	2005 £m
Depreciation of property, plant and equipment	134	114
Amortisation of non-acquired intangible assets	6	3
(Profit) on disposal of property, plant and equipment and assets available for sale	(16)	(11)
Staff costs (note 10)	1,943	1,526
Amortisation of acquired intangible assets	48	6
Operating lease rentals: land and buildings	168	125
Operating lease rentals: plant and machinery	20	12
Amounts included in costs of goods sold with respect to inventory	10,007	8,182
Amounts charged to write inventory down to net realisable value	32	11
Trade receivables impairment	5	(14)
Amounts payable to the auditors:		
Audit fees	5.1	3.5
Other assurance services	0.3	0.3
Taxation	4.0	2.8
Due diligence reviews	0.2	0.4
Other services	–	0.2
Total fees payable to the auditors	9.6	7.2

The increase in audit fees mainly reflects the audit cost associated with S404 of the US Sarbanes-Oxley Act.

4. Finance revenue

	2006 £m	2005 £m
Interest receivable	49	27

Net interest receivable on construction loans included in finance revenue and finance costs amounted to £12 million (2005: £9 million).

5. Finance costs

	2006 £m	2005 £m
Interest payable		
– Bank loans and overdrafts	110	55
– Finance lease charges	3	3
Net pension finance cost	1	7
Valuation losses/(gains) on financial instruments		
– Derivatives held at fair value through profit and loss	27	(1)
– Loans in a fair value hedging relationship	(26)	–
– Recycled from equity	(1)	–
Total finance costs	114	64

6. Taxation

	2006 £m	2005 £m
The tax charge for the year comprises:		
Current year tax charge	230	150
Adjustments to tax charge in respect of prior years	(7)	(8)
Total current tax charge	223	142
Deferred tax charge: origination and reversal of temporary differences	9	44
Total tax charge	232	186

	2006 £m	2005 £m
Tax on items charged to equity:		
Current tax (charge)/credit on exchange movements offset in reserves	(7)	25
Deferred tax (charge)/credit on changes in the fair value of cash flow hedges	(4)	3
Deferred tax (charge)/credit on actuarial loss on retirement benefits	(2)	2
Deferred tax credit/(charge) on available for sale investments	2	–
Deferred tax (charge)/credit on share based payments	(2)	4
Total tax on items charged to equity	(13)	34

	2006 %	2005 %
Tax reconciliation:		
Statutory UK corporation tax rate	30	30
Prior year amounts	(1)	(1)
Non deductible and non-taxable items	(6)	(4)
Higher average tax rates in overseas companies	5	3
Effective current tax rate on profit on ordinary activities before tax (and the amortisation of intangibles)	28	28

	2006 £m	2005 £m
The tax expense can be analysed as follows:		
UK	18	38
Overseas	205	104
Current tax	223	142
UK	4	7
Overseas	5	37
Deferred tax	9	44

Notes to the consolidated financial statements

Year ended 31 July 2006

7. Dividends

	2006 £m	2005 £m
Final paid for the year ended 31 July 2005 of 17.6 pence per share (year ended 31 July 2004: 16.0 pence)	104	94
Interim paid for the year ended 31 July 2006 of 9.85 pence per share (year ended 31 July 2005: 8.8 pence)	58	51
Total 27.45 pence per share (2005: 24.8 pence)	162	145
Proposed final for the year ended 31 July 2006 of 19.55 pence per share (year ended 31 July 2005: 17.6 pence)	128	104

The final dividend will be authorised by the shareholders at the Annual General Meeting and is not included as a liability in these financial statements. The final dividend is based on an anticipated 657 million shares in issue on 6 October 2006, an increase of 59 million shares on the shares in issue as at 31 July 2006 due to a proposed placing.

8. Earnings per share

Basic earnings per share of 90.77 pence (2005: 81.61 pence) is calculated on the profit for the year attributable to equity shareholders of £537 million (2005: £479 million) on a weighted average number of ordinary shares in issue during the year of 592 million (2005: 587 million). As detailed in note 9 below, the Group believes that profit measures before the amortisation of acquired intangibles provide valuable additional information for users of the financial statements. Basic earnings per share, before the amortisation of acquired intangibles, has, therefore, been presented in the following table.

	2006	2005
Before amortisation of acquired intangibles	98.90p	82.60p
Add back: amortisation of acquired intangibles	(8.13)p	(0.99)p
Basic earnings per share	90.77p	81.61p

The impact of all potentially dilutive share options on earnings per share would be to increase the weighted average number of shares in issue to 597 million (2005: 593 million) and to reduce basic earnings per share to 90.02 pence (2005: 80.75 pence). Diluted earnings per share before amortisation of acquired intangibles is 98.08 pence (2005: 81.74 pence).

9. Non-GAAP measures of performance

Trading profit is defined as operating profit before the amortisation of acquired intangibles and is a non-GAAP measure. The current businesses within the Group have arisen through internal organic growth and through acquisition. Operating profit includes only the amortisation of acquired intangibles arising on those businesses that have been acquired subsequent to 31 July 2004 and as such does not reflect equally the performance of businesses acquired prior to 31 July 2004 (where no amortisation of acquired intangibles was recognised), businesses that have developed organically (where no intangibles are attributed) and those businesses more recently acquired (where amortisation of acquired intangibles is charged). The Group believes that trading profit provides valuable additional information for users of the financial statements in assessing the Group's performance since it provides information on the performance of the business that local managers are more directly able to influence and on a basis consistent across the Group.

	2006 £m	2005 £m
Operating profit	834	702
Add back: amortisation of acquired intangibles	48	6
Trading profit	882	708
Profit before tax	769	665
Add back: amortisation of acquired intangibles	48	6
Profit before tax and the amortisation of acquired intangibles	817	671

10. Employee information and Directors' remuneration

	2006 £m	2005 £m
Employee benefit costs:		
Wages and salaries	1,630	1,257
Social security costs	249	210
Pension costs – Defined contribution schemes	28	19
Pension costs – Defined benefit schemes (note 27)	14	17
Share options granted to directors and employees	22	23
Total employee benefit costs	1,943	1,526

Details of Directors' remuneration and share options are set out in the Remuneration report on pages 62 to 70, which form part of these financial statements. The aggregate emoluments for all key management are set out in note 36.

10. Employee information and Directors' remuneration continued

Average weekly number of employees:	2006	2005
UK and Ireland	13,869	12,688
France	9,631	9,196
Central Europe	2,983	2,767
Europe	26,483	24,651
North America	38,740	29,017
Group	65,223	53,668

The average weekly number of Group and Europe head office employees is included in UK and Ireland in the above table.

11. Intangible assets: goodwill

	£m
Cost and net book value	
At 1 August 2004	666
Exchange rate adjustment	31
Additions	120
Disposals	(2)
At 31 July 2005	815
Exchange rate adjustment	(29)
Additions	387
Disposals	—
At 31 July 2006	1,173

The carrying value of goodwill by segment is as follows:

	2006 £m	2005 £m
UK and Ireland	410	219
France	153	135
Central Europe	61	50
Europe	624	404
North America	549	411
Group	1,173	815

All goodwill has arisen from business combinations. On transition to IFRS, the balance of goodwill as measured under UK GAAP was allocated to cash generating units (CGUs). These are independent sources of income streams and represent the lowest level within the Group at which the associated goodwill is monitored for management purposes, which may be at country, divisional, brand or regional level. Goodwill arising on business combinations after 1 August 2004 has been allocated to the CGUs that are expected to benefit from that business combination.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGUs are determined from value in use calculations. These calculations use cash flow projections based on five year financial forecasts approved by management. The key assumptions for these forecasts are those regarding revenue growth, net margin and the level of working capital required to support trading, which management estimates based on past experience and expectations of future changes in the market. To prepare value in use calculations, the cash flow forecasts are extrapolated after the five-year period at the estimated average long-term inflation rate for each market (ranging from 1% to 3%) and discounted back to present value. The key assumption is the discount rate, which uses an estimate of the Group's weighted average cost of capital, based on the three-month historic volatility of Wolseley shares and on benchmark interest rates, adjusted for the risk attributable to individual CGUs.

Impairment tests were performed for all CGUs during the year ended 31 July 2006. No impairments were identified.

Notes to the consolidated financial statements

Year ended 31 July 2006

12. Intangible assets: other

	Software costs £m	Trade names and brands £m	Customer relationships £m	Other £m	Total £m
Cost					
At 1 August 2005	40	14	87	7	148
Exchange rate adjustment	–	(1)	(12)	–	(13)
Additions	25	26	220	5	276
Disposals	(12)	–	–	–	(12)
At 31 July 2006	53	39	295	12	399
Accumulated amortisation					
At 1 August 2005	9	–	4	2	15
Exchange rate adjustment	(1)	–	(2)	–	(3)
Charge for the year	6	5	40	3	54
At 31 July 2006	14	5	42	5	66
Net book amount at 31 July 2006	39	34	253	7	333

	Software costs £m	Trade names and brands £m	Customer relationships £m	Other £m	Total £m
Cost					
At 1 August 2004	19	–	–	–	19
Additions	21	14	87	7	129
At 31 July 2005	40	14	87	7	148
Accumulated amortisation					
At 1 August 2004	6	–	–	–	6
Charge for the year	3	–	4	2	9
At 31 July 2005	9	–	4	2	15
Net book amount at 31 July 2005	31	14	83	5	133
Net book amount at 1 August 2004	13	–	–	–	13

Software costs are either purchases from third parties or internally generated. Other intangible assets arise on business combinations. Included in the amounts above are £28 million (2005: £25 million) relating to assets under construction.

13. Property, plant and equipment

	Land and buildings			Plant machinery equipment £m	Total £m
	Freehold £m	Finance lease £m	Operating leasehold improvements £m		
Cost					
At 1 August 2005	619	56	146	717	1,538
Exchange rate adjustment	(17)	(1)	(10)	(29)	(57)
New businesses	46	1	6	46	99
Additions	104	8	48	205	365
Disposals and transfers	(25)	–	(2)	(53)	(80)
Property reclassified as held for sale	(7)	–	–	–	(7)
At 31 July 2006	720	64	188	886	1,858
Accumulated depreciation					
At 1 August 2005	131	11	81	432	655
Exchange rate adjustment	(3)	(1)	(3)	(15)	(22)
Charge for the year					
– owned assets	22	–	12	85	119
– leased assets	–	1	–	14	15
Disposals and transfers	(6)	–	(2)	(44)	(52)
Property reclassified as held for sale	(1)	–	–	–	(1)
At 31 July 2006	143	11	88	472	714
Owned assets	577	–	100	375	1,052
Assets under finance leases	–	53	–	39	92
Net book amount at 31 July 2006	577	53	100	414	1,144
Net book amount at 1 August 2005	488	45	65	285	883
Cost					
At 1 August 2004	507	50	121	630	1,308
Exchange rate adjustment	19	2	3	20	44
New businesses	67	–	1	12	80
Additions	86	6	24	122	238
Disposals and transfers	(54)	(2)	(3)	(67)	(126)
Property reclassified as held for sale	(6)	–	–	–	(6)
At 31 July 2005	619	56	146	717	1,538
Accumulated depreciation					
At 1 August 2004	117	11	66	395	589
Exchange rate adjustment	3	–	2	10	15
Charge for the year					
– owned assets	16	–	15	72	103
– leased assets	–	1	–	10	11
Disposals and transfers	(3)	(1)	(2)	(55)	(61)
Property reclassified as held for sale	(2)	–	–	–	(2)
At 31 July 2005	131	11	81	432	655
Owned assets	488	–	65	253	806
Assets under finance leases	–	45	–	32	77
Net book amount at 31 July 2005	488	45	65	285	883
Net book amount at 1 August 2004	390	39	55	235	719

Included in the amounts above are £89 million (2005: £48 million) relating to assets under construction. At 31 July 2006 £92 million of property, plant and equipment had been pledged as security for liabilities (2005: £77 million).

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Year ended 31 July 2006

14. Financial assets – available for sale investments

	2006 £m	2005 £m
Financial assets	21	6

These assets comprise investments in listed and unlisted companies, tradeable government securities and fiduciary deposits. They are primarily equity securities that have no fixed maturity or yield.

15. Deferred tax assets and liabilities

The deferred tax assets and liabilities shown in the balance sheet are analysed as follows:

	2006 £m	2005 £m
Deferred tax		
Deferred tax assets	16	55
Deferred tax liabilities	(88)	(62)
	(72)	(7)
Current	(67)	(40)
Non-current	(5)	33
	(72)	(7)

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

	Goodwill and intangibles £m	Share based payment £m	Properties £m	Retirement benefit obligations £m	Inventory £m	Other £m	Total £m
At 1 August 2004	(7)	15	(40)	29	(26)	72	43
Charge to income	(10)	8	1	45	(16)	(72)	(44)
Charge to equity	–	4	–	2	–	3	9
Acquisition of subsidiaries	(13)	–	–	–	–	4	(9)
Currency translation adjustment	–	(1)	–	(3)	–	(2)	(6)
At 31 July 2005	(30)	26	(39)	73	(42)	5	(7)
Charge to income	9	(7)	(2)	(1)	(15)	7	(9)
Charge to equity	–	(6)	–	(3)	–	(2)	(11)
Acquisition of subsidiaries	(45)	–	(5)	3	–	(4)	(51)
Currency translation adjustment	2	–	–	(1)	3	2	6
At 31 July 2006	(64)	13	(46)	71	(54)	8	(72)

There are other potential deferred tax assets in relation to tax losses totalling £43 million (2005: £13 million) that have not been recognised on the basis that their future economic benefit is uncertain. All of these losses may be carried forward indefinitely.

No deferred tax liability has been recognised in respect of a further £459 million (2005: £406 million) of unremitted earnings of subsidiaries because the Group is in a position to control the timing of reversal of the associated temporary deferred tax differences and it is probable that such differences will not reverse in the foreseeable future.

16. Inventories

	2006 £m	2005 £m
Goods purchased for resale	1,954	1,706

£10,007 million has been charged to operating profit in relation to inventories recognised as an expense in the year (2005: £8,182 million). In addition an amount of £32 million has been charged to the income statement to write down inventories to net realisable value (2005: charge of £11 million).

17. Trade and other receivables

	2006 £m	2005 £m
Current		
Trade receivables	2,309	1,964
Less: provision for impairment	(41)	(32)
Net trade receivables	2,268	1,932
Other receivables	107	131
Prepayments and accrued income	275	135
	2,650	2,198
Non-current		
Other receivables	36	37

£5 million has been charged to operating profit in respect of impairment losses recognised in the year on receivables (2005: credit of £14 million). Other receivables classified as non-current include an amount of £31 million (2005: £32 million) which has been discounted at a rate of 5.2% (2005: 4.5%) due to the long-term nature of the receivable. The fair value of the remaining balances in trade and other receivables approximates to book value.

Concentration of credit risk in trade receivables is limited as the Group's customer base is large and unrelated. Accordingly, management consider that there is no further credit risk provision required above the current provision for impairment.

18. Assets held for sale

	2006 £m	2005 £m
Properties awaiting disposal	7	8

19. Financial assets: trading investments

	2006 £m	2005 £m
US Life Assurance policies (denominated in US dollars)	4	5

These securities have no fixed maturity or yield.

Notes to the consolidated financial statements

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20. Derivative financial instruments

	2006 £m	2005 £m
Current assets		
Interest rate swaps	10	2
Currency swaps: at fair value through profit and loss	-	1
Derivative financial assets	10	3
Current liabilities		
Interest rate swaps	(27)	(2)
Currency swaps: net investment hedge	(2)	(12)
Derivative financial liabilities	(29)	(14)

Interest rate swaps

The Group uses interest rate swaps to manage its exposure to interest rate movements on its borrowings. The fair value of interest rate swaps is estimated on the basis of the market values of equivalent instruments at the balance sheet date.

The Group's bank borrowings generally attract variable interest rates based on 6 month LIBOR. Certain interest rate swaps are designated and effective as cash flow hedges, with the valuation gains being deferred in equity until realised.

	2006 £m	2005 £m
Hedge of interest rate cash flows		
At 1 August	-	(1)
Valuation gains on effective hedges credited to equity	9	1
Valuation losses charged to income statement	(1)	-
At 31 July	8	-

The Group's private placement borrowings are at fixed rates. Certain interest rate swaps are designated as hedges of the fair values of these borrowings. The movement in fair value of these interest rate swaps has been analysed into a proportion that is effective as a hedge and a proportion that is ineffective; both portions have been charged to the income statement with the effective portion offsetting the change in fair value of the hedged borrowings. The ineffective portion was less than £1 million.

	2006 £m	2005 £m
Hedge of fair value of fixed interest borrowings		
At 1 August	-	-
Valuation losses charged to income statement	(26)	-
Exchange	1	-
At 31 July	(25)	-

Outstanding interest rate swap contracts at 31 July 2006 comprised fixed interest payable on notional principal of US\$650 million, €770 million and £7 million (2005: US\$575 million and €785 million) and fixed interest receivable on notional principal of US\$1,079 million. The contracts expire between September 2006 and November 2020 (2005: August 2005 and August 2009) and the gains deferred in equity will reverse in the income statement over that period. The fixed interest rates vary between 2.313% and 5.415% (2005: 2.0375% and 4.3275%).

Currency swaps

The Group uses currency swaps either to obtain the optimum return on its surplus funds or to hedge cash flows in respect of committed transactions. The fair value of currency swaps has been estimated as the cost of closing out the contracts using market prices at the balance sheet date.

At the balance sheet date the Group had entered into certain short-term currency swaps amounting to assets of US\$3 million (2005: assets of €130 million, C\$33 million and CHF 22 million) and liabilities of £2 million (2005: £4 million, US\$53 million and C\$170 million) which were held at fair value through the income statement.

	2006 £m	2005 £m
At fair value through income statement		
At 1 August	1	–
Valuation gains charged to income statement	–	1
Transferred to 'net investment in overseas operations'	(1)	–
At 31 July	–	1

At the balance sheet date the Group had entered into certain short-term currency swaps amounting to assets of US\$627 million, €222 million and CHF 22 million (2005: asset of £287 million) and liabilities of £419 million and C\$169 million (2005: liabilities of US\$525 million) which were designated and effective as hedges of net investments in overseas operations. Valuation gains have been deferred in equity.

	2006 £m	2005 £m
Hedge of net investment in overseas operations		
At 1 August	(12)	–
Transferred from 'at fair value through income statement'	1	–
Cash settlements in the period	4	–
Valuation gains/(losses) on effective hedges credited/(charged) to equity	5	(12)
At 31 July	(2)	(12)

21. Construction loans

	2006 £m	2005 £m
Construction loans receivable (secured)	313	262
Borrowings to finance construction loans (unsecured)	(313)	(262)
	–	–

Construction loans receivable, which are secured principally against homes in the course of construction or completed homes awaiting sale, are made to customers of Stock Building Supply Inc and are all denominated in US dollars. These loans have an average maturity of 9 months (2005: 8 months). As at 31 July 2006, the effective rate of interest thereon was 8.85% (2005: 6.98%).

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Year ended 31 July 2006

22. Cash and cash equivalents

	2006 £m	2005 £m
Cash and cash equivalents	359	371
Short-term bank deposits	57	10
Total cash and cash equivalents	416	381

The effective interest rate as at 31 July 2006 on cash and cash equivalents was 2.1% (2005: 2.0%). The average maturity of short-term bank deposits was 1 week (2005: 1 week). The fair values of cash and cash equivalents approximate to book value due to their short maturities.

The currency analysis of cash and cash equivalents is as follows:

Sterling	104	33
US dollar	230	224
Euro	56	94
Other	26	30
Total	416	381

23. Trade and other payables

	2006 £m	2005 £m
Current		
Amounts falling due within one year:		
Trade payables	1,504	1,273
Bills of exchange payable	188	194
Other tax and social security	142	102
Other payables	148	80
Share based payment liabilities	-	12
Accruals	305	280
Deferred income	7	2
Total trade and other payables	2,294	1,943
Non-current		
Other payables	25	18

The fair value of other payables falling due after more than one year is estimated at £21 million (2005: £15 million), by discounting the anticipated cash flows at a money market rate of appropriate maturity. The fair value of other amounts included in trade and other payables approximates to book value.

24. Bank loans and overdrafts

	2006 £m	2005 £m
Current		
Bank overdrafts	124	437
Bank loans	68	2
Total bank loans and overdrafts	192	439

The fair values of current overdrafts and loans approximate to book value due to their short maturities.

The currency analysis of bank loans and overdrafts is as follows:

Sterling	-	-
US dollar	65	265
Euro	116	122
Other	11	52
Total	192	439

	2006 £m	2005 £m
Non-current		
Bank loans	1,465	1,043
Other loans	1	1
Senior unsecured notes	617	-
US Industrial Revenue Bonds	1	1
Total bank loans	2,084	1,045

The non-current loans are repayable as follows:

Due in one to two years	35	516
Due in two to five years	403	529
Due in over five years	1,646	-
Total	2,084	1,045

At 31 July 2006, £651 million of loans carried a fixed interest rate (2005: £34 million). The weighted average interest rate paid on fixed interest borrowings is 5.0% (2005: 6.2%). Interest receipts and payments on the floating rate assets and liabilities are determined by reference to short-term benchmark rates applicable to the relevant currency or market, such as LIBOR.

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Year ended 31 July 2006

24. Bank loans and overdrafts continued

The fair value of fixed interest rate loans payable after one year is £621 million, compared to their book value of £626 million (2005: no material difference). The floating rate loans payable after one year generally attract variable interest rates based on 6 month LIBOR. Thus the fair value of these instruments approximates to their book value.

The Group's undrawn committed facilities amount to £780 million. Further details of these centrally managed facilities and the financial risk management activities of the Group are set out in the Performance review on pages 39 to 41.

The currency analysis of non-current loans is as follows:

	2006 £m	2005 £m
Sterling	136	1
US dollar	1,246	455
Euro	645	558
Other currencies	57	31
Total	2,084	1,045

The Group's financial assets and liabilities are exposed to both fair value interest rate risk (fixed rate borrowings) and cash flow interest rate risk (floating rate borrowings). The interest rate profile of the financial assets and liabilities that comprised the Group's net debt at 31 July 2006 and 31 July 2005, after including the effect of interest rate swaps, are set out in the following tables.

Assets at 31 July 2006

Currency	Floating	Fixed	Currency swaps	Total	Weighted average fixed interest rate %	Weighted average time for which rate is fixed Years
Sterling	104	—	—	104	—	—
US dollars	550	—	—	550	—	—
Euros	63	—	—	63	—	—
Other currencies	26	—	—	26	—	—
Total	743	—	—	743		

Liabilities at 31 July 2006

Currency	Floating	Fixed	Currency swaps	Total	Weighted average fixed interest rate %	Weighted average time for which rate is fixed Years
Sterling	(135)	(5)	(419)	(559)	9.5	10.0
US dollars	(1,255)	(423)	336	(1,342)	5.0	2.9
Euros	(235)	(563)	152	(646)	3.0	2.0
Other currencies	(43)	(32)	(71)	(146)	5.6	4.4
Total	(1,668)	(1,023)	(2)	(2,693)		

Assets at 31 July 2005

Currency	Floating	Fixed	Currency swaps	Total	Weighted average fixed interest rate %	Weighted average time for which rate is fixed Years
Sterling	33	—	—	33	—	—
US dollars	491	—	—	491	—	—
Euros	100	—	—	100	—	—
Other currencies	30	—	—	30	—	—
Total	654	—	—	654		

Liabilities at 31 July 2005

Currency	Floating	Fixed	Currency swaps	Total	Weighted average fixed interest rate %	Weighted average time for which rate is fixed Years
Sterling	—	(5)	282	277	—	—
US dollars	(725)	(274)	(329)	(1,328)	4.2	1.5
Euros	(250)	(463)	90	(623)	3.0	2.6
Other currencies	(53)	(38)	(54)	(145)	6.0	1.4
Total	(1,028)	(780)	(11)	(1,819)		

Hedge of net investment in overseas operations

The Group has financial instruments denominated in foreign currencies which have been designated as hedges of the net investment in its subsidiaries in North America and Europe. The value of these financial instruments at the balance sheet date was:

	2006 £m	2005 £m
US dollar	926	922
Euro	611	573
Other currencies	112	106
Total	1,649	1,601

The gain on translation of the borrowings into sterling of £58 million (2005: loss of £36 million) has been taken to the translation reserve.

25. Obligations under finance leases

	Gross 2006 £m	Gross 2005 £m	Net 2006 £m	Net 2005 £m
Due within one year	24	6	18	4
Due in one to five years	50	30	37	23
Due in over five years	28	42	20	35
	102	78	75	62
Less: future finance charges	(27)	(16)		
Present value of finance lease obligations	75	62		
Current			18	4
Non current			57	58
Total obligations under finance leases			75	62

It is the Group's policy to lease certain of its property, plant and equipment under finance leases. The average lease term is 7 years (2005: 7 years). For the year ended 31 July 2006, the average effective borrowing rate was 4.7% (2005: 4.9%). Finance lease obligations included above are secured against the assets concerned.

The currency analysis of the present value of finance lease obligations is as follows:

	Net 2006 £m	Net 2005 £m
Sterling	5	4
US dollar	26	16
Euro	37	34
Other	7	8
Total	75	62

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Year ended 31 July 2006

26. Provisions

	Environmental and legal £m	Wolseley Insurance £m	Other provisions £m	Total £m
At 1 August 2004	30	33	20	83
Utilised in the year	–	(9)	(1)	(10)
Charge for the year	2	10	1	13
Transfers	–	–	(3)	(3)
New businesses	–	–	–	–
Exchange difference	1	1	–	2
At 31 July 2005	33	35	17	85
Utilised in the year	–	(9)	(3)	(12)
Charge for the year	6	23	6	35
Transfers	1	–	(4)	(3)
New businesses	1	–	4	5
Exchange differences	(2)	(2)	–	(4)
At 31 July 2006	39	47	20	106

Provisions have been analysed between current and non current as follows:

	Environmental and legal £m	Wolseley Insurance £m	Other provisions £m	Total £m
At 31 July 2006				
Current	8	13	8	29
Non current	31	34	12	77
Total provisions	39	47	20	106

	Environmental and legal £m	Wolseley Insurance £m	Other provisions £m	Total £m
At 31 July 2005				
Current	2	9	11	22
Non current	31	26	6	63
Total provisions	33	35	17	85

Wolseley Insurance provisions represent an estimate, based on historical experience, of the ultimate cost of settling outstanding and potential claims on certain risks retained by the Group (principally US casualty and global property damage).

Environmental and legal liabilities include known and potential legal claims and environmental liabilities arising from past events where it is probable that a payment will be made and the amount of such payment can be reasonably estimated. Included in this provision is an amount of £31 million (2005: £32 million) related to asbestos litigation involving certain Group companies. This liability is fully covered by insurance and accordingly an equivalent insurance receivable has been recorded in 'Trade and other receivables' (note 17). The liability has been actuarially determined as at 31 July 2006 based on advice from independent professional advisors. The provision and the related receivable have been stated on a discounted basis using a long-term discount rate of 5.2% (2005: 4.5%). The level of insurance cover available significantly exceeds the expected level of future claims and no profit or cash flow impact is therefore expected to arise in the foreseeable future.

27. Retirement benefit obligations

(i) Description of plans

United Kingdom

The principal plan operated for UK employees is the Wolseley Group Retirement Benefits Plan which provides benefits based on final pensionable salaries. The assets are held in separate trustee administered funds. The plan's retirement benefits are funded by a contribution from employees with the balance being paid by Group companies. The contribution rates paid by employees at 31 July 2006 are either 5% or 6% of earnings depending on the level of benefits that were accruing at that date. The Group and employee contribution rates are calculated on the Projected Unit Method and agreed with an independent consulting actuary.

Outside the United Kingdom

North America

The principal plans operated for US employees are defined contribution schemes, which are established in accordance with US 401k rules. Companies contribute to both employee compensation deferral and profit sharing plans. Contributions are charged to the income statement in the period in which they fall due. In the year to 31 July 2006 the cost of defined contribution plans charged to the income statement was £23 million (2005: £18 million).

In addition, the Group operates three defined benefit schemes in the United States. In Canada a defined benefit scheme and a defined contribution scheme are operated. Two of the US plans and the Canadian plan are funded; two plans are closed to new entrants. The majority of assets are held in trustee administered funds independent of the assets of the companies. The closed plans now provide a minimum pension guarantee in conjunction with a defined contribution plan. The remaining plans provide benefits based on final pensionable salaries. The contribution rate is calculated on the Projected Unit (credit) Method as agreed with independent consulting actuaries.

Europe

Both defined contribution and defined benefit schemes are operated. Liabilities arising under defined benefit schemes are calculated in accordance with actuarial advice. Contributions to defined contribution schemes are accounted for in the period in which they fall due. The cost of defined contribution schemes charged to the income statement was £5 million (2005: £1 million).

Post retirement health care

There are no material obligations to provide post retirement health care benefits.

The Group expects to contribute £23 million to the UK defined benefit scheme in the year ending 31 July 2007 and £15 million to the non-UK schemes.

(ii) Financial impact of plans

As disclosed in the balance sheet	2006 £m	2005 £m
Current liability	(29)	(17)
Non-current liability	(160)	(181)
Total liability	(189)	(198)

Analysis of balance sheet liability	2006 £m	2006 £m	2005 £m	2005 £m
Fair value of plan assets:				
UK	501		404	
Non-UK	112		105	
		613		509
Present value of defined benefit obligation:				
UK	(619)		(527)	
Non-UK	(182)		(180)	
		(801)		(707)
Net deficit		(188)		(198)
Unrecognised past service cost		1		-
Unrecognised surplus		(2)		-
Net liability recognised in balance sheet		(189)		(198)

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Year ended 31 July 2006

27. Retirement benefit obligations continued

(ii) Financial impact of plans (continued)

	2006 £m	2005 £m
Analysis of total expense recognised in income statement		
Current service cost	19	18
Past service cost	1	–
Curtailment	(1)	–
Settlement	(5)	(1)
Charged to administrative expenses	14	17
Interest on pension liabilities	36	35
Expected return on scheme assets	(35)	(28)
Charged to finance costs	1	7
Total expense recognised in income statement	15	24

	2006 £m	2005 £m
Analysis of amount recognised in the statement of recognised income and expense		
Actuarial gain/(loss)	8	(4)
Unrecognised past service cost	1	–
Unrecognised surplus	(2)	–
	7	(4)
Deferred tax thereon	(2)	2
Total amount recognised in the statement of recognised income and expense	5	(2)

The cumulative amount of actuarial gains recognised in the statement of recognised income and expense was a gain of £3 million (2005: loss of £4 million).

The assets in the UK schemes and the expected rates of return were:

	2006 UK		2005 UK	
	Long-term rate of return expected at 31 July 2006	Value at 31 July 2006 £m	Long-term rate of return expected at 31 July 2005	Value at 31 July 2005 £m
Equities	7.4%	344	7.3%	354
Bonds	4.2%	154	4.1%	49
Other	5.0%	3	5.0%	1
Total market value of assets	6.5%	501	6.9%	404

The assets in the non-UK schemes and the expected rates of return were:

	2006 non-UK		2005 non-UK	
	Long-term rate of return expected at 31 July 2006	Value at 31 July 2006 £m	Long-term rate of return expected at 31 July 2005	Value at 31 July 2005 £m
Equities	8.0%	59	7.2%	55
Bonds	5.1%	39	4.8%	38
Property	5.3%	9	5.3%	9
Other	3.0%	5	3.0%	3
Total market value of assets	6.6%	112	6.2%	105

	UK 2006 £m	Non-UK 2006 £m	Total 2006 £m	UK 2005 £m	Non-UK 2005 £m	Total 2005 £m
Fair value of plan assets						
At 1 August	404	105	509	323	73	396
Expected return on plan assets	28	7	35	22	6	28
Actuarial gain	36	–	36	46	4	50
Employer's contributions	24	6	30	20	7	27
Participants' contributions	8	1	9	5	1	6
Acquisition	17	–	17	–	17	17
Transfers	–	1	1	–	–	–
Benefits paid	(16)	(6)	(22)	(12)	(8)	(20)
Currency translation	–	(2)	(2)	–	5	5
At 31 July	501	112	613	404	105	509
Actual return on plan assets	64	7	71	68	10	78

The expected long-term rates of return for equities have been determined by reference to government bond rates (minimum risk rates) in the countries in which the plans are based. To reflect the additional risks associated with equities, expected long-term rates of return on equities include a risk premium. These risk premiums are long-term assumptions and were set after taking actuarial advice and considering the assumptions used by listed companies. The expected long-term rates of return for other assets are determined in a similar way, i.e. by using an appropriate risk premium relative to government bonds in the relevant country. For the UK scheme a premium of 3.0% per year as at 31 July 2006 (2005: 3.0%) was applied to the expected return from government bonds. For the principal overseas schemes in the USA, Canada and Switzerland a similar approach was adopted with returns set by reference to long-term bond rates after taking actuarial advice.

The Group's investment strategy for its funded post employment plans is decided locally by the Group and, if relevant, the trustees of the plan and takes account of the relevant statutory requirements. The Group's objective for the investment strategy is to achieve a target rate of return in excess of the increase in the liabilities, while taking an acceptable amount of investment risk relative to the liabilities.

This objective is implemented by using specific allocations to a variety of asset classes that are expected over the long-term to deliver the target rate of return. Most investment strategies have significant allocations to equities, with the intention being that this will result in the ongoing cost to the Group of the post employment plans being lower over the long-term and within acceptable boundaries of risk.

For the UK scheme the policy is to invest approximately 75% of the assets in equities and 25% in other asset classes, principally bonds. The investment strategy is subject to regular review by the scheme trustees in consultation with the Group. For the overseas schemes the investment strategy involves the investment in defined levels of predominantly equities with the remainder of the assets being invested in cash and bonds.

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27. Retirement benefit obligations continued

(ii) Financial impact of plans (continued)

	UK 2006 £m	Non-UK 2006 £m	Total 2006 £m	UK 2005 £m	Non-UK 2005 £m	Total 2005 £m
Present value of defined benefit obligation						
At 1 August	527	180	707	460	131	591
Current service cost	14	5	19	13	5	18
Past service cost	-	1	1	-	-	-
Curtailment and settlement	-	(6)	(6)	-	(1)	(1)
Interest cost	26	10	36	26	9	35
Participants' contributions	8	1	9	5	1	6
Acquisitions	28	-	28	-	17	17
Benefits paid	(16)	(6)	(22)	(12)	(10)	(22)
Transfers	-	5	5	-	-	-
Actuarial (gain)/loss	32	(4)	28	35	19	54
Currency translation	-	(4)	(4)	-	9	9
At 31 July	619	182	801	527	180	707
Analysis of present value of defined benefit obligation					2006 £m	2005 £m
Amounts arising from wholly unfunded plans					57	44
Amounts arising from plans that are wholly or partly funded					744	663
					801	707

(iii) Valuation assumptions

The financial assumptions used to estimate defined benefit obligations are:

	2006		2005	
	UK	Non-UK	UK	Non-UK
Discount rate	5.1%	5.1%	5.0%	5.1%
Inflation rate	3.1%	1.4%	2.8%	1.4%
Increase to deferred benefits during deferment	3.1%	2.2%	2.8%	2.0%
Increases to pensions in payment	3.0%	1.5%	2.7%	0.8%
Salary increases	4.6%	2.4%	3.3%	2.5%

The life expectancy assumptions used to estimate defined benefit obligations at 31 July 2006 are:

	2006	
	UK	Non-UK
Current pensioners (at age 65) – male	19.0	18.3
Current pensioners (at age 65) – female	21.9	20.9
Future pensioners (at age 65) – male	19.8	17.9
Future pensioners (at age 65) – female	22.8	20.4

	UK 2006 £m	Non-UK 2006 £m	UK 2005 £m	Non-UK 2005 £m
History of experience gains and losses				
Fair value of plan assets	501	112	404	105
Present value of defined benefit obligation	(619)	(182)	(527)	(180)
Deficit in the plan	(118)	(70)	(123)	(75)

Experience adjustments to scheme assets				
Amount	36	–	46	4
Percentage of scheme assets	7%	–	11%	4%
Experience adjustments on scheme liabilities				
Amount	–	(2)	–	–
Percentage of the present value of scheme liabilities	–	1%	–	–

Notes to the consolidated financial statements

Year ended 31 July 2006

28. Share capital

	Authorised		Allotted and issued	
	2006	2005	2006	2005
Number of ordinary 25 pence shares (million)	800	800	598	592
Nominal value of ordinary 25 pence shares (£ million)	200	200	149	148

All the allotted and issued shares are fully paid or credited as fully paid.

Allotment of shares

From 1 August 2005 to 31 July 2006, new ordinary shares of 25 pence each in the Company have been issued as follows:

Allottees	Number of shares	Price per share (p)	Proceeds to the Group	Purpose of issue
			£m	
Various	2,318,435	251.00 – 935.85	17	Exercise of savings related share options
Various	3,235,350	349.75 – 543.00	14	Exercise of executive share options/stock appreciation rights
	5,553,785		31	

Limits on grant of options

The maximum number of shares over which options may be granted (but excluding any which lapse) under all share option schemes and the stock appreciation plan in any ten year period is 10% of the issued share capital from time to time. The number of shares over which options may be granted under all such schemes as at 31 July 2006 was 59,769,622 (2005: 59,214,243) of which 20,632,264 (2005: 15,510,090) have already been issued pursuant to options exercised in the ten year period ended on 31 July 2006.

The maximum number of shares over which options may be granted (but excluding any which lapse) under the rules of the executive share option schemes in any ten year period is 5% of the issued share capital from time to time. The number of shares over which options may be granted as at 31 July 2006 was 29,884,811 (2005: 29,607,122) of which 6,181,529 (2005: 4,886,655) have already been issued pursuant to options exercised on or before 31 July 2006.

Executive Benefit Trusts

Three Employee Benefit Trusts have been established in connection with the Wolseley Share Option Plan 2003 and the Wolseley plc 2002 Long Term Incentive Scheme. During the year one of these trusts purchased 2,011,478 ordinary shares of the Company, with a nominal value of £1 million, for a cash consideration of £27 million. The market value of the 4,011,478 shares held by the employee benefit trusts at 31 July 2006, which have a nominal value of £1 million, was £46 million (2005: £24 million) and none of them had been allocated to employees or Directors at that date. Dividends due on shares held by the Employee Benefit Trusts are waived in accordance with the provisions of the trust deeds.

29. Share-based payments

The Group operates six share option plans: the 1984 Executive Share Option Scheme, the 1989 Executive Share Option Scheme and the Wolseley Share Option Plan 2003 (collectively, the "Executive Option Schemes"); the Wolseley Employees Savings Related Share Option Scheme 1981 and Wolseley Irish Sharesave Scheme 2000 (collectively, the "Employees Savings Option Schemes"); and the Wolseley Employee Share Purchase Plan 2001 (the "ESPP"). The Wolseley Employees International Stock Appreciation Plan (the "SAP") expired during the year ended 31 July 2006.

Awards granted under the Executive Option Schemes are subject to a condition such that they may not be exercised unless the growth in earnings per share over a period of three consecutive financial years exceeds growth in the UK Retail Price Index over the same period by at least 9% and consequently vest over a period of three years. Awards granted under the Employee Savings Option Schemes vest over periods ranging from three to seven years. Awards granted under the Employee Share Purchase Plan vest over a one-year period. Awards granted under the SAP vested over a period of five years.

The Group also operates a Long Term Incentive Scheme ("LTIS") for senior executives. Under this Scheme, executives will be awarded a variable number of shares depending on the level of total shareholder return over the next three years relative to that of a number of comparator companies. The vesting period is three years. The maximum award under the scheme is determined at grant date and then adjusted at vesting date in accordance with the market performance condition.

Share options outstanding during the year

	Year ended 31 July			
	2006	2006	2005	2005
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
	000's	£	000's	£
Executive Option Schemes				
Outstanding as at 1 August	11,809	7.22	11,061	5.64
Granted	4,588	11.87	4,131	9.51
Exercised	(1,358)	5.09	(2,819)	4.37
Surrendered or expired	(457)	8.89	(564)	7.07
Outstanding as at 31 July	14,582	8.83	11,809	7.22
Exercisable as at 31 July	3,172	5.10	1,831	4.42
Weighted average fair value of options granted during the year		3.97		3.06
Employees Savings Option Schemes, ESPP and SAP				
Outstanding as at 1 August	8,129	6.38	10,708	4.83
Granted	1,521	12.01	3,434	9.26
Exercised	(2,725)	3.80	(4,215)	4.85
Surrendered or expired	(3,247)	8.75	(1,798)	6.24
Outstanding as at 31 July	3,678	8.53	8,129	6.38
Exercisable as at 31 July	88	4.44	72	4.12
Weighted average fair value of options granted during the year		3.83		2.70

The weighted average share price at the date of exercise for share options exercised during the period was £12.67 (2005: £10.16). The total intrinsic value of options exercised during the period was £22 million (2005: £29 million). The aggregate intrinsic value of options outstanding and exercisable at 31 July 2006 was £48 million and £21 million respectively (2005: £99 million and £14 million).

Maximum number of shares that can be issued under the Long Term Incentive Scheme

	Year ended 31 July			
	2006	2006	2005	2005
	Shares	Share price at award date	Shares	Share price at award date
	000's	£	000's	£
Outstanding as at 1 August	604	9.27	-	-
Granted	730	11.29	628	9.27
Surrendered or expired	(12)	9.25	(24)	9.25
Outstanding as at 31 July	1,322	10.39	604	9.27
Exercisable as at 31 July	-	-	-	-
Weighted average fair value of shares awarded		3.99		4.85

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Year ended 31 July 2006

29. Share-based payments continued

Details of options exercisable

Options outstanding and exercisable at 31 July 2006 under the Executive Option Schemes, the Employees Saving Option Schemes and ESPP can be analysed as follows:

Range of exercise prices	Options Outstanding			Options Exercisable		
	Shares 000's	Weighted average remaining contractual life Years	Weighted average exercise price £	Shares 000's	Weighted average remaining contractual life Years	Weighted average exercise price £
£2.51 – £3.50	404	2.5	3.15	211	3.8	3.48
£3.51 – £4.50	668	2.0	4.07	198	2.1	3.96
£4.51 – £5.50	2,740	5.7	5.14	2,740	5.7	5.14
£5.51 – £6.50	228	1.1	5.62	3	1.1	5.63
£6.51 – £7.50	3,774	6.3	7.29	57	6.8	7.37
£7.51 – £8.50	24	7.9	8.42	–	–	–
£8.51 – £9.50	4,376	7.4	9.40	52	7.8	9.44
£10.51 – £11.50	50	8.6	11.00	–	–	–
£11.51 – £12.50	5,883	7.3	11.90	4	7.7	11.64
£12.51 – £13.50	111	9.5	12.81	–	–	–
	18,258	6.5	8.77	3,265	5.4	5.08

The fair value at the date of grant of options awarded during the year has been estimated by the binomial methodology for all schemes except the LTIS, for which a Monte Carlo simulation was used.

The principal assumptions required by these methodologies were:

	Executive Share Options		Employee Share Options		Long Term Incentive Schemes	
	2006	2005	2006	2005	2006	2005
Risk free interest rate	4.45%	4.72%	4.52%	4.60%	4.40%	4.70%
Expected annual increase in dividends*	10%	10%	10%	10%	–	–
Expected dividend yield*	–	–	–	–	2.75%	2.29%
Expected volatility	39.00%	40.10%	31.06	40.00%	20.58%	27.74%
Expected life	5.7 years	5.7 years	1-7 years	1-7 years	3 years	3 years

*The initial assumption was for 2006 interim and final dividends of 9.68 pence and 19.36 pence respectively (2005: 8.73 pence and 17.45 pence respectively).

Expected volatility has been estimated on the basis of historic volatility over the expected term. Expected life has been estimated on the basis of historical data on the exercise pattern.

30. Shareholders' funds and statement of changes in shareholders' equity

	Share Capital £m	Share Premium £m	Translation Reserve £m	Hedging Reserve £m	Retained Earnings		Total £m
					Own Shares £m	Profit and Loss Account £m	
For the year ended 31 July 2006							
Profit for the year attributable to equity shareholders	-	-	-	-	-	537	537
Exchange loss on translation of overseas operations	-	-	(182)	-	-	-	(182)
Exchange gain on translation of borrowings designated as hedges of overseas operations	-	-	58	-	-	-	58
Valuation gain on interest rate swaps (less amounts reclassified and reported in net income)	-	-	-	8	-	-	8
Valuation gain on currency swaps	-	-	-	5	-	-	5
Actuarial gain on retirement benefits	-	-	-	-	-	7	7
Change in fair value of available-for-sale investments	-	-	-	-	-	(7)	(7)
Tax on gains/(losses) not recognised in the income statement	-	-	(7)	(4)	-	(2)	(13)
Total recognised income and expense	-	-	(131)	9	-	535	413
New share capital subscribed	1	30	-	-	-	-	31
Premium on share options issued through share symmetry arrangements	-	17	-	-	-	(17)	-
Purchase of own shares by Employee Benefit Trust	-	-	-	-	(27)	-	(27)
Credit to equity for share-based payments	-	-	-	-	-	36	36
Dividends	-	-	-	-	-	(162)	(162)
Net additions to shareholders' funds	1	47	(131)	9	(27)	392	291
Opening shareholders' funds	148	241	82	(8)	(19)	1,857	2,301
Closing shareholders' funds	149	288	(49)	1	(46)	2,249	2,592

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Year ended 31 July 2006

30. Shareholders' funds and statement of changes in shareholders' equity *continued*

	Share Capital £m	Share Premium £m	Translation Reserve £m	Hedging Reserve £m	Retained Earnings		Total £m
					Own Shares £m	Profit and Loss Account £m	
For the year ended 31 July 2005							
Profit for the year attributable to equity shareholders	-	-	-	-	-	479	479
Exchange gain on translation of overseas operations	-	-	93	-	-	-	93
Exchange loss on translation of borrowings designated as hedges of overseas operations	-	-	(36)	-	-	-	(36)
Valuation gain on interest rate swaps	-	-	-	1	-	-	1
Valuation loss on currency swaps	-	-	-	(12)	-	-	(12)
Actuarial loss on retirement benefits	-	-	-	-	-	(4)	(4)
Tax on gains/(losses) not recognised in the income statement	-	-	25	3	-	6	34
Total recognised income and expense	-	-	82	(8)	-	481	555
New share capital subscribed	2	31	-	-	-	-	33
Premium on share options issued through share symmetry arrangements	-	10	-	-	-	(10)	-
Purchase of own shares by Employee Benefit Trust	-	-	-	-	(19)	-	(19)
Credit to equity for share-based payments	-	-	-	-	-	23	23
Dividends	-	-	-	-	-	(145)	(145)
Net additions to shareholders' funds	2	41	82	(8)	(19)	349	447
Opening shareholders' funds	146	200	-	-	-	1,508	1,854
Closing shareholders' funds	148	241	82	(8)	(19)	1,857	2,301

31. Acquisitions

A list of businesses acquired during the year and the month of acquisition, is set out on page 146. All these businesses are engaged in the distribution of building materials. In all these acquisitions, the Group acquired 100% of the issued share capital and has accounted for the transaction by the purchase method of accounting.

	Book values acquired £m	Fair value alignments £m	Provisional fair values acquired £m
All acquisitions			
Intangible fixed assets			
- Customer relationships	-	220	220
- Trade names and brands	-	26	26
- Other	13	(8)	5
Property, plant and equipment	68	31	99
Inventories	155	(7)	148
Receivables	310	(3)	307
Cash, cash equivalents and bank overdrafts	5	-	5
Borrowings	(76)	-	(76)
Payables	(205)	(6)	(211)
Deferred tax	(1)	(50)	(51)
Retirement benefit obligations	-	(11)	(11)
Provisions	(2)	(3)	(5)
Total	267	189	456
Goodwill arising			387
Consideration			843

	Book values acquired £m	Fair value alignments £m	Provisional fair values acquired £m
All acquisitions			
Satisfied by:			
Cash			799
Deferred consideration			35
Contingent consideration			2
Directly attributable costs			7
Total consideration			843

The fair value adjustments shown above for the year ended 31 July 2006 are provisional figures, being the best estimates currently available. Further adjustments to goodwill may be necessary when additional information is available concerning some of the judgemental areas.

The goodwill arising on these acquisitions is attributable to the anticipated profitability of the new markets and product ranges to which the Group has gained access and to additional profitability and operating efficiencies in respect of existing markets.

The acquisitions contributed £862 million to revenue, £60 million to trading profit and £33 million to the Group's operating profit for the period between the date of acquisition and the balance sheet date.

If each acquisition had been completed on the first day of the financial year, Group revenue would have been £14,940 million and Group trading profit would have been £934 million.

32. Analysis of the net outflow of cash in respect of the purchase of businesses

	2006 £m	2005 £m
Purchase consideration (note 31)	843	423
Deferred and contingent consideration (net of payments in the year)	(16)	(25)
Cash consideration	827	398
Cash, cash equivalents and bank overdrafts acquired	(5)	8
Net cash outflow in respect of the purchase of businesses	822	406

Notes to the consolidated financial statements

Year ended 31 July 2006

33. Disposals

The Group made no disposals of operations in the year ended 31 July 2006. £2 million of deferred consideration was received in the year in respect of a disposal in the year ended 31 July 2005.

34. Reconciliation of operating profit to net cash inflow from operating activities

	2006 £m	2005 £m
Profit for the year	537	479
Net finance costs	65	37
Tax expense	232	186
Depreciation of property, plant and equipment	134	114
Amortisation of non-acquired intangibles	6	3
Profit on disposal of property, plant and equipment	(16)	(11)
Amortisation of acquired intangibles	48	6
Increase in inventories	(171)	(56)
Increase in trade and other receivables	(243)	(180)
Increase in trade and other payables	217	168
Increase in provisions and other liabilities	19	–
Share based payments and other non-cash items	22	19
Cash generated from operations	850	765

35. Reconciliation of opening to closing net debt

	At 1 August £m	Cash flows £m	Acquisitions £m	New finance leases £m	Fair value adjustments £m	Exchange movement £m	At 31 July £m
For the year ended 31 July 2006							
Cash and cash equivalents	381	52	–	–	–	(17)	416
Bank overdrafts	(437)	304	–	–	–	9	(124)
	(56)	356	–	–	–	(8)	292
Financial assets: trading investments	5	–	–	–	–	(1)	4
Derivative financial instruments	(11)	4	–	–	(13)	1	(19)
Bank loans	(1,047)	(1,085)	(74)	–	26	28	(2,152)
Obligations under finance leases	(62)	17	(2)	(30)	–	2	(75)
	(1,171)	(708)	(76)	(30)	13	22	(1,950)

	At 1 August £m	Cash flows £m	Acquisitions £m	New finance leases £m	Fair value adjustments £m	Exchange movement £m	At 31 July £m
For the year ended 31 July 2005							
Cash and cash equivalents	291	66	–	–	–	24	381
Bank overdrafts	(379)	(8)	–	–	–	(50)	(437)
	(88)	58	–	–	–	(26)	(56)
Financial assets: trading investments	6	(1)	–	–	–	–	5
Derivative financial instruments	(1)	–	–	–	(10)	–	(11)
Bank loans	(835)	(176)	(1)	–	–	(35)	(1,047)
Obligations under finance leases	(52)	5	–	(13)	–	(2)	(62)
	(970)	(114)	(1)	(13)	(10)	(63)	(1,171)

36. Related party transactions

There are no related party transactions requiring disclosure under IAS 24, Related Party Disclosures other than the compensation of key management personnel which is set out in the following table.

	2006 £m	2005 £m
Key management personal compensation (including directors)		
Salaries, bonuses and other short-term employee benefits	9	8
Termination and post employment benefits	1	1
Share based payments	4	1
Total compensation	14	10

More detailed disclosures on the remuneration of the Directors are provided in the Remuneration report on pages 62 to 70.

37. Capital commitments

Authorised capital expenditure which was contracted for but not provided in these accounts was as follows:

	2006 £m	2005 £m
Property, plant and equipment	77	96
Intangible assets: software	14	–
Total capital commitments	91	96

38. Operating lease commitments

Future minimum lease payments under non-cancellable operating leases for the following periods are:

	2006 £m	2005 £m
Within one year	199	153
Later than one year and less than five years	533	402
After five years	372	323
Total operating lease commitments	1,104	878

Operating lease payments represent rental payable by the Group for certain of its properties. Some of these operating lease arrangements have renewal options and rental escalation clauses, though the effect of these is not material. No arrangements have been entered into for contingent rental payments.

The total minimum sublease payments expected to be received under non-cancellable subleases at 31 July 2006 is £8 million (2005: £5 million).

Notes to the consolidated financial statements

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39. Contingent liabilities

The Group has the following quantifiable contingent liabilities which arose in the ordinary course of business and which have not been provided in these accounts since no actual liability is expected to arise:

	2006 £m	2005 £m
Sundry guarantees, performance bonds and indemnities	114	78
Obligations under forward foreign exchange contracts	497	413

An amount of £499 million (2005: £402 million) is expected to be received from counterparties in respect of the obligations under forward foreign exchange contracts detailed above.

As of 31 July 2006, cash deposits of Wolseley Insurance Limited amounting to £52 million (2005: £41 million) were charged in favour of Lloyds TSB Bank plc to secure letters of credit provided by that bank.

40. Post balance sheet events

The Group has made the following acquisitions since 31 July 2006:

Name	Date of acquisition	Percentage acquired	Estimated cost £m	Estimated net assets £m	Estimated goodwill £m
Water Works Suppliers Corporation	August 2006	100%	5	4	1
Palermo Supply Co., Inc.	August 2006	100%	21	9	12
Lunts Heath Limited	August 2006	100%	1	–	1
Sigmatex SAS	August 2006	100%	1	–	1
United Automatic Heating Supply Ltd.	September 2006	100%	3	2	1
Morris Insulation Limited, et al	September 2006	100%	18	5	13

Both the cost of acquisition and the fair values of assets and liabilities acquired are estimates, based on information available to the Group at the date of approval of these financial statements. Further adjustments will be necessary when additional information is available.

The acquisition of DT Group, announced on 24 July 2006 is expected to be completed on 25 September 2006. Further details of this acquisition and a vendor placing of approximately 59 million ordinary shares are provided in the Performance review on page 39.

41. Parent company

Wolseley plc is a limited liability company incorporated in England and Wales and domiciled in the United Kingdom. It operates as the ultimate parent company of the Wolseley Group. Its registered office is Parkview 1220, Arlington Business Park, Theale, Reading RG7 4GA, United Kingdom.

42. Accounting standards, interpretations and amendments to published standards not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 August 2006 or later periods, but which the Group has not early adopted. The new standards which are expected to be relevant to the Group's operations are as follows:

Amendment to IAS 39 and IFRS 4 "Financial Guarantee Contracts" (effective from 1 August 2006)

This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value and subsequently measured at the higher of: (a) the unamortised balance of the related fees received and determined; and (b) the expenditure required to settle the commitment at the balance sheet date. Management is currently assessing the impact of this amendment on the Group's financial statements.

Amendment to IAS 39 "Cash Flow Hedge Accounting of Forecast Intragroup Transactions" (effective from 1 August 2006)

This amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit or loss. Management does not expect adoption of this amendment to have a significant impact on the Group's financial statements.

Amendment to IAS 39 "The Fair Value Option" (effective from 1 August 2006)

This amendment changes the definition of the financial instruments classified at fair value through the income statement and restricts the ability to designate financial instruments as part of this category. Management does not expect adoption of this amendment to have a significant impact on the Group's financial statements.

IFRS 7 "Financial Instruments: Disclosures" (effective from 1 August 2007) and amendment to IAS 1 "Presentation of Financial Statements – Capital Disclosures" (effective from 1 August 2007)

IFRS 7 introduces new disclosures of qualitative and quantitative information about exposure to risks arising from financial instruments including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. Management is currently assessing the impact of IFRS 7 and the amendment to IAS 1 on the Group's financial statements.

IFRIC 7 "Applying the restatement approach under IAS 29" (effective from 1 August 2006)

IFRIC 7 deals with the accounting when an entity identifies the existence of hyperinflation in the economy of its functional currency and how deferred tax items in the opening balance sheet should be restated. The Group has operations in hyperinflationary economies. The Group has assessed the impact of the interpretation and concluded it is not likely to have a significant impact on the Group's financial statements.

IFRIC 8 "Scope of IFRS 2" (effective from 1 August 2006)

IFRIC 8 clarifies that transactions within the scope of IFRS 2 "Share Based Payment" include those in which the entity cannot specifically identify some or all of the goods and services received. The Group has assessed the impact of this interpretation and has concluded it is not likely to have a significant impact on the Group's financial statements.

IFRIC 9 "Reassessment of embedded derivatives" (effective from 1 August 2006)

IFRIC 9 clarifies that an entity should assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the contract terms, in which case it is required. The Group has assessed the impact of this interpretation and has concluded it is not likely to have a significant impact on the Group's financial statements.

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Year ended 31 July 2006

43. Summary of significant differences between International Financial Reporting Standards and accounting principles generally accepted in the United States

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS"), which differ in certain significant respects from generally accepted accounting principles in the United States ("US GAAP"). Such differences involve methods for measuring the amounts shown in the financial statements, as well as additional disclosures required by US GAAP.

A summary of the principal differences applicable to the Group is set out below:

(i) Goodwill

On transition to IFRS, the amount of goodwill at 1 August 2004 is the previous carrying amount under UK GAAP. Under IFRS goodwill is no longer amortised but tested annually for impairment.

Prior to 1 August 1998, purchased goodwill was written off to reserves in the year of acquisition as permitted under UK GAAP. Since 1 August 1998, all acquired goodwill has been capitalised and amortised over a period not exceeding 20 years. If a subsidiary or a business is subsequently sold or closed, previously written off goodwill which was the result of the initial acquisition is taken into account in determining the profit or loss on sale or closure.

Under US GAAP prior to 1 August 2002, goodwill arising on acquisitions prior to 1 July 2001 was capitalised and amortised over its estimated useful life, not exceeding 40 years. Following implementation of SFAS 142, "Goodwill and Other Intangible Assets," goodwill is no longer amortised, but is reviewed at least annually for impairment.

The Group completed the required impairment tests under both IFRS and US GAAP during 2006, which indicated that no impairment charge was required under either set of accounting principles.

(ii) Intangible assets

Under IFRS, the accounting for business combinations prior to transition to IFRS has not been revisited. Therefore intangible assets arising in respect of acquisitions prior to the transition date of 1 August 2004, previously recognised under US GAAP, have not been recognised under IFRS and remain within goodwill.

(iii) Contingent purchase consideration

Under IFRS, contingent purchase consideration is recorded as part of the purchase cost at the date of acquisition if it is reliably measurable and probable. Under US GAAP, this cost is not recognised until the contingency is resolved and the amount determinable.

(iv) Pensions

Under IFRS, pension costs are accounted for in accordance with IAS 19 (revised 2004). Under US GAAP, pension costs comprise the estimated cost of benefits accruing in the period as determined in accordance with SFAS 87, "Employers' Accounting for Pensions" and SFAS 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Plans and for Termination Benefits."

Under IFRS, actuarial gains and losses, which represent differences between the expected and actual returns on the plan assets and the effect of changes in actuarial assumptions, are recognised in full in the statement of recognised income and expense in the period in which they occur. The defined benefit liability or asset recognised in the balance sheet comprises the net total for each plan of the present value of the benefit obligation at the balance sheet date, less any past service costs not yet recognised, less the fair value of the plan assets, if any, at the balance sheet date. Where a plan is in surplus, the asset recognised is limited to the amount of any unrecognised past service costs and the present value of any amount which the Group expects to recover by way of refunds or a reduction in future contributions.

Under US GAAP, the annual pension cost comprises the estimated cost of benefits accruing in the period as determined in accordance with SFAS 87, "Employers' Accounting for Pensions." SFAS 87 requires the use of the projected unit credit actuarial method for determining defined benefit pension costs and provides for the deferral of actuarial gains and losses (in excess of a specified corridor) that result from changes in assumptions or actual experience.

(v) Deferred taxation

Under IFRS and US GAAP, deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. There is a difference in the definition of tax basis between IFRS and US GAAP, which gives rise to an additional deferred tax liability under IFRS. Under IFRS, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss.

Under US GAAP, a valuation allowance is established against deferred tax assets when it is more likely than not that some portion or all of these will not be realised. Under IFRS it is recognised net.

Under IFRS the deferred tax asset in relation to share based payments is based upon the intrinsic value of the share option and is adjusted at every year end to reflect changes in the share price valuation, as well as pre-vesting forfeitures, changes in tax rate, relocation of employees, or changes in tax legislation. If the cumulative estimated tax deduction – either during vesting or on exercise – exceeds the "book expense" tax deduction, the difference is credited to equity.

Under US GAAP this asset is based upon the fair value expensed under SFAS 123R and only adjusted for pre-vesting forfeitures, changes in tax rate, relocation of employees, or changes in tax legislation. If the final tax deduction exceeds book expense ("windfall"), the difference is credited to additional paid-in capital. If the final tax deduction is less than book expense ("shortfall"), the difference is included in additional paid-in capital to the extent there have been previous windfalls credited; otherwise the difference is recorded in the income statement.

(vi) Share-based payments

Under the transition provisions of IFRS, the Group has elected to apply IFRS2 "Share-based Payment" retrospectively only to equity-settled awards that had not vested as at 1 August 2004 and were granted on or after 7 November 2002 and to cash-settled awards that had not vested as at 1 August 2004. Under US GAAP, the Group adopted SFAS 123 (Revised), "Share-Based Payments" with effect from 1 August 2005 using a modified prospective transition method and the Group's prior periods have not been restated to reflect and do not include the impact of, SFAS 123 (R). Under SFAS 123 (R) share based compensation expense is recognised during the period based on the portion of share based payments awards that is ultimately expected to vest during the period.

The Group operates a number of plans which are defined within note 29. The Executive Option Schemes are subject to a condition such that they may not be exercised unless the growth in earnings per share over a period of three consecutive fiscal years exceeds growth in the UK Retail Price Index over the same period by at least 9% (for options granted in and after December 1997). Under IFRS such options are treated as equity-settled.

For the year ended 31 July 2005 the Group was accounting for the Executive Option Schemes under SFAS 123, "Accounting for Stock Based Compensation." The condition described above was regarded as a performance condition and such options were also treated as equity-settled. On application of SFAS 123 (R), the condition is not regarded as a performance condition, as the performance target is set by reference to an index, rather than being fixed at the date of award. As the condition is not a service or market condition either, the options are accounted for as liabilities under US GAAP and revalued at every reporting date until the option has vested.

Under SFAS 123, the cumulative cost recorded up to 31 July 2005 in respect of executive options was £11 million. Under SFAS 123 (R), £18 million has been charged in the year ended 31 July 2006 in respect of the cumulative effect of a change in accounting principle. Under SFAS 123 (R), the charge in the year ended 31 July 2006 in respect of executive options is £12 million.

(vii) Sale and leaseback accounting

Under IFRS, in a sale and leaseback transaction where the leaseback is recognised as an operating lease and the sale price equals fair value, the profit or loss on the sale should be recognised immediately. Under US GAAP, in general, the gains or losses on disposal of the properties are deferred and amortised over the term of the operating lease.

(viii) Other adjustments

Restructuring costs

Under IFRS, a provision for restructuring costs is recognised only when a present obligation (legal or constructive) exists as a result of a past event; it is probable that a transfer of economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

Under US GAAP, for restructuring plans initiated after 1 January 2003, a liability for a cost associated with an exit or disposal activity can only be recognised when the liability is incurred. An entity's commitment to a plan, by itself, does not create a present obligation to others that meets the definition of a liability. The timing of recognition and related measurement of a liability for one-time termination benefits in relation to employees who are to be involuntarily terminated depends on whether the employees are required to render service until they are terminated in order to receive the termination benefits and, if so, whether employees will be retained to render service beyond the minimum retention period.

Capitalised interest

Under IFRS, the Group has chosen not to capitalise interest on specific or general borrowings to finance the construction of certain property, plant and equipment. Under US GAAP, this interest is capitalised. The amount of interest capitalised is based on a weighted average method considering the general borrowings outstanding during the period.

Employers' payroll taxes in respect of share-based payments

Under IFRS, employers' social security liability arising from share-based payment transactions is recognised over the same period or periods as the share-based payment charge. Under US GAAP, employers' payroll taxes due on the exercise of share options are recognised as an expense when the liability arises, which is generally at the option's exercise date.

Notes to the consolidated financial statements

Year ended 31 July 2006

44. Reconciliation between IFRS and US GAAP

The following is a summary of the material adjustments to consolidated profit for the financial year and consolidated shareholders' funds that would have been required in applying the significant differences between IFRS and US GAAP.

Reconciliation of consolidated profit for the financial year	Notes (note 43)	2006 £m	2005 £m
Profit for the financial year under IFRS		537	479
US GAAP adjustments:			
Amortisation of intangible assets	(ii)	(8)	(3)
Pensions	(iv)	(13)	(15)
Leases	(vii)	(12)	(19)
Share based payments	(vi)	1	(5)
Other	(viii)	1	(7)
Deferred taxation	(v)	13	(2)
Taxation effect of US GAAP adjustments		7	16
Profit for the year before effect of accounting change		526	444
Cumulative effect of change in accounting principle	(vi)	(18)	-
Tax effect of change in accounting principle		2	-
Profit for the financial year under US GAAP		510	444
Presentation of earnings per share under US GAAP			
Basic earnings per share before cumulative effect of accounting change (pence)		88.91	75.61
Cumulative effect of accounting change, net of tax (pence)		(2.70)	-
Basic earnings per share (pence)		86.21	75.61
Diluted earnings per share before cumulative effect of accounting change (pence)		88.10	74.94
Cumulative effect of accounting change, net of tax (pence)		(2.68)	-
Diluted earnings per share (pence)		85.42	74.94
Weighted average shares outstanding (millions)		592	587
Dilutive effect of stock options (millions)		5	5
Weighted average shares outstanding assuming dilution (millions)		597	592
Reconciliation of consolidated shareholders' funds	Notes	2006 £m	2005 £m
Shareholders' funds under IFRS		2,592	2,301
US GAAP adjustments:			
Goodwill	(i)	170	174
Intangible assets	(ii)	82	94
Contingent consideration	(iii)	19	31
Pensions	(iv)	96	88
Leases	(vii)	(15)	(2)
Share-based payments	(vi)	(23)	12
Other	(viii)	8	7
Deferred taxation	(v)	13	7
Taxation effect of US GAAP adjustments		(73)	(99)
Total US GAAP adjustments		277	312
Shareholders' funds under US GAAP		2,869	2,613

45. Reconciliation of net assets and profit under UK GAAP to IFRS

This is the first year that the Group has presented its financial statements under IFRS. In the year ended 31 July 2005, Wolseley plc reported under UK GAAP.

IFRS 1, "First-time Adoption of International Financial Reporting Standards" sets out the procedures that the Group must follow when it adopts IFRS for the first time as the basis for preparing its consolidated financial statements. The Group is required to establish its IFRS accounting policies as at 31 July 2006 and, in general, apply these retrospectively to determine the IFRS opening balance sheet at its date of transition, 1 August 2004.

Certain optional exemptions to this general principle are available under IFRS 1 and the significant first-time adoption choices made by the Group are as follows:

Business combinations before 1 August 2004 (IFRS 3, "Business Combinations")

The Group has elected not to apply IFRS 3 retrospectively to business combinations that took place before 1 August 2004. As a result, in the IFRS opening balance sheet, goodwill arising from past business combinations (£665.9 million) remains as stated under UK GAAP at that date.

Employee Benefits – actuarial gains and losses (IAS 19, "Employee Benefits")

The Group has elected to recognise all cumulative actuarial gains and losses in relation to employee benefit schemes at the date of transition. In addition, the Group has elected to recognise actuarial gains and losses in full in the period in which they occur in a statement of recognised income and expense.

Share-based Payments (IFRS 2, "Share-based Payment")

The Group has elected to apply IFRS 2 only to equity-settled awards that had not vested as at 1 August 2004 and were granted on or after 7 November 2002 and cash-settled awards that had not vested as at 1 August 2004.

Foreign Currency Translation Reserve (IAS 21, "The Effects of Changes in Foreign Exchange Rates")

The Group has elected to reset the foreign currency translation reserve to zero at 1 August 2004. Going forward, IFRS requires amounts taken to reserves on the retranslation of foreign subsidiaries to be recorded in a separate foreign currency translation reserve and be included in the future calculation of profit or loss on sale of the subsidiary.

Financial Instruments (IAS 39, "Financial Instruments: Recognition and Measurement" and IAS 32, "Financial Instruments: Disclosure and Presentation")

The Group has elected to implement IAS 32 and IAS 39 at its date of transition, 1 August 2004 and apply hedge accounting where the requirements of IAS 39 are met.

The Group is also required to provide reconciliations of equity at the transition date, equity at 31 July 2005 and profit for the year ended 31 July 2005 under UK GAAP and IFRS and to provide explanations of the effect of the transition on its financial position, financial performance and cash flows. These are presented in the following tables.

Notes to the consolidated financial statements

Year ended 31 July 2006

45. Reconciliation of net assets and profit under UK GAAP to IFRS continued

Restatement of profit and loss account

Year ended 31 July 2005	Notes	UK GAAP £m	Effect of transition £m	IFRS £m
Revenue	(ix)	11,257	(1)	11,256
Cost of sales	(ix)	(8,175)	1	(8,174)
Gross profit		3,082	-	3,082
Distribution costs		(1,930)	-	(1,930)
Administrative expenses: amortisation of acquired intangibles	(i)	(43)	37	(6)
Administrative expenses: other	(i)-(v), (viii), (ix)	(455)	(13)	(468)
Administrative expenses: total		(498)	24	(474)
Other operating income		24	-	24
Operating profit		678	24	702
Finance revenue		27	-	27
Finance costs	(ii), (iii), (v), (ix)	(57)	(7)	(64)
Profit before tax		648	17	665
Tax expense	(vii)	(187)	1	(186)
Profit for the period		461	18	479

Restatement of reconciliation of shareholders' funds

Year ended 31 July 2005	Notes	UK GAAP £m	Effect of transition £m	IFRS £m
Profit for the financial year		461	18	479
Net exchange adjustments offset in reserves	(viii)	60	(3)	57
Cash flow hedges				
- net fair value gains	(v)	-	(11)	(11)
Actuarial loss on retirement benefits	(iii)	-	(4)	(4)
Tax credit recognised directly in equity	(vii)	25	9	34
Net gains not recognised in the income statement		85	(9)	76
Total recognised income for the year attributable to shareholders		546	9	555
New share capital subscribed		33	-	33
Purchase of own shares		(19)	-	(19)
Credit to equity for share-based payments	(iv)	-	23	23
Dividends	(vi)	(155)	10	(145)
Net additions to shareholders' funds		405	42	447
Opening shareholders' funds		1,902	(48)	1,854
Closing shareholders' funds		2,307	(6)	2,301

Restatement of balance sheet

At 31 July 2005	Notes	UK GAAP £m	Effect of transition £m	IFRS £m
Assets				
Non-current assets				
Intangible assets: goodwill	(i)	866	(51)	815
Intangible assets: other	(i)	–	133	133
Property, plant and equipment	(i), (ii), (ix)	916	(33)	883
Deferred tax asset	(vii)	26	29	55
Trade and other receivables		37	–	37
Financial assets: available for sale investments	(ix)	4	2	6
		1,849	80	1,929
Current assets				
Inventories	(ix)	1,705	1	1,706
Trade and other receivables	(iii), (ix)	2,213	(8)	2,205
Financial assets: trading investments		5	–	5
Derivative financial assets	(v)	–	3	3
Financial receivables: construction loans (secured)	(ix)	264	(2)	262
Cash and cash equivalents		381	–	381
		4,568	(6)	4,562
Assets held for sale	(ix)	–	8	8
Total assets		6,417	82	6,499
Liabilities				
Current liabilities				
Trade and other payables	(ii)–(iv), (vi), (ix)	2,029	(86)	1,943
Current tax payable		70	–	70
Borrowings: construction loans (unsecured)	(ix)	264	(2)	262
Bank loans and overdrafts	(ix)	437	2	439
Obligations under finance leases	(ii)	4	–	4
Derivative financial liabilities	(v)	–	14	14
Provisions		22	–	22
Retirement benefit obligations		17	–	17
		2,843	(72)	2,771
Non-current liabilities				
Trade and other payables		18	–	18
Bank loans		1,045	–	1,045
Obligations under finance leases	(ii)	44	14	58
Deferred tax liabilities	(vii)	71	(9)	62
Provisions	(ii), (ix)	57	6	63
Retirement benefit obligations	(iii)	32	149	181
		1,267	160	1,427
Total liabilities		4,110	88	4,198
Net assets		2,307	(6)	2,301
Shareholders' equity				
Called up share capital		148	–	148
Share premium account		241	–	241
Foreign currency translation reserve		–	82	82
Retained earnings		1,918	(88)	1,830
Shareholders' funds		2,307	(6)	2,301

Notes to the consolidated financial statements

Year ended 31 July 2006

45. Reconciliation of net assets and profit under UK GAAP to IFRS continued

Restatement of balance sheet

As at 1 August 2004	Notes	UK GAAP £m	Effect of transition £m	IFRS £m
Assets				
Non-current assets				
Intangible assets: goodwill		666	–	666
Intangible assets: other	(i)	–	13	13
Property, plant and equipment	(i), (ii), (ix)	716	3	719
Deferred tax asset	(vii)	34	25	59
Trade and other receivables		34	–	34
Financial assets: available-for-sale investments	(ix)	2	–	2
		1,452	41	1,493
Current assets				
Inventories		1,502	–	1,502
Trade and other receivables	(ix)	1,897	(5)	1,892
Financial assets: trading investments		6	–	6
Financial receivables: construction loans (secured)	(ix)	188	(3)	185
Cash and cash equivalents		291	–	291
		3,884	(8)	3,876
Assets held for sale	(ix)	–	7	7
Total assets		5,336	40	5,376
Liabilities				
Current liabilities				
Trade and other payables	(ii)–(vi), (ix)	1,701	(77)	1,624
Current tax payable		152	–	152
Borrowings: construction loans (unsecured)	(ix)	188	(3)	185
Bank loans and overdrafts	(ix)	379	3	382
Obligations under finance leases	(ii)	5	3	8
Derivative financial liabilities	(v)	–	1	1
Provisions		26	–	26
Retirement benefit obligations		26	–	26
		2,477	(73)	2,404
Non-current liabilities				
Bank loans		832	–	832
Obligations under finance leases	(ii)	22	22	44
Deferred tax liabilities	(vii)	31	(15)	16
Provisions	(ii), (iii)	51	6	57
Retirement benefit obligations	(iii)	21	148	169
		957	161	1,118
Total liabilities		3,434	88	3,522
Net assets		1,902	(48)	1,854
Shareholders' equity				
Called up share capital		146	–	146
Share premium account		200	–	200
Foreign currency translation reserve		–	–	–
Retained earnings		1,556	(48)	1,508
Shareholders' funds		1,902	(48)	1,854

Restatement of cash flow statement

Year ended 31 July 2005	UK GAAP £m	Effect of transition £m	IFRS £m
Cash flows from operating activities			
Cash generated from operations	764	1	765
Interest received	26	–	26
Interest paid	(56)	(1)	(57)
Tax paid	(151)	–	(151)
Net cash generated from operating activities	583	–	583
Cash flows from investing activities			
Acquisition of businesses (net of cash acquired)	(406)	–	(406)
Disposals of businesses (net of cash disposed of)	5	–	5
Purchases of property, plant and equipment	(239)	21	(218)
Proceeds from sale of property, plant and equipment	74	–	74
Purchase of intangible assets	–	(21)	(21)
Proceeds from disposal of current asset investments	1	–	1
Net cash used in investing activities	(565)	–	(565)
Cash flows from financing activities			
Proceeds from the issue of shares to shareholders	33	–	33
Purchase of shares by Employee Benefit Trusts	(19)	–	(19)
Proceeds from new borrowings	410	–	410
Repayment of borrowings and derivatives	(234)	–	(234)
Finance lease capital payments	(5)	–	(5)
Dividends paid to shareholders	(145)	–	(145)
Net cash generated from financing activities	40	–	40
Net increase in cash, cash equivalents and overdrafts	58	–	58
Effects of exchange rate changes	(26)	–	(26)
Cash, cash equivalents and overdrafts at the beginning of the year	(88)	–	(88)
Cash, cash equivalents and overdrafts at the end of the year	(56)	–	(56)

Year ended 31 July 2005	UK GAAP £m	Effect of transition £m	IFRS £m
Profit for the year	461	18	479
Tax expense	187	(1)	186
Depreciation of property, plant and equipment and amortisation of non-acquired intangibles	114	3	117
Profit on disposal of property, plant and equipment	(11)	–	(11)
Amortisation of acquired intangibles	43	(37)	6
Net finance costs	30	7	37
Increase in inventories	(55)	(1)	(56)
Decrease in trade and other receivables	(181)	1	(180)
Decrease in trade and other payables	169	(1)	168
Decrease in provisions and other liabilities	7	(7)	–
Share-based payments and other non-cash items	–	19	19
Net cash flow from operating activities	764	1	765

Notes to the consolidated financial statements

Year ended 31 July 2006

45. Reconciliation of net assets and profit under UK GAAP to IFRS continued

(i) Intangible assets

Arising on business combinations

Under UK GAAP, goodwill was amortised over its useful economic life, tested for impairment and provided against as necessary. Under IFRS, goodwill is no longer amortised but must be tested for impairment as at 1 August 2004 (the transition date) and at least annually thereafter. Goodwill amortisation charged under UK GAAP during the year ended 31 July 2005 has been credited back to the income statement under IFRS.

In addition IFRS requires identifiable intangible assets to be recognised separately on the balance sheet and consequently certain intangible assets, such as contractual customer relationships and trade names, which were previously recorded as part of goodwill under UK GAAP, have been separately recognised as intangible assets under IFRS and amortised over their expected useful lives.

Software

Under UK GAAP software was included in plant and equipment and the allocation of its cost over its estimated useful life was charged as depreciation. Under IFRS, only software which is necessary to operate hardware is included in plant and equipment. Other expenditure on software is included in intangible assets and the allocation of its cost over its estimated useful life is charged as amortisation.

	Year ended 31 July 2005 £m
Increase/(decrease) in income statement headings	
Administrative expenses: amortisation of acquired intangibles	37
Administrative expenses: other	–
Profit for the year	37

	At 31 July 2005 £m	At 31 July 2004 £m
Increase/(decrease) in balance sheet headings		
Intangible assets: goodwill	(51)	–
Intangible assets: other	133	13
Property, plant and equipment	(31)	(12)
Equity	51	1

(ii) Leases

IAS 17, "Leases" requires that the land and buildings elements of property leases are considered separately for the purposes of determining whether the lease is a finance or operating lease. The majority of the Group's leased buildings are on short-term leases and, consistent with UK GAAP, are classified as operating leases under IFRS. There are, however, a small number of leases where the building element of the lease has been reclassified as a finance lease based on the criteria set out in IAS 17.

Under UK GAAP, committed rental increases, which could be considered in the same way as inflationary increases and increases due to market comparables, were generally recognised as they arose and property lease incentives were generally recognised over the period to the first market rent review. Under IFRS, committed rental increases and lease incentives are required to be spread over the entire lease term.

	Year ended 31 July 2005 £m
Increase/(decrease) in income statement headings	
Administrative expenses: other	–
Finance costs	(1)
Profit for the year	(1)

	At 31 July 2005 £m	At 31 July 2004 £m
Increase/(decrease) in balance sheet headings		
Property, plant and equipment	11	24
Trade and other payables (included in current liabilities)	(1)	(1)
Obligations under finance leases: due in less than one year	–	(3)
Obligations under finance leases: due in more than one year	(14)	(22)
Provisions (included in non-current liabilities)	(4)	(4)
Equity	(8)	(6)

(iii) Post-employment benefits

Under UK GAAP, the Group accounted for post-employment benefits under SSAP 24, "Accounting for pension costs", whereby the cost of providing defined benefit pensions and post-retirement healthcare benefits was charged against operating profit on a systematic basis with surpluses and deficits arising recognised over the expected average remaining service lives of participating employees. The Group has adopted the amendment to IAS 19, "Employee Benefits" which allows actuarial gains and losses to be charged to equity and as a result, the net deficit on the Group's defined benefit pension schemes is carried in full in the Group's IFRS balance sheet.

	Year ended 31 July 2005 £m
Increase/(decrease) in income statement headings	
Administrative expenses: other	8
Finance costs	(7)
Profit for the year	1

	Year ended 31 July 2005 £m
Increase/(decrease) in statement of recognised income and expense headings	
Actuarial loss on retirement benefits	(4)
Net gains not recognised in the income statement	(4)

	At 31 July 2005 £m	At 31 July 2004 £m
Increase/(decrease) in balance sheet headings		
Trade and other receivables	(3)	—
Trade and other payables	—	2
Provisions (included in non-current liabilities)	—	(2)
Retirement benefit obligations (included in non-current liabilities)	(149)	(148)
Equity	(152)	(148)

Notes to the consolidated financial statements

Year ended 31 July 2006

45. Reconciliation of net assets and profit under UK GAAP to IFRS continued

(iv) Share-based payments

Under UK GAAP, the cost of awards made under the Group's employee share schemes was based on the intrinsic value of the awards, with the exception of SAYE schemes for which no cost was recognised. Under IFRS 2, "Share-based Payment", the cost of employee share schemes, including SAYE schemes, is based on the fair value of the awards, which must be assessed using an option-pricing model. The Group has principally used a binomial model for this purpose.

Generally, for an equity-settled award, the fair value of the award at the grant date is expensed on a straight-line basis over the vesting period, with adjustments being made to reflect expected and actual forfeitures during the vesting period due to failure to satisfy service conditions or achieve non-market performance conditions, such as EPS growth targets. For a cash-settled award, the fair value of the award at each balance sheet date is used to calculate the probable liability of the Group; changes in this liability from the opening to closing balance sheet are charged or credited to the income statement.

	Year ended 31 July 2005 £m
Increase/(decrease) in income statement headings	
Administrative expenses: other	(21)
Profit for the year	(21)

	Year ended 31 July 2005 £m
Increase/(decrease) in statement of changes in shareholder's equity headings	
Credit to equity for share-based payments	23
Net additions to shareholders' funds	23

	At 31 July 2005 £m	At 31 July 2004 £m
Increase/(decrease) in balance sheet headings		
Trade and other payables	(12)	(14)
Equity	(12)	(14)

(v) Derivatives and hedge accounting

The Group uses derivative contracts to manage its economic exposure to movements in interest rates and currency exchange rates. Under UK GAAP, such derivative contracts were not recognised as assets and liabilities on the balance sheet and gains or losses arising on them were not recognised until the hedged item had itself been recognised in the financial statements.

Under IFRS all derivative financial instruments are accounted for at fair market value whilst other financial instruments are accounted for either at amortised cost or at fair value depending on their classification. Subject to stringent criteria, derivative financial instruments, financial assets and financial liabilities may be designated as forming hedge relationships as a result of which fair value changes are offset in the income statement or charged/credited to equity depending on the nature of the hedge relationship. Hedge accounting has been applied to the Group's interest rate swaps (which are hedging floating rate debt) and foreign currency financial instruments (which are hedging the net assets of the Group's foreign operations).

	Year ended 31 July 2005 £m
Increase/(decrease) in income statement headings	
Administrative expenses: other	(1)
Finance costs	1
Profit for the year	–

	Year ended 31 July 2005 £m
Increase/(decrease) in statement of recognised income and expense headings	
Cash flow hedges: net fair value losses	(11)
Net gains not recognised in the income statement	(11)

	At 31 July 2005 £m	At 31 July 2004 £m
Increase/(decrease) in balance sheet headings		
Derivative financial assets	3	–
Derivative financial liabilities	(14)	(1)
Equity	(11)	(1)

(vi) Post balance sheet events

Under UK GAAP dividends were recognised in the period to which they related. IAS 10, "Events after the Balance Sheet Date" requires that dividends declared or approved after the balance sheet date should not be recognised as a liability at that balance sheet date as the liability does not represent a present obligation as defined by IAS 37, "Provisions, Contingent Liabilities and Contingent Assets".

	At 31 July 2005 £m	At 31 July 2004 £m
Increase/(decrease) in balance sheet headings		
Trade and other payables	104	94
Equity	104	94

	Year ended 31 July 2005 £m
Increase/(decrease) in statement of changes in shareholders' equity headings	
Dividends	10
Net additions to shareholders' funds	10

Notes to the consolidated financial statements

Year ended 31 July 2006

45. Reconciliation of net assets and profit under UK GAAP to IFRS continued

(vii) Taxation

Under UK GAAP, deferred tax was provided on timing differences between the accounting and taxable profit (an income statement approach). Under IFRS, deferred tax is provided on temporary differences between the book carrying value and tax base of assets and liabilities (a balance sheet approach). As a result, the Group's IFRS balance sheet includes an additional deferred tax liability in respect of fair value property revaluations on acquisitions and property roll-over gains.

In addition, deferred tax has been recognised on the adjustments between UK GAAP and IFRS with the majority of the net deferred tax asset relating to the adjustments for share options and post-employment benefits (reflecting the substantially increased defined benefit liability under IFRS).

	Year ended 31 July 2005 £m
Increase/(decrease) in income statement headings	
Income tax expense	1
Profit for the year	1

	At 31 July 2005 £m	At 31 July 2004 £m
Increase/(decrease) in balance sheet headings		
Deferred tax assets	29	25
Deferred tax liabilities	9	15
Equity	38	40

	Year ended 31 July 2005 £m
Increase/(decrease) in statement of recognised income and expense headings	
Tax credit recognised directly in equity	9
Net gains not recognised in the income statement	9

(viii) Foreign exchange gains and losses

A small number of the Group's subsidiary companies have changed their functional currency in order to comply with the more stringent functional currency requirements of IAS 21, "The Effects of Changes in Foreign Exchange Rates" which requires companies that are acting on behalf of the parent company to have the same functional currency as the parent company. As a result, some foreign exchange differences arising in these companies have been recorded in the Group's income statement under IFRS rather than in equity, under UK GAAP.

	Year ended 31 July 2005 £m
Increase/(decrease) in income statement headings	
Administrative expenses: other	3
Profit for the year	3

	Year ended 31 July 2005 £m
Increase/(decrease) in statement of recognised income and expense headings	
Net exchange adjustments offset in reserves	(3)
Net gains not recognised in the income statement	(3)

(ix) Other adjustments

- The Group holds invoiced products on its premises for customer call-off: under UK GAAP such products are generally treated as sold, while under IFRS they are held in inventory.
- Available-for-sale financial assets are stated at historical cost under UK GAAP, but at fair value under IFRS.
- Assets held-for-sale are shown in a single balance sheet caption under IFRS, but under UK GAAP are included in property, plant and equipment, trade and other receivables or, where they arise out of foreclosed loans, in construction loans receivable.
- Under IFRS holiday pay is accrued over the period when employees render the service that increases their entitlement to paid leave. Under UK GAAP, there is no requirement to adjust salary costs to reflect the timing when such benefits are taken.

	Year ended 31 July 2005 £m
Increase/(decrease) in income statement headings	
Revenue	(1)
Cost of sales	1
Administrative expenses: other	(2)
Finance costs	-
Profit for the year	(2)

	At 31 July 2005 £m	At 31 July 2004 £m
Increase/(decrease) in balance sheet headings		
Property, plant and equipment	(13)	(9)
Financial assets: available-for-sale investments (included in non-current assets)	2	-
Inventories	1	-
Trade and other receivables	(5)	(5)
Construction loans receivable (secured)	(2)	(3)
Assets held for sale	8	7
Trade and other payables	(5)	(4)
Borrowings: construction loans (unsecured)	2	3
Bank loans and overdrafts	(2)	(3)
Provisions (included in non-current liabilities)	(2)	-
Equity	(16)	(14)

Independent auditors' report to the members of Wolseley plc

We have audited the group financial statements of Wolseley plc for the year ended 31 July 2006 which comprise the group income statement, the group balance sheet, the group cash flow statement, the group statement of recognised income and expense and the related notes. These group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Wolseley plc for the year ended 31 July 2006.

We have also audited the disclosures required by Part 3 of Schedule 7A to the United Kingdom Companies Act 1985 contained in the Directors' Remuneration report ("the auditable part").

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and for preparing Part 3 of Schedule 7A information in accordance with applicable United Kingdom law, are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the group financial statements and the auditable part of the Remuneration report in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the group financial statements give a true and fair view and whether the group financial statements and the auditable part of the Remuneration report have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 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 other information contained in the Annual Report and consider whether it is consistent with the audited group financial statements. The other information comprises only the Directors'

report, the unaudited part of the Directors' Remuneration report, the Chairman's Statement, the Group Chief Executive's review, the Performance review and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements. Our responsibilities do not extend to any other information.

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 group financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the group financial statements and of whether the accounting policies are appropriate to the group'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 group financial statements and the auditable part of the Remuneration report are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the group financial statements and the auditable part of the Remuneration report.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 July 2006 and of its profit, statement of recognised income and expense and cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- those parts contained within the Remuneration report required by Part 3 of the Schedule 7A to the United Kingdom Companies Act 1985 have been properly prepared in accordance with the UK Companies Act 1985 and
- the information given in the Directors' report is consistent with the group financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
25 September 2006

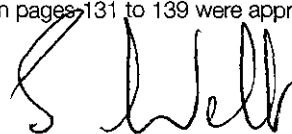
Company balance sheet

As at 31 July 2006

	Notes	2006 £m	Restated (note 1) 2005 £m
Fixed assets			
Investments	2	4,382	1,535
		4,382	1,535
Current assets			
Debtors	3	1,166	3,422
Cash and cash equivalents		49	9
		1,215	3,431
Creditors: amounts falling due within one year	4	(1,968)	(2,666)
Net current (liabilities)/assets		(753)	765
Total assets less current liabilities		3,629	2,300
Creditors: amounts falling due after one year	5	(1,176)	(837)
Net assets		2,453	1,463
Capital and reserves			
Called up share capital	6	149	148
Share premium	7	288	241
Profit and loss reserve	7	2,016	1,074
Equity shareholders' funds	8	2,453	1,463

The Company financial statements on pages 131 to 139 were approved by the Board of Directors on 25 September 2006 and were signed on its behalf by


Chip Hornsby
 Group Chief Executive


Stephen P Webster
 Group Finance Director

The accompanying notes are an integral part of these Company financial statements.

Notes to the Company financial statements

Year ended 31 July 2006

1. Company accounting policies

Basis of accounting

These Companies Act financial statements are prepared under the historical cost convention and in accordance with applicable UK accounting standards. As permitted by the Companies Act 1985 the Company has not presented its own profit and loss account.

The principal accounting policies, as set out below, have been applied consistently throughout the period. Financial Reporting Standards 17 "Retirement Benefits" (FRS 17), 20 "Share-based Payment" (FRS 20), 21 "Events After The Balance Sheet Date" (FRS 21), 23 "The Effects of Changes in Foreign Exchange Rates" (FRS 23), 25 "Financial Instruments: Disclosure and Presentation" (FRS 25) and 26 "Financial Instruments: Measurement" (FRS 26) have been adopted by the Company for the first time in these financial statements. The cumulative impact on the Company's reserves at 1 August 2005 of applying these new accounting standards is an increase in reserves of £98 million, primarily as a result of the reversal of the 2005 final dividend, which has been accounted for as a prior period adjustment.

Note 27 on pages 101 to 105 and note 29 on pages 106 to 108 of the Wolseley plc consolidated financial statements form part of these financial statements.

Foreign currencies

The cost of the Company's investments in overseas subsidiary undertakings is translated into sterling at the rate ruling at the date of investment.

Foreign currency transactions entered into during the year are translated into sterling at the rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All currency translation differences are taken to the income statement with the exception of differences on foreign currency borrowings to the extent that they are used to finance or provide a hedge against foreign currency investments.

Investments

Fixed asset investments are recorded at cost less provision for impairment.

Taxation

Current tax represents the expected tax payable (or recoverable) on the taxable income for the year using tax rates enacted or substantively enacted at the balance sheet date and taking into account any adjustments arising from prior years.

Provision is made for deferred taxation in so far as a liability or asset has arisen as a result of transactions that had occurred by the balance sheet date and have given rise to an obligation to pay more tax in the future, or the right to pay less tax in the future. An asset has not been recognised to the extent that the transfer of economic benefits in the future is uncertain. Deferred tax assets and liabilities recognised have not been discounted. Provision is made for UK or foreign taxation arising on the distribution to the UK of retained profits of overseas subsidiary undertakings where dividends have been recognised as receivable.

Derivatives and financial instruments

Derivative financial instruments, in particular, interest rate swaps and currency swaps, are used to manage the financial risks arising from the business activities of the Company and the financing of those activities. There is no trading activity in derivative financial instruments. At the inception of a hedging transaction entailing the use of derivative financial instruments, the Company documents the relationship between the hedged item and the hedging instrument together with its risk management objective and the strategy underlying the proposed transaction. The Company also documents its assessment, both at the inception of the hedging relationship and subsequently on an ongoing basis, of the effectiveness of the hedge in offsetting movements in the fair values or cash flows of the hedged items.

Derivative financial instruments are recognised as assets and liabilities measured at their fair values at the balance sheet date. Where derivative financial instruments do not fulfil the criteria for hedge accounting contained in FRS 26, changes in their fair values are recognised in the income statement.

When hedge accounting is used, the relevant hedging relationships are classified as fair value hedges, cash flow hedges or net investment hedges. Where the hedging relationship is classified as a fair value hedge, the carrying amount of the hedged asset or liability is adjusted by the increase or decrease in its fair value attributable to the hedged risk and the resulting gain or loss is recognised in the income statement where, to the extent that the hedge is effective, it will be offset by the change in the fair value of the hedging instrument. Where the hedging relationship is classified as a cash flow hedge or as a net investment hedge, to the extent the hedge is effective, changes in the fair value of the hedging instrument arising from the hedged risk are recognised directly in equity rather than in the income statement. When the hedged item is recognised in the financial statements, the accumulated gains and losses recognised in equity are either recycled to the income statement or, if the hedged item results in a non-financial asset, are recognised as adjustments to its initial carrying amount.

Pensions and post-retirement benefits

Contributions to defined contribution pension plans and other post-retirement benefits are charged to the income statement as incurred.

For defined benefit pension plans and other retirement benefits, the cost is calculated annually using the projected unit credit method and is recognised over the average expected remaining service lives of participating employees, in accordance with the recommendations of independent qualified actuaries. The current service cost of defined benefit plans is recorded within operating profit, the expected return from pension scheme assets is recorded within finance revenue and the interest on pension scheme liabilities is recorded within finance costs. Past service costs resulting from enhanced benefits are recorded within operating profit and recognised on a straight-line basis over the vesting period, or immediately if the benefits have vested. Actuarial gains and losses, which represent differences between the expected and actual returns on the plan assets and the effect of changes in actuarial assumptions, are recognised in full in the statement of recognised gains and losses in the period in which they occur. The defined benefit liability or asset recognised in the balance sheet comprises the net total for each plan of the present value of the benefit obligation at the balance sheet date, less any past service costs not yet recognised, less the fair value of the plan assets, if any, at the balance sheet date. Where a plan is in surplus, the asset recognised is limited to the amount of any unrecognised past service costs and the present value of any amount which the Company expects to recover by way of refunds or a reduction in future contributions.

Cash at bank and in hand

Cash at bank and in hand includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet to the extent that there is no right of offset and practice of net settlement with cash balances.

Share capital

The Company only has one class of shares, ordinary shares, which are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax.

Where the Company or the Company's trust purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of tax), is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related tax effects, is included in equity attributable to the Company's equity holders.

Borrowings

Borrowings are recognised initially at cost being the fair value of the consideration received net of transaction costs incurred.

Borrowings are subsequently stated at amortised cost with any difference between the proceeds (net of transaction costs) and the redemption value being recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Share-based payments

Share-based incentives are provided to employees under the Company's executive share option, long-term incentive and share purchase schemes. The Company recognises a compensation cost in respect of these schemes that is based on the fair value of the awards, measured using Black-Scholes, Binomial and Monte Carlo valuation methodologies. For equity-settled schemes, the fair value is determined at the date of grant and is not subsequently remeasured unless the conditions on which the award was granted are modified. For cash-settled schemes, the fair value is determined at the date of grant and is remeasured at each balance sheet date until the liability is settled. Generally, the compensation cost is recognised on a straight-line basis over the vesting period. Adjustments are made to reflect expected and actual forfeitures during the vesting period due to the failure to satisfy service conditions or achieve non-market performance conditions.

The Company has applied FRS 20 retrospectively only to equity-settled awards that had not vested as at 1 August 2004 and were granted on or after 7 November 2002 and cash-settled awards that had not vested as at 1 August 2004.

Dividends payable

Dividends on ordinary shares are recognised in the Company's financial statements in the period in which the dividends are approved by the shareholders of the Company (generally in the case of the final dividend) or paid (in the case of interim dividends).

Notes to the Company financial statements

Year ended 31 July 2006

2. Fixed asset investments

	£m
Cost as at 1 August 2005	1,566
Additions	4,825
Disposals	(1,983)
Cost as at 31 July 2006	4,408
Provisions as at 1 August 2005	(30)
Disposals	4
Provisions as at 31 July 2006	(26)
Net book value as at 31 July 2006	4,382

All of the above investments are in unlisted shares. Particulars of principal subsidiary undertakings are listed on pages 141 and 142 of the Annual Report.

3. Debtors

	2006 £m	Restated 2005 £m
Amounts falling due within one year		
Amounts due from Group companies	1,143	3,410
Corporation tax recoverable	8	–
Deferred tax	5	9
Derivative financial assets	10	–
Other debtors and prepayments	–	3
Total debtors	1,166	3,422

4. Creditors: amounts falling due within one year

	2006 £m	Restated 2005 £m
Bank loans and overdrafts	38	66
Derivative financial liabilities	4	11
Amounts due to Group companies	1,916	2,561
Corporation tax	–	2
Other creditors	10	26
Total creditors: amounts falling due within one year	1,968	2,666

5. Creditors: amounts falling due after one year

	2006 £m	2005 £m
Bank loans	1,176	837

6. Share capital

	Authorised		Allotted and issued	
	2006	2005	2006	2005
Number of ordinary 25 pence shares (million)	800	800	598	592
Nominal value of ordinary 25 pence shares (£ million)	200	200	149	148

All the allotted and issued shares are fully paid or credited as fully paid.

From 1 August 2005 to 31 July 2006, new ordinary shares of 25 pence each in the Company have been issued as follows:

Alottees	Number of shares	Price per share (p)	Proceeds to the Company £m	Purpose of issue
Various	2,318,435	251.00 ~ 935.85	17	Exercise of savings related share options
Various	3,235,350	349.75 ~ 543.00	31	Exercise of executive share options/stock appreciation rights
	5,553,785		48	

7. Reserves

	Share Premium £m	Profit and Loss Reserve £m
At 1 August 2005 (as previously reported)	241	976
Prior period adjustments	-	98
At 1 August 2005 (restated)	241	1,074
Shares issued	47	-
Purchase of own shares for employee benefit trust	-	(27)
Profit for the period	-	1,101
Dividends	-	(162)
Equity settled employee share options	-	20
Deferred tax on equity settled employee share options	-	1
Cash flow hedges	-	13
Deferred tax on cash flow hedges	-	(4)
At 31 July 2006	288	2,016

Included in the profit and loss reserve is an amount of £939 million which may not be distributable. The balance of £1,077 million is distributable.

Notes to the Company financial statements

Year ended 31 July 2006

8. Reconciliation of movements in equity shareholders' funds

	£m
Opening shareholders' funds (as previously reported)	1,365
Prior period adjustments	98
Opening shareholders' funds (restated)	1,463
Issue of share capital of £0.25 each	1
Share premium on issue of shares	47
Purchase of own shares for employee benefit trust	(27)
Profit for the period	1,101
Dividends	(162)
Equity settled employee share options	20
Deferred tax on equity settled employee share options	1
Cash flow hedges	13
Deferred tax on cash flow hedges	(4)
Closing shareholders' funds	2,453

9. Retirement benefit obligations

The Company participates in the Wolseley Group Retirement Benefits Plan. This is a defined benefit multi-employer plan, the assets and liabilities of which are held independently from the Group. The Company is unable to identify its share of the underlying assets and liabilities of the plan and accordingly accounts for the plan as if it were a defined contribution plan. Information in respect of the plan is provided in note 27, on pages 101 to 105, to the Wolseley plc consolidated financial statements.

10. Share-based payments

Details of share options granted by Group companies to employees and that remain outstanding, over the Company's shares are set out in note 29, on pages 106 and 108, to the Wolseley plc consolidated financial statements. The Company recognised an equity-settled share-based payment charge of £3 million in the year (2005: £1 million).

11. Derivative financial instruments

	2006 £m	2005 £m
Current assets		
Interest rate swaps	10	2
Currency swaps: at fair value through profit and loss	–	1
Derivative financial assets	10	3
Current liabilities		
Interest rate swaps	(2)	(2)
Currency swaps: at fair value through profit and loss	(2)	(12)
Derivative financial liabilities	(4)	(14)

Interest rate swaps

The Company uses interest rate swaps to manage its exposure to interest rate movements on its borrowings. The fair value of interest rate swaps is estimated on the basis of the market values of equivalent instruments at the balance sheet date.

The Company's bank borrowings generally attract variable interest rates based on 6 month LIBOR. Certain interest rate swaps are designated and effective as cash flow hedges and the valuation gains have been deferred in equity until realised.

	2006 £m	2005 £m
<i>Hedge of interest rate cash flows</i>		
At 1 August	-	(1)
Valuation gains on effective hedges credited to equity	9	1
Valuation losses charged to profit and loss	(1)	-
At 31 July	8	-

Outstanding interest rate swap contracts at 31 July 2006 comprised fixed interest payable on notional principal of US\$650 million and €770 million (2005: US\$575 million and €785 million) and fixed interest receivable on notional principal of US\$350 million. The contracts expire between September 2006 and August 2009 (2005: August 2005 and August 2009) and the gains deferred in equity will reverse in the profit and loss account over that period. The fixed interest rates varied between 2.313% and 5.415% (2005: 2.0375% and 4.3275%).

Currency swaps

The Company uses currency swaps either to obtain the optimum return on its surplus funds or to hedge the spot exchange rate risk of its assets and liabilities, principally loans. The fair value of currency swaps has been estimated as the cost of closing out the contracts using market prices at the balance sheet date.

	2006 £m	2005 £m
<i>At fair value through profit and loss</i>		
At 1 August	(11)	-
Valuation gains/(losses) charged to profit and loss	5	(11)
Cash settlements in the period	4	-
At 31 July	(2)	(11)

At the balance sheet date the Company had entered into certain short-term currency swaps amounting to assets of US\$627 million, €222 million and CHF 22 million (2005: assets of £287 million) and liabilities of £419 million and C\$169 million (2005: liabilities of US\$525 million).

12. Bank loans and overdrafts

	2006 £m	2005 £m
Current		
Bank overdrafts	38	66

The fair values of current overdrafts and loans approximate to book value due to their short maturities.
The currency analysis of bank loans and overdrafts is as follows:

	2006 £m	2005 £m
Sterling	(150)	-
US dollar	80	66
Euro	100	-
Other	8	-
	38	66

Notes to the Company financial statements

Year ended 31 July 2006

12. Bank loans and overdrafts continued

	2006 £m	2005 £m
Non-current		
Bank loans	1,176	837

The non-current loans are repayable as follows:

Due in one to two years	34	373
Due in two to five years	99	464
Due in over five years	1,043	-
	1,176	837

At 31 July 2006, no loans carried a fixed interest rate (2005: £nil). Interest payments on floating rate loans are determined by reference to short-term benchmark rates applicable to the relevant currency or market, such as LIBOR.

The currency analysis of non-current loans is as follows:

	2006 £m	2005 £m
Sterling	120	-
US dollar	618	433
Euro	406	404
Other	32	-
	1,176	837

13. Contingent liabilities

Provision is made for the Directors' best estimate of known legal claims and legal actions in progress. The Company takes legal advice as to the likelihood of success of claims and actions and no provision is made where the Directors consider, based on that advice, that the action is unlikely to succeed or a sufficiently reliable estimate of the potential obligation cannot be made.

The Company has the following quantifiable contingent liabilities which arose in the ordinary course of business and which have not been provided in these accounts since no actual liability is expected to arise:

	2006 £m	2005 £m
Value added tax of certain subsidiary undertakings	5	5
Sundry guarantees, performance bonds and indemnities	1,018	7
Obligations under forward foreign exchange contracts	497	413

An amount of £499 million (2005: £402 million) is expected to be received from counterparties in respect of the obligations under forward foreign exchange contracts detailed above.

In addition, the Company has given its principal UK bank authority to transfer at any time any sum outstanding to its credit against or towards satisfaction of the liability to the bank of certain subsidiary undertakings.

The Company acts as guarantor or surety for various subsidiary undertakings in financing and other agreements entered into by them in the normal course of business and has given indemnities and warranties to the purchasers of businesses from the Company and certain Group companies in respect of which no material liabilities are expected to arise. Additionally, the Company has issued a guarantee to the trustees of the Wolseley Group Retirement Benefits Plan in respect of the solvency of the plan and has guaranteed the pension payable by Brossette BTI to Mr. G. Pinault, a former Director.

14. Employees, employee costs and audit fees

The average number of employees (including Directors) of the Company in the year ended 31 July 2006 was 15 (2005: 14). Total employee costs of the Company for the year were £6 million (2005: £6 million) and audit fees incurred by the Company in the year were £0.1 million (2005: £0.1 million).

15. Related party transactions

The Company has taken advantage of the exemption available under FRS 8 "Related Party Disclosures" to dispense with the requirement to disclose transactions with subsidiaries, 90% or more whose voting rights are held within the Group and which are included in the Wolseley plc consolidated financial statements.

16. Post balance sheet events

The Board has declared a final dividend for the year ended 31 July 2006 of 19.55 pence (2005: 17.60 pence). This dividend has not been included as a liability as at 31 July 2006.

In addition, a vendor placing of approximately 59 million ordinary shares of the Company is expected to take place on 25 September 2006. Further details of this are provided in the Performance review on page 39.

Independent auditors' report to the members of Wolseley plc

We have audited the parent company financial statements of Wolseley plc for the year ended 31 July 2006 which comprise the company balance sheet and the related notes. These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the group financial statements of Wolseley plc and the auditable part of the Directors' Remuneration report for the year ended 31 July 2006.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements have been properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the Directors' report is consistent with the parent company financial statements. We also report to you if, in our opinion, the company has not kept proper accounting 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 other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the Directors' report, the unaudited part of the Directors' Remuneration report, the Chairman's statement, the Group Chief Executive's review, the Performance review and the Corporate Governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

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 parent company financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the parent company 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 parent company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements.

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 July 2006;
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the parent company financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
25 September 2006

Principal subsidiary undertakings and their directors

Year ended 31 July 2006

Europe

UNITED KINGDOM

***Wolseley UK Limited, Royal Leamington Spa, Warwickshire CV31 3HH**
(Incorporated and operational in the United Kingdom)
A Barden, G Flanagan, M J Neville, I Tillotson

IRELAND

***Heatmerchants Ltd, Athlone, Co. Westmeath**
(Incorporated and operational in the Republic of Ireland)
A Barden, S McBride, M McCague, B McTernan, M J Neville, M O'Brien, P Roche, C Soden

***Brooks Group Limited, Athlone, Co. Westmeath**
(Incorporated and operational in the Republic of Ireland)
A Barden, S McBride, V Nally, M J Neville, P Roche, C Soden

FRANCE

***Brossette SA, 69007 Lyon**
(Incorporated and operational in France)
P Buckingham (on behalf of Cofiger SAS), R H Marchbank, M J White

***PB & M SA, 9200 Courbevoie**
(Incorporated and operational in France)
P Buckingham (on behalf of Cofiger SAS), R H Marchbank, M J White

AUSTRIA

***ÖAG AG, 1110 Vienna**
(Incorporated and operational in Austria)
J Dutter, K H D Jones

Supervisory Board: P Buckingham, E Cihlar, P Frank, I Tillotson, M J White

ITALY

***Manzardo SpA, 39100 Bolzano**
(Incorporated and operational in Italy)
K H D Jones, C Manzardo, R H Marchbank, S P Webster, M J White

SWITZERLAND

***Wolseley (Schweiz) AG, 8902 Urdorf**
(Incorporated and operational in Switzerland)
K H D Jones, R H Marchbank, A Stucker, H Wiedmar

NETHERLANDS

***Wasco Holding B.V., Twello**
(Incorporated and operational in the Netherlands)
A Barden, K H D Jones, O G J van den Belt

LUXEMBOURG

***Comptoir des Fers et Métaux SA, L-1882 Luxembourg**
(Incorporated and operational in Luxembourg)
Y Cheret, K H D Jones, R H Marchbank, M J White

HUNGARY

***Mart Kft., H-2120 Dunakeszi**
(Incorporated and operational in Hungary)
W Hatzl, K H D Jones

CZECH REPUBLIC

***Wolseley Czech Republic spol. s.r.o., 619 00 Brno**
(Incorporated and operational in the Czech Republic)
K H D Jones, J Rehurek, C Vogelesang

DENMARK

***Electro – Oil International A/S, DK-2600 Glostrup**
(Incorporated and operational in Denmark)
K H D Jones, B Oestergaard, H Petersen

BELGIUM

***Wasco-Centratec NV, 1070 Anderlecht**
(Incorporated and operational in Belgium)
R Coates, F D'Have, K H D Jones, L I Veld

Principal subsidiary undertakings and their directors

Year ended 31 July 2006

North America

USA

***Ferguson Enterprises Inc, Newport News, Virginia 23602**
(Incorporated and operational in the United States of America)
J R English, J H Garrett, S F Grosstight, M L Grunkemeyer,
W S Hargette, C A S Hornsby, F W Roach, L J Stoddard, D P Strup,
J Stegeman, J Wilcox, B Miller

***Stock Building Supply Holdings Inc, Raleigh, North Carolina 27617**
(Incorporated and operational in the United States of America)
J J Appleman, F N Hord, C A S Hornsby, J F Major

CANADA

***Wolseley Canada Inc, Burlington, Ontario**
(Incorporated and operational in Canada)
J Ballance, G Gamble, C A S Hornsby, P R Lachance,
M D Lamontagne, G Petrin, I Thompson, B Wilcox

***Wolseley Industrial Products Group Inc, Burlington, Ontario**
(Incorporated and operational in Canada)
C A S Hornsby, P R Lachance, M D Lamontagne, K Parlee

Service companies

***Ridgeflower Limited**
(Incorporated and operational in the United Kingdom)
***WF (Cherwell) LP**
(Established and operational in Guernsey)
***Wolseley Capital Inc.**
(Incorporated and operational in the United States of America)
***Wolseley Capital Limited**
(Incorporated and operational in the United Kingdom)
***Wolseley Capital (Parkview) Limited**
(Incorporated and operational in the United Kingdom)
***Wolseley Finance (Arlington No. 1)**
(Incorporated and operational in the United Kingdom)

***Wolseley Finance (Gibraltar) Limited**
(Incorporated in Gibraltar and operational in Luxembourg)
***Wolseley Finance (Isle of Man) Limited**
(Incorporated in the Isle of Man and operational in the United Kingdom)
***Wolseley Finance (Rockhopper) S.a.r.l.**
(Incorporated and operational in Luxembourg)
***Wolseley Finance (Parkview No. 1) Limited**
(Incorporated and operational in the United Kingdom)
***Wolseley Finance (Parkview No. 2) Limited**
(Incorporated and operational in the United Kingdom)
***Wolseley Finance (Thames) Limited**
(Incorporated and operational in the United Kingdom)
***Wolseley Finance (Theale) Limited**
(Incorporated and operational in the United Kingdom)
***Wolseley Finance (USA), LLC**
(Incorporated and operational in the United States of America)
***Wolseley (Group Services) Limited**
(Incorporated and operational in the United Kingdom)
Wolseley Group Holdings Limited
(Incorporated and operational in the United Kingdom)
***Wolseley Holdings (Ireland)**
(Incorporated in the Republic of Ireland and operational in the United Kingdom)
***Wolseley Holding A/S**
(Incorporated and operational in Denmark)
***Wolseley Holdings Canada Inc.**
(Incorporated and operational in Canada)
***Wolseley-Hughes Limited**
(Incorporated and operational in the United Kingdom)
***Wolseley Insurance Limited**
(Incorporated and operational in the Isle of Man)
***Wolseley International Limited**
(Incorporated and operational in the United Kingdom)
***Wolseley Investments Inc.**
(Incorporated and operational in the United States of America)
***Wolseley North American Services, Inc.**
(Incorporated and operational in the United States of America)
***Wolseley Overseas Limited**
(Incorporated and operational in the United Kingdom)
***Wolseley Treasury (USD)**
(Incorporated and operational in the United Kingdom)
***Wolseley UK Finance Limited**
(Incorporated in Guernsey and operational in the United Kingdom)

All subsidiary undertakings have been included in the consolidation. Shareholdings in companies marked * are held by intermediate subsidiary undertakings.

All shareholdings in the above subsidiary undertakings are of ordinary shares or equity capital, plus the following preference shares in the case of:

Wolseley UK Finance Limited	100%
Wolseley Insurance Limited	100%
Wolseley Investments Inc.	100%

Five year summary

	IFRS		UK GAAP		
	2006 £m	2005 £m	2004 £m	2003 £m	2002 £m
Revenue					
UK and Ireland	2,690	2,351	2,107	1,889	1,674
France	1,725	1,644	1,621	658	544
Central Europe	735	642	520	410	300
Europe	5,150	4,637	4,248	2,957	2,518
US Plumbing and Heating	5,396	3,858	3,390	3,155	3,231
US Building Materials	2,966	2,249	2,044	1,713	1,858
Canada	646	512	446	396	361
North America	9,008	6,619	5,880	5,264	5,450
	14,158	11,256	10,128	8,221	7,968
Trading profit					
UK and Ireland	201	183	163	144	131
France	91	98	92	39	33
Central Europe	31	30	21	16	11
Europe Central Costs	(7)	(4)	-	-	-
Europe	316	307	276	199	175
US Plumbing and Heating	378	260	230	180	180
US Building Materials	192	131	109	81	94
Canada	44	36	32	28	26
North America Central Costs	(11)	(1)	-	-	-
North America	603	426	371	289	300
Group Central Costs	(37)	(25)	(28)	(15)	(11)
	882	708	619	473	464
Amortisation of acquired intangibles	(48)	(6)	-	-	-
Goodwill amortisation	-	-	(39)	(30)	(27)
Operating profit	834	702	580	443	437
Net interest (payable)	(65)	(37)	(21)	(17)	(27)
Profit on ordinary activities before tax	769	665	559	426	410
Current tax charge	(227)	(142)	(153)	(118)	(108)
Deferred tax charge	(5)	(44)	(9)	(10)	(14)
Profit on ordinary activities after tax	537	479	397	298	288
Ordinary dividends	(174)	(155)	(139)	(123)	(109)
Net assets employed					
Intangible fixed assets	1,506	948	666	687	503
Property, plant and equipment	1,144	833	719	717	582
Other net assets, excluding liquid funds	1,892	1,691	1,458	1,197	1,061
	4,542	3,472	2,843	2,601	2,146
Financed by					
Share capital	149	148	146	145	145
Share premium	288	241	200	178	169
Foreign currency translation reserve	(49)	82	-	-	-
Profit and loss account	2,204	1,830	1,556	1,451	1,286
Shareholders' funds	2,592	2,301	1,902	1,774	1,600
Net debt	1,950	1,171	941	827	546
Net assets employed	4,542	3,472	2,843	2,601	2,146
Cumulative goodwill and acquired intangibles written off	667	619	613	574	544
Gross capital employed	5,209	4,091	3,456	3,175	2,690

Five year summary

	IFRS		UK GAAP		
	2006	2005	2004	2003	2002
Earnings per share before amortisation of goodwill and acquired intangibles	98.90p	82.60p	74.84p	56.69p	54.58p
Basic earnings per share	90.77p	81.61p	68.15p	51.53p	49.96p
Dividends per share (in respect of the financial year)	29.40p	26.40p	23.80p	21.20p	18.90p
Cover for ordinary dividends	3.1	3.1	2.9	2.4	2.6
Gearing ratio (note 1)	75.2%	50.9%	49.5%	46.6%	34.1%
Net tangible assets per ordinary share	181.61p	228.55p	211.26p	187.26p	189.86p
Return on gross capital employed (note 2)	18.8%	19.1%	18.4%	16.7%	16.7%
Average number of employees	65,223	53,668	48,379	39,299	37,136
Aggregate wages and salaries (£ million)	1,630	1,257	1,108	941	897
Number of shares in issue at year end (million)	598	592	585	581	578
Number of branches at year end					
Europe	2,861	2,486	2,393	2,266	1,799
North America	1,797	1,434	1,244	1,183	1,156
Total branches	4,658	3,920	3,637	3,449	2,955
US dollar translation rate					
Income statement/profit and loss	1.7885	1.8514	1.7522	1.5951	1.4569
Balance sheet	1.8673	1.7564	1.8198	1.6076	1.5622
Canadian dollar translation rate					
Income statement/profit and loss	2.0595	2.2997	2.3473	2.3835	2.2866
Balance sheet	2.1128	2.1464	2.4229	2.2427	2.4749
Euro translation rate					
Income statement/profit and loss	1.4577	1.4587	1.4635	1.5039	1.6085
Balance sheet	1.4628	1.4479	1.5144	1.4171	1.5934

Note 1. The gearing ratio is the ratio of net borrowings, excluding construction loan borrowings, to shareholders' funds.

Note 2. Return on gross capital employed is the ratio of trading profit (before loss on disposal of operations and the amortisation of goodwill and acquired intangibles) to the aggregate of average shareholders' funds, minority interests, net debt and cumulative goodwill written off.

Pro forma information in United States dollars

	IFRS		UK GAAP		
	2006 \$m	2005 \$m	2004 \$m	2003 \$m	2002 \$m
Revenue					
UK and Ireland	4,811	4,353	3,692	3,013	2,439
France	3,085	3,044	2,840	1,049	792
Central Europe	1,315	1,188	911	654	437
Europe	9,211	8,585	7,443	4,716	3,668
US Plumbing and Heating	9,651	7,142	5,940	5,033	4,707
US Building Materials	5,305	4,164	3,581	2,732	2,707
Canada	1,155	948	782	632	526
North America	16,111	12,254	10,303	8,397	7,940
	25,322	20,839	17,746	13,113	11,608
Trading profit					
UK and Ireland	359	339	286	230	191
France	163	181	161	62	48
Central Europe	55	55	37	25	16
Europe Central Costs	(12)	(7)	-	-	-
Europe	565	568	484	317	255
US Plumbing and Heating	676	481	403	287	262
US Building Materials	343	243	191	129	137
Canada	79	67	56	45	38
North America Central Costs	(20)	(2)	-	-	-
North America	1,078	789	650	461	437
Group Central Costs	(66)	(46)	(49)	(24)	(16)
	1,577	1,311	1,085	754	676
Amortisation of acquired intangibles	(86)	(11)	-	-	-
Goodwill amortisation	-	-	(68)	(48)	(39)
Operating profit	1,491	1,300	1,017	706	637
Net interest (payable)	(116)	(69)	(37)	(27)	(39)
Profit on ordinary activities before tax	1,375	1,231	980	679	598
Current tax charge	(406)	(263)	(268)	(188)	(158)
Deferred tax charge	(9)	(81)	(16)	(15)	(20)
Profit on ordinary activities after tax	960	887	696	476	420
Ordinary dividends	(313)	(288)	(244)	(196)	(159)
Net assets employed					
Intangible fixed assets	2,812	1,665	1,212	1,104	785
Property, plant and equipment	2,136	1,463	1,308	1,152	910
Other net assets, excluding liquid funds	3,533	2,970	2,654	1,925	1,657
	8,481	6,098	5,174	4,181	3,352
Financed by					
Share capital	278	260	266	233	226
Share premium	538	423	364	286	264
Foreign currency translation reserve	(91)	144	-	-	-
Profit and loss account	4,115	3,214	2,831	2,333	2,010
Shareholders' funds	4,840	4,041	3,461	2,852	2,500
Net debt	3,641	2,057	1,713	1,329	852
Net assets employed	8,481	6,098	5,174	4,181	3,352
Cumulative goodwill written off	1,245	1,087	1,115	922	849
Gross capital employed	9,726	7,185	6,289	5,103	4,201

The above information has been extracted from the five year summary on pages 143 and 144. Income statement figures have been translated using the relevant year's income statement/profit and loss US dollar translation rate as set out on page 144. Balance sheet figures have been translated at the relevant year's balance sheet US dollar translation rate as set out on page 144.

Acquisitions completed during the year

Name	Date	Country of incorporation
Sudbury Valve Fitting & Control Ltd.	August 2005	Canada
Park Supply	August 2005	USA
S & S Fabrication & Supply Co.	August 2005	USA
HGH Plumbing Supplies Limited	September 2005	UK
Contractors Field Products, Inc.	September 2005	USA
Economy Heating & Plumbing Supply Co., Inc.	September 2005	USA
Endries Incorporated & Endries International Inc.	September 2005	USA
Centratec N.V.	October 2005	Belgium
Encon Limited	October 2005	UK
William Wilson Holdings Limited	October 2005	UK
Cammillia Valley Supply	October 2005	USA
Seigles, Inc.	October 2005	USA
John H. Frischkorn Jr., Incorporate	November 2005	USA
Canyon Drive Lumber, LP	November 2005	USA
LAB Distributing, Inc.	November 2005	USA
Mobile Supply Company, Inc.	November 2005	USA
SAS MCSO	December 2005	France
South Tahoe Plumbing Supply	December 2005	USA
SAS Charpentes Calonge	January 2006	France
SAS Bigmat Boismat	January 2006	France
Friosol AG	January 2006	Switzerland
Colgan Distributors, Inc. and Colgan Cabinets, Inc.	January 2006	USA
Can-Con Industries Inc.	February 2006	Canada
SA Alain Carrelages	February 2006	France
Universal Supply Co Company, Inc.	February 2006	USA
Central Georgia Plumbing Supply Co., Inc.	February 2006	USA
SAS Centrale Reolaise des Bois	March 2006	France
SAS A+ (Centrale des Matériaux)	March 2006	France
Hermann Frei	March 2006	Switzerland
Nevill Long Limited	March 2006	UK
K & A Lumber Company, Inc.	March 2006	USA
Indiana Plumbing Supply Co., Inc.	March 2006	USA
Alamo Pipe and Supply Company	March 2006	USA
SAS DAFI	April 2006	France
K & R Building Supplies Limited	April 2006	UK
AC Electrical Holdings Limited	April 2006	UK
MDJ Inc.	April 2006	USA
Pipe Products, Inc.	April 2006	USA
Davis Homes LLC - Wholesale Division	April 2006	USA
Davies Water Equipment Co. Of Wisconsin, Inc.	April 2006	USA
SA Borgetto Matériaux	May 2006	France
Ivybridge Building Supplies Limited	May 2006	UK
Brandon Hire plc	May 2006	UK
Efficient Electric Enterprises Inc. Group	May 2006	USA
Central Lighting, Inc.	May 2006	USA
Central Supply Company, Inc.	May 2006	USA
Supply North Central Group, Inc.	May 2006	USA
Davidson Electrical Wholesale Supply, Inc.	June 2006	USA
Coleman Floor Company, Inc.	June 2006	USA
Marmon Keystone Anbuma N.V.	July 2006	Belgium
Larivière	July 2006	France
SARL Depont Matériaux	July 2006	France
Martin Architectural Products, LLC	July 2006	USA

Group information

Head Office and Registered Office

Parkview 1220
Arlington Business Park
Theale
Reading RG7 4GA
Telephone: +44 (0) 118 929 8700
Fax: +44 (0) 118 929 8701
Website: www.wolseley.com

Auditors

PricewaterhouseCoopers LLP

Corporate brokers

UBS Limited
Hoare Govett Limited

Solicitors

Freshfields Bruckhaus Deringer
Burgess Salmon LLP
Skadden, Arps, Slate, Meagher & Flom LLP

UK Registrars

Lloyds TSB Registrars
The Causeway
Worthing
West Sussex BN99 6DA
Telephone:
within the UK: 0870 241 3934
from overseas: +44 121 433 8000
Website: www.lloydstsb-registrars.co.uk

American Depositary Receipts

The Bank of New York
Investor Relations
PO Box 11258 Church Street Station
New York, NY 10286 – 1258
Telephone:
within the US toll free: 1-888-BNY-ADRS
from overseas: +1 212 815 3700
Website: <https://www.stockbny.com>

NYSE specialist firm

Spear, Leeds & Kellogg
120 Broadway
6th Floor
New York, NY 10271

Principal committees of the Board

Audit committee

James I K Murray – Chairman
Gareth Davis
Nigel M Stein

Remuneration committee

Andrew J Duff – Chairman (*from 1 November 2005*)
Gareth Davis
Robert M Walker (*Chairman until 31 October 2005*)

Nominations committee

John W Whybrow – Chairman
Charles A Banks (*until 31 July 2006*)
Gareth Davis
Andrew J Duff
Claude A S Hornsby (*from 1 August 2006*)
Robert M Walker

Treasury committee

Stephen P Webster – Chairman
Charles A Banks (*until 31 July 2006*)
Claude A S Hornsby (*from 1 August 2006*)
Michael J R Verrier

Shareholder information

Shareholders can register on-line to view their Wolseley plc shareholding details using Shareview, a service offered by our registrars, Lloyds TSB Registrars. To access the service, you should log on to www.shareview.co.uk and complete the simple on-screen registration process. You will then need to enter your surname, postcode, e-mail address and shareholder reference number (which is detailed on the form of proxy accompanying this Report).

By logging on to www.shareview.co.uk, you will be able to do all of the following at the click of a mouse:

- check your shareholding in Wolseley plc 24 hours a day;
- register your e-mail and mailing preference (post or electronic) for future shareholder mailings;
- gain easy access to a variety of shareholder information including indicative valuations and payment instruction details;
- access the share dealing facility; and
- use the internet to appoint a proxy for you at general meetings of the shareholders.

The Company can, at shareholders' request, send shareholders an e-mail notification each time a new shareholder report or other shareholder communication is put on the website. Shareholders will then be able to read and/or download the information at their leisure, but will still be able to request paper copies of the documents should they so wish.

To encourage more shareholders to convert to e-communications, the Company will arrange for a sapling tree to be planted in the UK for each shareholder who chooses to receive all future communications electronically. The next opportunity for us to notify you electronically will be for the Interim Report, which will be published in Spring 2007.

Share dealing

UK-based shareholders are also offered a simple and convenient telephone and internet share sale and purchase service by our registrars. Shareview dealing is available for telephone purchases and sales on: 0870 850 0852 between 8:30am and 4:30pm, Monday to Friday and for internet purchases and sales via www.shareview.co.uk/dealing. A postal dealing service is also available and a form together with terms and conditions can be obtained from Lloyds TSB Registrars by calling +44 (0)870 242 4244.

Stock Exchange listings

The ordinary shares of 25 pence each of the company are listed on the London Stock Exchange. Ordinary shares of the Company are also traded on the New York Stock Exchange in the form of American Depositary Shares and held in the form of American Depositary Receipts ("ADRs"). ADR holders receive the annual and interim reports issued to shareholders. The Company also files a Form 20-F each year with the United States Securities and Exchange Commission.

Published information

Further copies of the Annual Report and the 2006 Form 20-F may be obtained from the Corporate Communications Department, Wolseley plc, Parkview 1220, Arlington Business Park, Theale, Reading RG7 4GA. Company information may also be viewed on the Company's website at www.wolseley.com.

If you would like to receive a copy of the Annual Report in an alternative format, such as Braille or an audio version on CD, please contact the Group Company Secretariat on +44 (0)118 929 8700.

Corporate timetable

9 November 2006	–	Final date for DRIP elections
29 November 2006	–	Annual General Meeting
30 November 2006	–	Proposed final dividend of 19.55 pence per share to be paid to shareholders who are on the Register of Members on 6 October 2006
19 March 2007*	–	Interim results for the half year ended 31 January 2007 announced
3 April 2007*	–	Interim statement posted to shareholders
31 May 2007*	–	Interim dividend to be paid to shareholders who are on the Register of Members on 30 March 2007
31 July 2007	–	End of financial year 2006/07
24 September 2007*	–	Preliminary results for the year ended 31 July 2007 announced

*Dates are based on current expectations.

The interim results and preliminary results announcements will be available on our website at www.wolseley.com following their release.

Notice of meeting

This document is important and requires your immediate attention. If you have any doubts about what action you need to take, you should contact your stockbroker, bank manager, solicitor or accountant or other independent professional adviser authorised pursuant to the Financial Services and Markets Act 2000 immediately. If you have sold or transferred all of your holding of ordinary shares you should pass this Notice and accompanying documents to the person through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

Notice is hereby given that the Annual General Meeting of Wolseley plc will be held at Haberdashers' Hall, 18 West Smithfield, London EC1A 9HQ on Wednesday 29 November 2006 at 12 noon.

Routine business

To consider and, if thought fit, to pass the following resolutions:

Resolution 1

That the Directors' Annual Report and Accounts and the auditors' report thereon for the year ended 31 July 2006 be received and adopted.

Resolution 2

That the Directors' remuneration report for the year ended 31 July 2006 be received and adopted.

Resolution 3

To declare a final dividend of 19.55 pence per ordinary share.

Resolution 4

That Mr Frank Roach be elected as a Director of the Company.

Resolutions 5, 6 and 7

That Messrs Davis, Hord and Stein be re-elected as Directors of the Company.

Resolution 8

That the auditors PricewaterhouseCoopers LLP be re-appointed as the Company's auditors, until the conclusion of the next Annual General Meeting of the Company.

Resolution 9

That the Directors be authorised to agree the remuneration of the auditors.

Non-routine business

To consider and, if thought fit, to pass the following resolutions which will be proposed as to Resolutions 10 and 13 as ordinary resolutions and as to Resolutions 11 and 12 as special resolutions.

Resolution 10

That the Directors be and hereby are generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (within the meaning of section 80 of the Companies Act 1985 ("the Act")), up to a maximum nominal amount of £35,697,279, which authority shall expire at the conclusion of the next Annual

General Meeting of the Company after the passing of this resolution and in any event no later than 15 months after the passing of this resolution (unless previously revoked or varied by the Company in general meeting). The power conferred by this resolution shall enable and allow the Directors to make an offer or an agreement before the expiry of the power which would or might require relevant securities to be allotted after such expiry and the Board may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

Resolution 11

That the Directors be and hereby are empowered, pursuant to section 95 of the Companies Act 1985 ("the Act"), to allot equity securities (as defined in section 94 of the Act) for cash, at any time when they are generally authorised for the purposes of section 80 of the Act, as if section 89 (1) of the Act did not apply to any such allotment, provided that this power shall be limited:

11.1 to the allotment of equity securities in connection with, or pursuant to, a rights issue in favour of the holders of ordinary shares in the Company where the equity securities respectively attributable to the interests of the ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares deemed to be held by them, subject only to such arrangements or exclusions as the Directors may feel necessary or expedient to deal with fractional entitlements otherwise existing or legal or practical problems arising by virtue of shares being represented by depositary receipts or otherwise under the laws of or any other requirements of any regulatory body or stock exchange in any territory or any matter whatsoever; and

11.2 to the allotment (otherwise than pursuant to sub-paragraph 11.1 above) of equity securities up to an aggregate nominal amount of £8,215,136 equal to 5% of the issued ordinary share capital of the Company as at 25 September 2006 and shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution and in any event no later than 15 months after the passing of this resolution.

The power conferred by this resolution shall enable and allow the Directors to make an offer or an agreement before the expiry of the power which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the authority conferred by this resolution had not expired.

Resolution 12

That the Company be and hereby is generally and unconditionally authorised in accordance with Part VII of the Companies Act 1985 ("the Act") to make market purchases (within the meaning of section 163 of the Act) of ordinary shares of 25 pence each in the capital of the Company provided that:

12.1 the maximum number of ordinary shares hereby authorised to be purchased is 65,721,088;

12.2 the minimum price which may be paid for each ordinary share is 25 pence, exclusive of expenses;

Notice of meeting

12.3 the maximum price which may be paid for each ordinary share is, in respect of a share contracted to be purchased on any day, an amount equal to 105% of the average middle market quotations for the ordinary shares of the Company derived from the Daily Official List of the London Stock Exchange on the five business days immediately preceding the day on which the ordinary share is purchased, exclusive of expenses;

12.4 the power hereby granted shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution; and

12.5 the Company may under the authority conferred by this resolution and prior to the expiry of the authority make a contract to purchase its own ordinary shares which will or may be executed wholly or partly after the expiry of the authority and may make a purchase of its own ordinary shares in pursuance of such contract.

Resolution 13

That the Company and any company which is or becomes its subsidiary during the period to which this resolution relates, be and is hereby authorised to:

13.1 make donations to EU political organisations; and

13.2 incur EU political expenditure

(both as defined in Part XA of the Companies Act 1985, as amended by the Political Parties, Elections and Referendums Act 2000) in a total amount, including any amounts incurred by the Company or any of its subsidiaries during the period to which this resolution relates, not exceeding £125,000 during the period commencing on the date of this Annual General Meeting and ending on the date of the Company's next Annual General Meeting.

By order of the Board

Mark J White

Group Company Secretary and Counsel
8 October 2006

Wolseley plc
Registered No. 29846, England
Parkview 1220
Arlington Business Park
Theale
Reading RG7 4GA

Explanatory notes

Resolution 1

The Directors are required to present to the Meeting the audited accounts and the Directors' and auditors' report for the financial year ended 31 July 2006.

Resolution 2

The Directors' report on remuneration includes the Company's policy on Directors' remuneration for the next financial year and for the years subsequent to that, a table containing details of the Directors' emoluments and a line graph that shows total shareholder return ("TSR") from 1 August 2001, together with the TSR for the FTSE 100 index since that date.

Resolution 3

If resolution 3 is approved by shareholders the final dividend for the year ended 31 July 2006 will be paid on 30 November 2006 to shareholders whose names appear on the register of members at close of business on 6 October 2006.

Resolution 4

The Company's Articles of Association permit any Director appointed by the Board since the date of the last Annual General Meeting to hold office only until the date of the next Annual General Meeting. The Director is then eligible for election by shareholders. Mr Roach is standing for election as an Executive Director following his appointment on 16 December 2005. Mr Roach has a service contract with the Company terminable by not less than six months' notice given by him or 12 months' notice if given by the Company.

Resolutions 5, 6 and 7

Under the Company's Articles of Association, one-third of the Directors are required to retire by rotation each year and, in addition, no Director may serve for more than three years without being re-elected by shareholders. Messrs Davis, Hord and Stein will retire by rotation this year in accordance with the Articles of Association and are proposed for re-election through separate resolutions numbered 5, 6 and 7. Mr Davis is standing for re-election as a Non Executive Director. Mr Davis is the Senior Independent Non Executive Director and is a member of the remuneration, audit and nominations committees. Mr Davis does not have a service contract with the Company but his appointment is terminable on six months' notice. Mr Hord is standing for re-election as an Executive Director. Mr Hord has a service contract with the Company terminable by not less than six months' notice given by him or 12 months' notice if given by the Company. Mr Stein is standing for re-election as a Non Executive Director. He is a member of the audit committee. Mr Stein does not have a service contract with the Company but his appointment is terminable on six months' notice.

Biographical details of all the Directors standing for election and re-election appear on pages 42 and 43 of the Annual Report and Accounts.

Resolutions 8 and 9

Auditors have to be appointed at every general meeting at which accounts are presented to shareholders. The current appointment of PricewaterhouseCoopers LLP as the Company's auditors will end at the conclusion of the Annual General Meeting and it has advised its willingness to stand for reappointment. It is normal practice for a company's Directors to be authorised to agree how much the auditors should be paid.

Resolutions 10 and 11

The Companies Act 1985 prevents Directors from allotting unissued shares without the authority of shareholders in general meeting. The Company's Articles of Association permit the Directors to allot unissued shares but this power is subject to renewal by shareholders. Resolution 10 empowers the Directors to allot shares of up to £35,697,279 in nominal amount representing the authorised but unissued ordinary share capital as at 25 September 2006, being a date not more than one month prior to this Notice. The Directors were last given this authority at the Annual General Meeting held in 2005 and it is intended that renewal of this authority will be sought on an annual basis. Resolution 11 empowers the Directors to allot shares for cash or sell/transfer shares out of treasury otherwise than pro rata to existing shareholders but this power is limited to allotments in connection with a rights issue and otherwise up to an aggregate nominal amount of £8,215,136 (approximately 5% of the issued ordinary share capital as at 25 September 2006, being a date not more than one month prior to this Notice). Save for the issue of shares pursuant to the Company's various employee share schemes and any share dividend alternatives, the Directors do not presently intend to allot any unissued shares. Treasury shares and the regulations which came into force on 1 December 2003 in relation to them, are more fully explained in the note to Resolution 12.

The authority conferred by these Resolutions will expire no later than 15 months from the date on which the resolution is passed, or at the conclusion of the Annual General Meeting to be held in 2007, whichever is the sooner.

Similar resolutions have been approved by shareholders at each Annual General Meeting since 1984.

Resolution 12

This resolution empowers the Directors to make limited on-market purchases of the Company's ordinary shares. The power is limited to a maximum of 65,721,088 shares (10% of the issued share capital as at 25 September 2006) and details the minimum and maximum prices that can be paid, exclusive of expenses. The authority conferred by this resolution will expire at the conclusion of the Company's next Annual General Meeting.

The Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 came into force on 1 December 2003. These regulations allow shares repurchased by the Company to be held as treasury shares. Treasury shares may be cancelled, sold for cash or used for the purpose of employee share schemes. The authority to be sought by this resolution is intended to apply equally to shares to be held by the Company as treasury shares. No dividends will be paid on shares which are held as treasury shares and no voting rights will be attached to them. Shares held as treasury shares will be treated as if cancelled. The Company holds no shares in treasury but the Directors currently intend that any shares which are repurchased will be held in treasury.

Resolution 13

This resolution enables the Directors to incur expenditure of up to £125,000 (including any such expenditure by a subsidiary company) without unintentionally breaching the provisions of the Political Parties, Elections and Referendums Act 2000, which defines political organisations and donations in a very broad manner. The authority sought will, if granted, last until the conclusion of the 2007 Annual General Meeting of the Company when the Directors intend to seek renewal of this authority. The policy of not giving any cash contributions to any political party will continue.

The Directors consider that each of the resolutions is in the best interests of the Company and the shareholders as a whole and recommend all shareholders to vote in favour of all resolutions, as the Directors intend to do in respect of their own shares.

Notice of meeting

Electronic communications

The law now allows the Company to send shareholder information, including Annual Reports, Notices of General Meetings and Forms of Proxy to you electronically, provided only that you agree to receive them in this format.

This will have a number of advantages, including:

- Speedier delivery of documents;
- Cost savings for the Company on the delivery of documents;
- Saving on environmental resources;
- Confirmation of receipt of proxy appointments.

To receive your shareholder documentation electronically, you will need to register with our Registrars' online service, www.shareview.co.uk. This is a secure service enabling shareholders to set up and view personal shareholding details. When you register please have your shareholder reference number to hand (this can be found on your share certificate or your proxy form).

To encourage more shareholders to convert to e-communications, if you make the choice to receive all future communications electronically, we will arrange for a sapling tree to be planted in the UK to be dedicated to you.

This offer and the provision of a facility to communicate with shareholders electronically, does not discriminate between registered shareholders of the same class. The facility is available to all registered shareholders on equal terms and participation is made as simple as possible. Please note that it is the shareholder's responsibility to notify our Registrars through www.shareview.co.uk of any change to their e-mail address.

The next opportunity for us to notify you electronically will be for the Interim Report for 2007, which will be published in Spring 2007. If you have registered, an e-mail will be sent in March/April 2007 notifying you that the report has been published and this will include a link to the relevant page on our website. A similar procedure will be followed for future shareholder documentation. There are no particular software requirements to view these documents, other than those described and available on our website www.wolseley.com. Shareholders wishing to continue to receive shareholder information in the traditional paper format should take no action.

Before electing for electronic communication, shareholders should ensure that they have the appropriate computer capabilities. The Company takes all reasonable precautions to ensure no viruses are present in any communication it sends out, but cannot accept any responsibility for loss or damage arising from the opening or use of any e-mail or attachments from the Company and recommends that shareholders subject all messages to virus checking procedures prior to use. Please note that any electronic communication sent by a shareholder to the Company or the Registrar containing a computer virus will not be accepted.

The Company's obligation is satisfied when it transmits an electronic message. It cannot be held responsible for a failure in transmission beyond its control. In the event that the Company becomes aware that an electronic transmission is not successfully transmitted, a paper notification will be sent to the shareholder at their registered address. The Company also reserves the right, irrespective of your election, to revert to sending paper documentation by post, whenever the Board considers it necessary or desirable to do so.

Enquiries

Lloyds TSB Registrars maintain the Company's share register. They also provide a telephone helpline service. If you have any enquiries about the Annual General Meeting or about your Wolseley plc shareholding, you may contact Lloyds TSB Registrars:

by telephone to the Shareholder helpline:

from the UK - 0870 241 3934
from outside the UK - +44 121 415 7047

or in writing to - Lloyds TSB Registrars (0049)
The Causeway
Worthing
West Sussex
BN99 6DA

website - www.lloydstsb-registrars.co.uk

The Bank of New York maintains the Company's American Depositary Receipt register. They also provide a telephone helpline service. If you have any enquiries about your holding of Wolseley American Depositary Shares, you may contact the Bank of New York:

by telephone to the Shareholder helpline:

within the US - 1-888-BNY-ADRS (toll-free)
from outside the US - +1 212 815 3700

or in writing to - Bank of New York
Investor Relations
PO Box 11258 Church Street Station
New York, NY 10286-1258

website - <https://www.stockbny.com>

Data protection statement

Your personal data includes all data provided by you, or on your behalf, which relates to you as a shareholder, including your name and contact details, the votes you cast and your Reference Number (attributed to you by the Company). The Company determines the purposes for which and the manner in which your personal data is to be processed. The Company and any third party to which it discloses the data (including the Company's Registrars) may process your personal data for the purposes of compiling and updating the Company's records, fulfilling its legal obligations and processing the shareholder rights you exercise.

Published information

The Notice of Annual General Meeting is also available in Braille or on an audio version on CD, depending on your requirements.

Certain statements included in this Annual Report and Accounts may be forward-looking and may (and often do) involve risks, assumptions and uncertainties that could cause actual results to differ materially from those expressed or implied by the forward-looking statements. Forward-looking statements include, without limitation, projections relating to results of operations and financial conditions and the Company's plans and objectives for future operations including, without limitation, discussions of the Company's business and financial plans, expected future revenues and expenditures, investments and disposals, risks associated with changes in economic conditions, the strength of the plumbing and heating and building materials market in North America and Europe, fluctuations in product prices and changes in exchange and interest rates. All forward-looking statements in this respect are based upon information known to the Company on the date of this Report. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements, which speak only at their respective dates. The Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. It is not reasonably possible to itemise all of the many factors and events that could cause the Company's forward-looking statements to be incorrect or that could otherwise have a material adverse effect on the future operations or results of the Company.

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This report is printed on Revive 50:50 paper and cover board, with Revive Uncoated used in the financial section. Revive 50:50 is made from 50% recovered waste fibre and 50% virgin wood fibre from sustainable forests. Revive Uncoated is made from 80% de-inked post-consumer waste and 20% virgin wood fibre from sustainable forests. Both products are fully biodegradable and recyclable and produced in mills which hold ISO 9002 and ISO 14001 accreditation.

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