

Key performance indicators (“KPIs”)

The Group has used the following indicators of performance to assess its development against its strategy and financial objectives during the year ended 31 July 2009. Growth in like-for-like revenue and cash-to-cash days are KPIs which have been given prominence in the last two years because of the more difficult markets within which the Group was operating, therefore the Group does not have the historical information to give a five-year record for these measures. Trading margin and return on gross capital employed are both based on trading profit, which excludes exceptional items.

Previous years have been restated to exclude discontinued operations.

Key performance indicator and definition	Review of performance	Performance table												
<p>Change in like-for-like revenue</p> <p>The total increase or decrease in revenue for the year, excluding the effect of currency exchange, sales days, new acquisitions, branch openings or branch closures in the year, and the incremental effect of acquisitions, branch openings and branch closures in the prior year. The Group expects changes in like-for-like revenue in each of its markets to exceed changes in the overall level of economic activity in those markets.</p>	<p>Group like-for-like revenue reduced by 13.9 per cent during the year, compared to a reduction of 2.3 per cent in the previous year. The sharpest reductions were in the Nordic region, by 17.9 per cent, and in the United States by 16.4 per cent. The contraction in Canada was 3.4 per cent and in Central and Eastern Europe 5.4 per cent.</p>	<p>Change in like-for-like revenue %</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Change in like-for-like revenue %</th> </tr> </thead> <tbody> <tr> <td>2007</td> <td>+5.1</td> </tr> <tr> <td>2008</td> <td>-2.3</td> </tr> <tr> <td>2009</td> <td>-13.9</td> </tr> </tbody> </table>	Year	Change in like-for-like revenue %	2007	+5.1	2008	-2.3	2009	-13.9				
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<p>Change in organic revenue</p> <p>The increase or decrease in like-for-like revenue and in revenue derived from branch openings or closure in the year and the incremental effect of branch openings and closures in the prior year. In the past, the Group has sought to achieve, on average, double-digit growth in revenue both through organic growth and through acquisitions. Over the economic cycle the Group has seen growth come broadly evenly from both sources. The impact of the current severe downturn on the Group's markets is currently being assessed and it may be appropriate to revise the growth target. It is likely that acquisitions will constitute a smaller percentage of the Group's revenue in the future.</p>	<p>Group organic revenue reduced by 16.4 per cent during the year with the net branch closures reducing revenue by a further 2.1 per cent in addition to the reduction in like-for-like revenue.</p>	<p>Change in organic revenue %</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Change in organic revenue %</th> </tr> </thead> <tbody> <tr> <td>2005</td> <td>+11.8</td> </tr> <tr> <td>2006</td> <td>+12.8</td> </tr> <tr> <td>2007</td> <td>+6.8</td> </tr> <tr> <td>2008</td> <td>-1.2</td> </tr> <tr> <td>2009</td> <td>-16.4</td> </tr> </tbody> </table>	Year	Change in organic revenue %	2005	+11.8	2006	+12.8	2007	+6.8	2008	-1.2	2009	-16.4
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<p>Trading margin</p> <p>The ratio of trading profit to revenue expressed as a percentage. Over the cycle, the Group seeks to achieve a growth in trading profit higher than the growth in revenue through year-on-year improvements in trading margin as a result of continuous improvement in operations and the benefits of its international scale and leverage.</p>	<p>Group trading margin overall fell from 5.3 per cent to 3.1 per cent. The sharpest falls were in the UK and Ireland, from 5.5 per cent to 2.0 per cent, and France from 4.9 per cent to 1.5 per cent. Central and Eastern Europe broke even again. The US plumbing and heating business segment contributed 5.4 per cent compared to 7.1 per cent the previous year and the Nordic cluster delivered 4.6 per cent compared to 6.9 per cent the previous year.</p>	<p>Trading margin %</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Trading margin %</th> </tr> </thead> <tbody> <tr> <td>2005</td> <td>6.4</td> </tr> <tr> <td>2006</td> <td>6.1</td> </tr> <tr> <td>2007</td> <td>6.0</td> </tr> <tr> <td>2008</td> <td>5.3</td> </tr> <tr> <td>2009</td> <td>3.1</td> </tr> </tbody> </table>	Year	Trading margin %	2005	6.4	2006	6.1	2007	6.0	2008	5.3	2009	3.1
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<p>Cash flow performance</p> <p>The Group monitors cash-to-cash days, which are defined as the average number of days from payment for items of inventory to receipt of cash from customers. The Group also monitors the cash conversion ratio, which is operating cash flow divided by trading profit.</p>	<p>Cash-to-cash days, measured with spot exchange rates, was 28 at 31 July 2009, compared to 44 at 31 July 2008. The reduction reflected improved working capital management.</p> <p>Cash conversion was 364 per cent, compared to 185 per cent in the prior year.</p>	<p>Cash-to-cash days</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Cash-to-cash days</th> </tr> </thead> <tbody> <tr> <td>2006</td> <td>66</td> </tr> <tr> <td>2007</td> <td>52</td> </tr> <tr> <td>2008</td> <td>44</td> </tr> <tr> <td>2009</td> <td>28</td> </tr> </tbody> </table>	Year	Cash-to-cash days	2006	66	2007	52	2008	44	2009	28		
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<p>Free cash flow</p> <p>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.</p>	<p>Free cash flow increased by £280 million from £571 million in 2008 to £851 million in 2009, despite a reduction of £340 million in trading profit, as a result of a reduction of £846 million in working capital.</p>	<p>Free cash flow £m</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Free cash flow (£m)</th> </tr> </thead> <tbody> <tr> <td>2005</td> <td>321</td> </tr> <tr> <td>2006</td> <td>285</td> </tr> <tr> <td>2007</td> <td>626</td> </tr> <tr> <td>2008</td> <td>571</td> </tr> <tr> <td>2009</td> <td>851</td> </tr> </tbody> </table>	Year	Free cash flow (£m)	2005	321	2006	285	2007	626	2008	571	2009	851
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<p>Return on gross capital employed</p> <p>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 has previously targeted to deliver an incremental return on gross capital employed at least 4 per cent in excess of the pre-tax weighted average cost of capital. A major driver of decisions relating to acquisitions and capital expenditure has been the incremental return on capital generated by those investments. The Group is currently assessing whether this return on capital target continues to be appropriate.</p>	<p>Return on gross capital employed decreased from 12.7 per cent to 6.9 per cent reflecting the reduced trading margins in all the Group's businesses and the increased level of capital employed after the rights issue. This return was below the Group's estimated pre-tax weighted average cost of capital of 9.7 per cent.</p>	<p>Return on gross capital employed %</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Return on gross capital employed (%)</th> </tr> </thead> <tbody> <tr> <td>2005</td> <td>19.2</td> </tr> <tr> <td>2006</td> <td>18.3</td> </tr> <tr> <td>2007</td> <td>15.2</td> </tr> <tr> <td>2008</td> <td>12.7</td> </tr> <tr> <td>2009</td> <td>6.9</td> </tr> </tbody> </table>	Year	Return on gross capital employed (%)	2005	19.2	2006	18.3	2007	15.2	2008	12.7	2009	6.9
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