

# Notes to the Company financial statements

Year ended 31 July 2009

## 1. Company accounting policies

### Basis of accounting

These Companies Act 2006 financial statements are prepared under the historical cost convention and in accordance with applicable UK accounting standards. The principal accounting policies, as set out below, have been applied consistently throughout the period.

Note 10 on page 95, note 32 on pages 116 to 119, note 33 on page 120 and note 34 on pages 121 to 123 of the Wolseley plc consolidated financial statements form part of these financial statements.

Under section 408 of the Companies Act 2006 the Company is exempt from the requirements to present its own profit and loss account. Under Financial Reporting Standard 1 (revised 1996) the Company is exempt from the requirement to prepare statements of cash flow as the consolidated statements have been published.

### 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.

### Investments

Fixed asset investments are recorded at cost less provision for impairment. The Company assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments is impaired.

### 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 profit and loss account where, to the extent that the hedge is effective, it will be offset by the change in the fair value of the hedging instrument. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity. 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 profit and loss account. When the hedged item is recognised in the financial statements, the accumulated gains and losses recognised in equity are either recycled to the profit and loss account or, if the hedged item results in a non-financial asset, are recognised as adjustments to its initial carrying amount. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the profit and loss account. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the profit and loss account.

## **1. Company accounting policies continued**

### **Financial guarantees**

Financial guarantee contracts are recognised as assets and liabilities measured at fair value as at the reporting date. Fair value is estimated by discounting expected cash flows at a market rate. Changes in fair value are recognised in the income statement.

### **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 and deposits held at call with banks. 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 has two classes of shares, ordinary and deferred shares, which are both 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, 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 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 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 achieve non-market performance conditions.

### **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).

## 2. Fixed asset investments

	Cost £m	Provision £m	Total £m
As at 1 August 2008	4,832	(26)	4,806
Additions	896	–	896
<b>As at 31 July 2009</b>	<b>5,728</b>	<b>(26)</b>	<b>5,702</b>

During the year Wolseley Treasury (USD) was transferred to the Company by way of a dividend in specie of £896 million from Wolseley Group Holdings Limited. All of the above investments are in unlisted shares. Particulars of principal subsidiary undertakings are listed on pages 144 and 145 of the Annual Report. The Directors believe that the carrying value of the investments is supported by their underlying net assets.

## 3. Debtors

	2009 £m	2008 £m
Amounts falling due within one year		
Amounts due from Group companies	3,315	2,710
Corporation tax recoverable	52	50
Derivative financial assets (note 12)	12	11
Deferred tax	1	–
<b>Total debtors</b>	<b>3,380</b>	<b>2,771</b>

The fair value of amounts included in debtors approximates to book value. Amounts due from Group companies are payable on demand and interest is charged at interest rates that vary between LIBOR + 0.5 and LIBOR + 2.0 per cent.

## 4. Creditors: amounts falling due within one year

	2009 £m	2008 £m
Bank loans and overdrafts (note 13)	188	308
Deferred tax	–	16
Derivative financial liabilities (note 12)	25	8
Amounts due to Group companies	4,578	4,615
Other creditors	–	6
<b>Total creditors: amounts falling due within one year</b>	<b>4,791</b>	<b>4,953</b>

The fair value of amounts included in creditors approximates to book value. Amounts due to Group companies are payable on demand and interest is charged at interest rates that vary between LIBOR + 0.5 and LIBOR + 2.0 per cent.

## 5. Creditors: amounts falling due after one year

	2009 £m	2008 £m
Bank loans and overdrafts (note 13)	268	664
Derivative financial liabilities (note 12)	11	–
<b>Total creditors: amounts falling due after one year</b>	<b>279</b>	<b>664</b>

The fair value of amounts included in creditors approximates to book value.

## 6. Share capital

Details of the Company's share capital are set out in note 33, on page 120, to the Wolseley plc consolidated financial statements.

## 7. Share premium

	£m
At 1 August 2008	949
New share capital subscribed	203
<b>At 31 July 2009</b>	<b>1,152</b>

## Notes to the Company financial statements continued

Year ended 31 July 2009

### 8. Profit and loss reserve

	£m
At 1 August 2008	1,461
New share capital subscribed	720
Purchase of own shares by employee benefit trust	(5)
Profit for the period	794
Equity-settled employee share options	9
<b>At 31 July 2009</b>	<b>2,979</b>

Included in the profit and loss reserve is an amount of £1,838 million which may not be distributable. The balance of £1,141 million is distributable.

### 9. Reconciliation of movements in equity shareholders' funds

	2009 £m	2008 £m
Opening shareholders' funds	2,575	2,842
Issue of share capital of £0.25 each	56	–
Issue of share capital of £0.10 each	20	–
Share premium on new share capital subscribed	203	4
New share capital subscribed	720	–
Purchase of own shares by employee benefit trust	(5)	–
Profit for the period	794	(61)
Dividends	–	(215)
Equity-settled employee share options	9	5
<b>Closing shareholders' funds</b>	<b>4,372</b>	<b>2,575</b>

On 1 April 2009 the Company issued 225 million ordinary 25 pence shares by way of a private placing at 120 pence per share.

On 2 April 2009 the Company reorganised its share capital. The 886,988,540 ordinary 25 pence shares then in issue were split into 886,988,540 ordinary 1 penny shares and 886,988,540 deferred 24 pence shares. The 1 penny shares were then consolidated into 88,698,854 ordinary 10 pence shares.

On 21 April 2009 the Company issued 195,137,478 ordinary 10 pence shares by way of an 11 for 5 rights issue at a price of 400 pence per share.

Ordinarily, the excess of the net proceeds over the nominal value of the share capital issued would be credited to a non-distributable share premium account. However, the rights issue was effected through a structure which resulted in the excess of the net proceeds over the nominal value of the share capital issued being recognised within retained earnings under Section 131 of the Companies Act 1985.

The share placing and rights issue generated net proceeds to the Company of £994 million after costs of £52 million and excluding shares purchased by the Employee Benefit Trusts.

### 10. 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 32, on pages 116 to 119, to the Wolseley plc consolidated financial statements. The total contribution to the defined benefit plan in the year was £nil (2008: £nil).

### 11. 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 34, on pages 121 to 123, to the Wolseley plc consolidated financial statements. The Company recognised an equity-settled share-based payment charge of £2 million in the year (2008: £1 million).

## 12. Derivative financial instruments

	2009 £m	2008 £m
Current assets		
Interest rate swaps	–	10
Currency swaps: at fair value through profit and loss	12	1
<b>Derivative financial assets</b>	<b>12</b>	<b>11</b>

	2009 £m	2008 £m
Creditors: amounts falling due within one year		
Interest rate swaps	(14)	(8)
Currency swaps: at fair value through profit and loss	(11)	–
<b>Derivative financial liabilities</b>	<b>(25)</b>	<b>(8)</b>

	2009 £m	2008 £m
Creditors: amounts falling due after one year		
Interest rate swaps	(11)	–
<b>Derivative financial liabilities</b>	<b>(11)</b>	<b>–</b>

### Interest rate swaps

The Company uses interest rate swaps to manage its and the Group's exposure to interest rate movements on their 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 six-month LIBOR. For Group purposes interest rate swap contracts comprising fixed interest payable on notional principal of €900 million (2008: \$300 million and €1,000 million) and basis point swaps with notional principal of €900 million (2008: \$300 million and €400 million) are designated and effective as cash flow hedges, and the valuation gains have been deferred in equity until realised. The Company has recognised the valuation gains through profit and loss. The contracts expire between August 2009 and August 2011 (2008: September 2008 and August 2011), and the fixed interest rates range between 2.59 and 4.59 per cent (2008: 2.49 and 5.42 per cent).

	2009 £m	2008 £m
At fair value through profit and loss		
At 1 August	2	9
Valuation losses charged to profit and loss	(21)	–
Cash settlements in the period	(5)	(8)
Exchange	(1)	1
At 31 July	(25)	2

### Currency swaps

The Company uses currency swaps either to obtain the optimum return on its and the Group's surplus funds or to hedge the spot exchange rate risk of its and the Group's 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.

	2009 £m	2008 £m
At fair value through profit and loss		
At 1 August	1	–
Valuation (losses)/gains (charged)/credited to profit and loss	(36)	1
Cash settlements in the period	36	–
At 31 July	1	1

## Notes to the Company financial statements continued

Year ended 31 July 2009

### 12. Derivative financial instruments continued

At the balance sheet date the Company had entered into certain short-term currency swaps and forward contracts as follows:

	2009		2008	
	Currency million	£m	Currency million	£m
Bought forward	EUR 585	500	DKK 1,784	188
	DKK 720	82	GBP 119	119
	CZK 95	3	USD 178	90
			Other	10
Sold forward	GBP 251	(251)	EUR 459	(361)
	USD 380	(227)	CAD 91	(45)
	CAD 135	(75)		
	CHF 56	(31)		
	<b>1</b>		<b>1</b>	

### 13. Bank loans and overdrafts

	2009 £m	2008 £m
Creditors: amounts falling due within one year		
Bank overdrafts	<b>188</b>	308

The fair values of overdrafts and loans falling due within one year approximate to book value due to their short maturities.

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

	2009 £m	2008 £m
Sterling	<b>71</b>	–
US dollar	<b>11</b>	101
Euro	<b>59</b>	147
Other	<b>47</b>	60
	<b>188</b>	308

	2009 £m	2008 £m
Creditors: amounts falling due after one year		
Bank loans	<b>268</b>	664

The loans falling due after one year are repayable as follows:

Due in two to five years	<b>268</b>	664
	<b>268</b>	664

The fair values of loans falling due after one year approximate to book value due to being at floating rates. At 31 July 2009, no loans carried a fixed interest rate (2008: £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 loans falling due after one year is as follows:

	2009 £m	2008 £m
Sterling	–	–
US dollar	<b>268</b>	402
Euro	–	234
Other	–	28
	<b>268</b>	664

## 14. 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.

At 31 July 2009, the Company has a quantifiable contingent liability for value added tax of certain subsidiary undertakings of £11 million (2008: £16 million) which arose in the ordinary course of business and has not been provided in these accounts since no actual liability is expected to arise.

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 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.

## 15. Employees, employee costs and auditors' remuneration

The average number of employees (including Directors) of the Company in the year ended 31 July 2009 was 17 (2008: 17). Total employee costs of the Company for the year were £5 million (2008: £5 million).

Fees payable to the auditors for the audit of the Company's financial statements are set out in note 3, on page 91, to the Woleseley plc consolidated financial statements.

## 16. Dividends

Details of the Company's dividends are set out in note 10, on page 95, to the Woleseley plc consolidated financial statements.

## 17. Related party transactions

The Company has taken advantage of the exemption available under the terms of paragraph 3 (a) of FRS 8 "Related Party Disclosures" to dispense with the requirement to disclose transactions with subsidiaries, 90 per cent or more whose voting rights are held within the Group, and which are included in the Woleseley plc consolidated financial statements.

## 18. Accounting standards and interpretations that are not yet effective

Certain new standards, amendments to and interpretations of existing standards have been published that are mandatory for the Company's accounting periods beginning on or after 1 August 2009 or later periods, but which the Company has not early adopted. The new standards which are expected to be relevant to the Company's operations are as follows:

### **Amendment to FRS 20 Share-based Payment (effective from 1 August 2009)**

This amendment clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. Management is currently assessing the impact of this amendment on the Company's future financial statements.

### **Amendment to FRS 20 Share-based Payment (effective from 1 August 2010)**

The amendment clarifies both the scope of the standard and the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when that entity has no obligation to settle the share-based payments transaction. Management is currently assessing the impact of this amendment on the Company's future financial statements.

### **Amendment to FRS 26 Financial Instruments: Recognition and Measurement (effective from 1 August 2009)**

The amendment clarifies how the existing principles underlying hedge accounting should be applied in two particular situations, namely the designation of a one-sided risk in a hedged item and inflation in a financial hedged item. Management is currently assessing the impact of this amendment on the Company's future financial statements.

### **Amendment to FRS 29 Improving Disclosures about Financial Instruments (effective from 1 August 2009)**

The amendments require enhanced disclosures about fair value measurements and liquidity risk and incorporate credit risk disclosures for loans and receivables. Management is currently assessing the impact of this amendment on the Company's future financial statements.