

# Notes to the consolidated financial statements

Year ended 31 July 2009

## 1. Critical accounting estimates and judgements

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, onerous lease provisions, taxation and the cost and liability for 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 uncollectible amounts and therefore higher (or lower) than anticipated charges for irrecoverable receivables. The amount relating to continuing operations charged to the income statement in 2009 in respect of doubtful accounts represented 0.9 per cent of revenue (2008: 0.5 per cent).

Wolseley held a provision for impairment of receivables at 31 July 2009 amounting to £81 million (2008: £79 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 2009 amounting to £151 million (2008: £160 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 value in use 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.

As disclosed in notes 14, 15 and 16, the Group has charged £879 million in respect of the impairment of long-lived assets during the year ended 31 July 2009 (2008: £186 million).

The results of these tests for impairment are sensitive to the assumptions made in the value in use calculations. The Group has estimated the effect of increasing the discount rate by one percentage point, and of decreasing the trading margin for each asset group by one percentage point in the final year of the cash flow forecast. The additional impairment charge that would arise under either of these alternative assumptions is less than 5 per cent of the carrying amount of goodwill and acquired intangible assets of £2,057 million at 31 July 2009.

### 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 global 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 2009, the provision for claims arising from this insurance was £57 million (2008: £51 million).

## 1. Critical accounting estimates and judgements continued

### 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 half way through the financial year. The Group has agreements with numerous and geographically dispersed suppliers, but a slow down 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.

### Onerous lease provisions

When the present value of the future cash flows receivable from the operation of leased assets is less than the present value of the rental payments to which the Group is committed, the Group applies the shortfall firstly against the carrying amount of the assets, and then provides for any further onerous element of the contract. Determining the amount of such provision requires estimating the future net cash flows receivable in respect of these assets, and in the particular case where the leased properties are vacant this requires assessing the likely period for which the property will remain vacant, the cost of any works required to enhance its marketability and the rental income receivable when the property is sublet. To the extent that actual cash flows received differ from those estimated, the amount of provision recognised could differ materially. During the year ended 31 July 2009 the number of vacant properties has increased significantly due to branch closures. At 31 July 2009, the provision for onerous leases was £124 million.

### Impairment of construction loan receivables and foreclosed properties held for sale

A provision for impairment of construction loan receivables is made when management estimates that the present value of future cash flows recoverable in respect of these receivables is less than the carrying amount. Determining the amount of such provision requires estimating the amount and timing of such future cash flows, which requires an assessment of

- the financial condition of the debtor;
- the ability of the debtor to meet contractual payments; and
- in the event that the Group forecloses on the property on which the receivable is secured, the likely cost of enhancing the marketability of the property, the likely disposal proceeds, and the likely period for which the property will be held to maximise such proceeds.

To the extent that actual amounts recovered differ from those estimated, the amount of provision recognised could differ materially. At 31 July 2009, the provision for impairment of construction loans receivables was £39 million (2008: £18 million) and the provision against foreclosed properties held for sale was £18 million (2008: £4 million).

### Taxation

Accruals for tax contingencies require management to make judgements and estimates in relation to tax audit issues and exposures. Amounts accrued are based on management's interpretation of country-specific tax law and the likelihood of settlement. Tax benefits are not recognised unless the tax positions are probable of being sustained. Once considered to be probable, management reviews each material tax benefit to assess whether a provision should be taken against full recognition of the benefit on the basis of the potential settlement through negotiation and/or litigation. All such provisions are included in creditors due within one year. Any recorded exposure to interest on tax liabilities is provided for in the tax charge.

### 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 and mortality rates, and are disclosed in note 32.

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 sensitive assumptions are the discount rate and life expectancy. The Group has estimated the sensitivity of the financial statements to changes in these assumptions as follows:

	(Increase)/ decrease in liability 2009 £m
Effect of a change in discount rate	
Increase of 0.5%	92
Decrease of 0.5%	(104)
Effect of an increase in life expectancy	
Increase of one year	(34)

## Notes to the consolidated financial statements continued

Year ended 31 July 2009

### 2. Segmental analysis

Wolseley's reportable segments, which are those reported to the Board, are the operating businesses overseen by distinct continental and divisional management teams responsible for their performance. All reportable segments derive their revenue from a single business activity, the distribution and supply of construction materials and services.

In 2009 management responsibility for heavy-side businesses in Eastern Europe was transferred from Central and Eastern Europe to the Nordic management team. These businesses are therefore now included in the Nordic segment results. The comparative figures for 2008 have been restated to reflect the transfer of £93 million of revenue and £3 million of operating loss from Central and Eastern Europe to Nordic. The effect on trading profit is not material. The amounts reported in 2008 for the US building materials segment have also been restated. The part of the business sold is presented as discontinued operations and the construction loan business retained is shown as North America loan services.

The Group's business is not highly seasonal but revenue and trading profit are normally slightly higher in the second half. The Group's customer base is highly diversified, with no individually significant customer.

The revenue, trading profit and operating (loss)/profit of the Group's reportable segments are detailed in the following three tables.

Revenue by reportable segment for continuing operations	2009 £m	2008 (restated) £m
UK and Ireland	2,699	3,203
France	2,144	2,116
Nordic	2,113	2,290
Central and Eastern Europe	965	908
Europe	7,921	8,517
US plumbing and heating	5,820	5,613
Canada	700	684
North America	6,520	6,297
Group	14,441	14,814

Trading profit by reportable segment for continuing operations (note 12)	2009 £m	2008 (restated) £m
UK and Ireland	55	176
France	32	103
Nordic	96	159
Central and Eastern Europe	–	–
European central costs	(4)	(10)
Europe	179	428
US plumbing and heating	317	397
Canada	32	39
North America plumbing and heating	349	436
North America loan services	(24)	(19)
North American central costs	(8)	(8)
North America	317	409
Group central costs	(49)	(50)
Group	447	787

## 2. Segmental analysis continued

Operating (loss)/profit by reportable segment and reconciliation to (loss)/profit before tax for continuing operations	2009 £m	2008 (restated) £m
UK and Ireland	(251)	99
France	9	80
Nordic	(329)	103
Central and Eastern Europe	(108)	(15)
European central costs	(7)	(14)
Europe	(686)	253
US plumbing and heating	206	349
Canada	25	32
North America plumbing and heating	231	381
North America loan services	(55)	(19)
North American central costs	(8)	(8)
North America	168	354
Group central costs	(88)	(52)
Group operating (loss)/profit	(606)	555
Finance revenue	72	72
Finance costs	(217)	(228)
Share of after tax loss of associate	(15)	–
<b>(Loss)/profit before tax</b>	<b>(766)</b>	<b>399</b>

The change in revenue and trading profit between the years ended 31 July 2008 and 31 July 2009 can be analysed into the effects of changes in exchange rates, the effects of disposals 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.

Analysis of change in revenue	2008 (restated) £m	Exchange £m	Disposals £m	Increment on 2008 acquisitions £m	Organic change £m	Organic change %	2009 £m
UK and Ireland	3,203	46	–	1	(551)	(17.0)	<b>2,699</b>
France	2,116	342	(20)	22	(316)	(12.9)	<b>2,144</b>
Nordic	2,290	299	–	–	(476)	(18.4)	<b>2,113</b>
Central and Eastern Europe	908	158	(15)	9	(95)	(8.9)	<b>965</b>
Europe	8,517	845	(35)	32	(1,438)	(15.4)	<b>7,921</b>
US plumbing and heating	5,613	1,533	–	12	(1,338)	(18.7)	<b>5,820</b>
Canada	684	61	–	–	(45)	(6.0)	<b>700</b>
North America	6,297	1,594	–	12	(1,383)	(17.5)	<b>6,520</b>
Group	14,814	2,439	(35)	44	(2,821)	(16.4)	<b>14,441</b>

**Notes to the consolidated financial statements continued**

Year ended 31 July 2009

**2. Segmental analysis continued**

Analysis of change in trading profit (note 12)	2008 £m	Exchange £m	Disposals £m	Increment on 2008 acquisitions £m	Organic change £m	Organic change %	2009 £m
UK and Ireland	176	–	–	–	(121)	(68.7)	<b>55</b>
France	103	17	(1)	1	(88)	(73.0)	<b>32</b>
Nordic	159	22	–	–	(85)	(47.1)	<b>96</b>
Central and Eastern Europe	–	3	1	–	(4)	(127.4)	<b>–</b>
European central costs	(10)	–	–	–	6		<b>(4)</b>
Europe	428	42	–	1	(292)	(62.0)	<b>179</b>
US plumbing and heating	397	108	–	2	(190)	(37.6)	<b>317</b>
Canada	39	4	–	–	(11)	(25.6)	<b>32</b>
North America plumbing and heating	436	112	–	2	(201)	(36.7)	<b>349</b>
North America loan services	(19)	(5)	–	–	–	3.1	<b>(24)</b>
North American central costs	(8)	(3)	–	–	3		<b>(8)</b>
North America	409	104	–	2	(198)	(38.4)	<b>317</b>
Group central costs	(50)	1	–	–	–		<b>(49)</b>
Group	787	147	–	3	(490)	(52.3)	<b>447</b>

## 2. Segmental analysis continued

Other segmental information:

For the year ended 31 July 2009	UK and Ireland £m	France £m	Nordic £m	Central and Eastern Europe £m	US plumbing and heating £m	Canada £m	North America loan services £m	Group centre £m	Discontinued operations £m	Total £m
Depreciation of property, plant and equipment	52	35	24	12	85	4	–	1	15	228
Impairment of property plant and equipment	34	–	–	8	–	–	–	–	16	58
Amortisation of non-acquired intangibles	1	–	1	2	3	–	–	12	–	19
Impairment of non-acquired intangibles	–	–	–	3	–	–	–	40	–	43
Amortisation of acquired intangibles	14	3	55	1	31	1	–	–	12	117
Impairment of acquired intangibles	109	–	359	22	–	–	–	–	288	778
	<b>210</b>	<b>38</b>	<b>439</b>	<b>48</b>	<b>119</b>	<b>5</b>	<b>–</b>	<b>53</b>	<b>331</b>	<b>1,243</b>
Additions to property, plant and equipment	19	30	25	5	10	2	–	–	3	94
Additions to non-acquired intangible assets	–	1	–	–	2	–	–	74	–	77
	<b>19</b>	<b>31</b>	<b>25</b>	<b>5</b>	<b>12</b>	<b>2</b>	<b>–</b>	<b>74</b>	<b>3</b>	<b>171</b>
Segment assets	<b>1,394</b>	<b>1,188</b>	<b>1,847</b>	<b>417</b>	<b>2,237</b>	<b>305</b>	<b>207</b>	<b>195</b>	<b>–</b>	<b>7,790</b>
Reconciliation to total assets as reported in the Group balance sheet:										
Investment in associate										53
Deferred tax assets										244
Financial assets – current and non-current										158
Current tax receivable										124
Derivative financial assets										57
Cash and cash equivalents										635
Total assets as reported in the Group balance sheet										<b>9,061</b>
Segment liabilities	<b>927</b>	<b>565</b>	<b>546</b>	<b>220</b>	<b>856</b>	<b>106</b>	<b>165</b>	<b>145</b>	<b>–</b>	<b>3,530</b>
Reconciliation to total liabilities as reported in the Group balance sheet:										
Current tax payable										173
Bank loans and overdrafts										1,699
Obligations under finance leases										71
Derivative financial liabilities										36
Deferred tax liabilities										176
Total liabilities as reported in the Group balance sheet										<b>5,685</b>

## Notes to the consolidated financial statements continued

Year ended 31 July 2009

### 2. Segmental analysis continued

For the year ended 31 July 2008	UK and Ireland £m	France £m	Nordic £m	Central and Eastern Europe £m	US plumbing and heating £m	Canada £m	North America loan services £m	Group centre £m	Discontinued operations £m	Total £m
Depreciation of property, plant and equipment	52	30	20	10	68	4	–	1	27	212
Amortisation of non-acquired intangibles	1	–	1	2	2	–	–	9	–	15
Impairment of non-acquired intangibles	–	–	–	12	–	–	–	3	–	15
Amortisation of acquired intangibles	19	2	52	3	27	2	–	–	30	135
Impairment of acquired intangibles	46	–	–	11	–	–	–	–	114	171
	118	32	73	38	97	6	–	13	171	548
Additions to property, plant and equipment	50	33	30	14	92	4	–	1	11	235
Additions to non-acquired intangible assets	–	–	–	17	2	–	–	80	–	99
	50	33	30	31	94	4	–	81	11	334
Additions to goodwill	10	37	–	4	22	–	–	–	11	84
Additions to acquired intangible assets	3	10	–	–	36	–	–	–	15	64
Segment assets	1,857	1,315	2,222	522	2,427	326	264	156	794	9,883
Reconciliation to total assets as reported in the Group balance sheet:										
Deferred tax assets										52
Financial assets – current and non-current										9
Current tax receivable										18
Derivative financial assets										16
Cash and cash equivalents										321
Total assets as reported in the Group balance sheet										10,299
Segment liabilities	833	666	553	201	767	111	240	98	206	3,675
Reconciliation to total liabilities as reported in the Group balance sheet:										
Current tax payable										219
Bank loans and overdrafts										2,716
Obligations under finance leases										87
Derivative financial liabilities										8
Deferred tax liabilities										235
Total liabilities as reported in the Group balance sheet										6,940

### 3. Amounts charged in arriving at operating (loss)/profit

	2009 £m	2008 (restated) £m
Depreciation of property, plant and equipment	213	185
Impairment of property, plant and equipment	42	–
Amortisation of non-acquired intangible assets	19	15
Impairment of non-acquired intangible assets	43	15
Loss/(profit) on disposal of businesses and revaluations of disposal groups	40	(6)
Loss/(profit) on disposal of property, plant and equipment and assets available-for-sale	6	(15)
Staff costs (note 13)	2,131	1,984
Amortisation of acquired intangible assets	105	105
Impairment of acquired intangible assets	490	57
Operating lease rentals: land and buildings	222	195
Operating lease rentals: plant and machinery	35	34
Amounts included in costs of goods sold with respect to inventory	9,438	10,219
Amounts credited to reverse write downs of inventory	(13)	(21)
Trade receivables impairment	90	60
Construction loan receivables impairment	38	16
During the year the Group (including its overseas subsidiaries) obtained the following services from the Company's auditor and its associates:		
Fees for the audit of parent company and consolidated financial statements	0.6	0.6
Other services		
– Fees for the audit of the Company's subsidiaries pursuant to legislation	4.3	3.6
– Fees for other services pursuant to legislation	2.8	0.8
– Taxation	5.4	4.1
– Other services	0.3	0.1
Total fees payable to the auditors	13.4	9.2

The increase in the fees for the audit of the Company's subsidiaries is due to foreign currency movements. The fees for other services pursuant to legislation of £2.8 million relate to the share placing and rights issue. These costs have been recognised in equity as part of the net proceeds of the share placing and rights issue.

Operating lease rentals: land and buildings shown above excludes exceptional charges of £153 million relating to future lease rentals on vacant properties (2008: £17 million).

### 4. Exceptional items

Exceptional items are those material items which, by virtue of their size or incidence, are presented separately in the income statement to enable a full understanding of the Group's financial performance.

Exceptional items included in operating profit from continuing operations are analysed by segment as follows:

	2009 £m	2008 (restated) £m
UK and Ireland	(183)	(12)
France	(20)	(21)
Nordic	(11)	(3)
Central and Eastern Europe	(85)	(2)
European central costs	(3)	(4)
Europe	(302)	(42)
US plumbing and heating	(80)	(21)
Canada	(6)	(5)
North America plumbing and heating	(86)	(26)
North America loan services	(31)	–
North America	(117)	(26)
Group central costs	(39)	(2)
Group	(458)	(70)

## Notes to the consolidated financial statements continued

Year ended 31 July 2009

### 4. Exceptional items continued

Exceptional items included in operating profit from continuing operations are analysed by purpose as follows:

	2009 £m	2008 (restated) £m
Staff redundancy costs	(75)	(29)
Provisions for future lease rentals on closed branches and asset write-downs	(271)	(41)
Restructuring costs	(346)	(70)
Write-down of construction loan portfolio arising from the separation from Stock Building Supply	(31)	–
Impairment of software assets under construction	(41)	–
Loss on disposal of businesses and revaluations of disposal groups	(40)	–
Group	(458)	(70)

In addition the Group's associate undertaking also incurred restructuring costs during the year. The Group's share of the after tax cost of these restructuring actions of £6 million has been disclosed as an exceptional item.

Exceptional items relating to discontinued operations are detailed in note 9.

### 5. Finance revenue

	2009 £m	2008 (restated) £m
Interest receivable	72	69
Net pension finance income (note 32)	–	3
Total finance revenue – continuing operations	72	72

Net income receivable on construction loans included in finance revenue and finance costs amounted to £8 million (2008: £12 million).

### 6. Finance costs

	2009 £m	2008 (restated) £m
Interest payable		
– Bank loans and overdrafts	193	200
– Finance lease charges	5	5
Discount charge on receivables funding arrangements	12	–
Net pension finance cost (note 32)	10	–
Valuation (gains)/losses on financial instruments		
– Derivatives held at fair value through profit and loss	(43)	(22)
– Loans in a fair value hedging relationship	37	23
– Ineffectiveness recognised in respect of cash flow hedges	1	–
– Change in fair value of available-for-sale investment	2	9
– Available-for-sale investment losses recycled from equity	–	13
Total finance costs – continuing operations	217	228

In 2008, the Group determined that an equity holding in Building Materials Holding Corporation categorised as an available-for-sale investment was impaired. The cumulative loss as at 31 July 2007 of £13 million that had been recognised in equity was accordingly recycled from equity and recognised in finance costs in 2008 along with the £9 million fair value reduction experienced in the year. A further £2 million impairment has been charged in 2009.

## 7. Share of after tax loss of associate

	2009 £m	2008 £m
Share of after tax loss of Saturn Acquisition Holdings LLC before exceptional items	(9)	–
Share of after tax exceptional items of Saturn Acquisition Holdings LLC	(6)	–
Share of after tax loss of Saturn Acquisition Holdings LLC	(15)	–

On 6 May 2009 the Group sold 100 per cent of the shares of its subsidiary Stock Building Supply Holdings LLC to Saturn Acquisition Holdings LLC in exchange for 49 per cent of the voting rights and common equity of Saturn Acquisition Holdings LLC and nominal consideration. Since 6 May 2009 additional non-voting equity has been issued by Saturn Acquisition Holdings LLC such that as at 31 July 2009 the Group had a 44.43 per cent interest in its common equity.

Summarised income statement information in respect of Saturn Acquisition Holdings LLC for the period from 6 May 2009 to 31 July 2009 is set out below:

	Period ended 31 July 2009 £m
Revenue	110
Loss after tax	(33)

The loss after tax includes an after tax exceptional charge of £14 million relating to further restructuring actions taken by Saturn Acquisition Holdings LLC of £60 million, offset by the release of liabilities as part of its Chapter 11 administration process of £46 million. The Group's share of this after tax exceptional charge of £6 million has been recorded as an exceptional item.

## 8. Taxation

The tax (credit)/charge for the year comprises:	2009 £m	2008 (restated) £m
Current year tax charge	139	211
Adjustments to tax charge in respect of prior years	(9)	15
Total current tax charge	130	226
Deferred tax credit: origination and reversal of temporary differences	(164)	(69)
Total tax (credit)/charge – continuing operations	(34)	157

Tax on items credited/(charged) to equity	2009 £m	2008 (restated) £m
Deferred and current tax credit on actuarial loss on retirement benefits	36	37
Deferred tax credit on available-for-sale investments	6	2
Deferred tax charge on available-for-sale investments reclassified and reported in net profit	–	(6)
Total tax on items credited to equity	42	33

Tax reconciliation:	2009 %	2008 (restated) %
Statutory UK corporation tax rate	28	29
Prior year amounts	2	(5)
Non-deductible amortisation and impairment of acquired intangibles	(19)	8
Other non deductible and non-taxable items	(9)	1
Higher average tax rates in overseas companies	2	6
Effective tax rate on (loss)/profit before tax – continuing operations	4	39

The standard rate of Corporation Tax in the UK changed from 30 per cent to 28 per cent with effect from 1 April 2008. Accordingly, the Company's profits were taxed at an effective rate of 29.3 per cent in 2008 and were taxed at an effective rate of 28 per cent in 2009.

## Notes to the consolidated financial statements continued

Year ended 31 July 2009

### 8. Taxation continued

The tax expense can be analysed as follows:	2009 £m	2008 (restated) £m
UK	(26)	78
Overseas	156	148
Current tax – continuing operations	130	226
UK	(49)	(38)
Overseas	(115)	(31)
Deferred tax – continuing operations	(164)	(69)

### 9. Discontinued operations

On 6 May 2009, the Group completed the sale of Stock Building Supply Holdings LLC which comprised the majority of its US Building Materials segment. In accordance with IFRS 5, “Non-current assets held for sale and discontinued operations”, this business has been classified as discontinued and prior periods have been restated on a consistent basis.

(a) The results of the discontinued operations, which have been included in the consolidated income statement, are as follows:

	2009 Before exceptional items £m	2009 Exceptional items £m	2009 Total £m	2008 Before exceptional items £m	2008 Exceptional items £m	2008 Total £m
Revenue	1,140	–	1,140	1,735	–	1,735
Cost of sales	(896)	–	(896)	(1,330)	–	(1,330)
Gross profit	244	–	244	405	–	405
Operating expenses:						
amortisation of acquired intangibles	(12)	–	(12)	(30)	–	(30)
impairment of acquired intangibles	(288)	–	(288)	(114)	–	(114)
other	(361)	(156)	(517)	(509)	(6)	(515)
Operating expenses: total	(661)	(156)	(817)	(653)	(6)	(659)
Operating loss before tax	(417)	(156)	(573)	(248)	(6)	(254)
Tax credit	152	61	213	84	2	86
Loss on disposal of Stock	–	(159)	(159)	–	–	–
Tax credit on loss on disposal of Stock	–	78	78	–	–	–
Loss from discontinued operations	(265)	(176)	(441)	(164)	(4)	(168)

#### Earnings per share

##### Discontinued operations

Basic loss per share	(209.8)p	(93.0)p
Diluted loss per share	(209.8)p	(93.0)p

The exceptional items included in operating loss before tax from discontinued operations relate to restructuring actions before the disposal and comprise staff redundancy costs of £9 million and provisions for future lease rentals on closed branches and asset write-downs of £147 million.

The loss on disposal of Stock is a provisional figure and may be adjusted when final working capital balances have been agreed with the purchaser. Any adjustments that may be required will be recorded in discontinued operations in future.

## 9. Discontinued operations continued

### (b) Taxation

	2009 £m	2008 £m
Current year tax credit	(75)	(54)
Adjustments to tax charge in respect of prior years	–	–
Total current tax credit	(75)	(54)
Deferred tax credit: origination and reversal of temporary differences	(138)	(32)
Total tax credit from discontinued operations excluding tax on loss on disposal of Stock	(213)	(86)

### (c) Cash flows from discontinued operations included in the cash flow statement are as follows:

	2009 £m	2008 £m
Net cash (used in)/generated from operating activities	(64)	39
Net cash used in investing activities	(12)	(46)
Net cash used in financing activities	–	–
Net cash used in discontinued operations	(76)	(7)

## 10. Dividends

	2009 £m	2008 £m
Final paid for the year ended 31 July 2008 of nil (year ended 31 July 2007: 21.55 pence)	–	141
Interim paid for the year ended 31 July 2009 of nil (year ended 31 July 2008: 11.25 pence)	–	74
Total nil (2008: 32.80 pence per share)	–	215
Proposed final for the year ended 31 July 2009 of nil (year ended 31 July 2008: nil)	–	–

## 11. (Loss)/earnings per share

Basic loss per share from continuing and discontinued operations of 558.0 pence (2008: earnings per share of 41.0 pence) is calculated on the loss for the year attributable to shareholders of £1,173 million (2008: profit of £74 million) on a weighted average number of ordinary shares in issue during the year.

Basic loss per share from continuing operations of 348.2 pence (2008: earnings per share of 134.0 pence) is calculated on the loss after tax from continuing operations of £732 million (2008: profit of £242 million) on a weighted average number of ordinary shares in issue during the year, excluding those held by Employee Benefit Trusts, of 210 million (2008: restated number of 181 million). As detailed in note 12 below, the Group believes that profit measures before exceptional items and the amortisation and impairment of acquired intangibles provide valuable additional information for users of the financial statements. Basic earnings per share from continuing operations, before exceptional items and the amortisation and impairment of acquired intangibles, has, therefore, been presented in the following table:

	2009	2008 (restated)
Continuing operations		
Before exceptional items and the amortisation and impairment of acquired intangibles	95.6p	240.3p
Add back: exceptional items (net of tax)	(170.3)p	(24.9)p
Add back: amortisation and impairment of acquired intangibles (net of deferred tax)	(273.5)p	(81.4)p
Basic (loss)/earnings per share	(348.2)p	134.0p

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 211 million (2008: restated number of 181 million). The diluted loss per share from continuing operations is also 348.2 pence (2008: earnings per share of 133.8 pence). Diluted earnings per share from continuing operations before exceptional items and the amortisation and impairment of acquired intangibles is 95.5 pence (2008: 239.9 pence).

## Notes to the consolidated financial statements continued

Year ended 31 July 2009

### 12. Non-GAAP measures of performance

Trading profit is defined as operating profit before exceptional items and the amortisation and impairment of acquired intangibles. It is a non-GAAP measure. Exceptional items are material non-recurring items which are excluded from trading profit to enable a clear and consistent presentation of the Group's underlying financial performance. In addition, the current businesses within the Group have arisen through internal organic growth and through acquisition. Operating profit includes only the amortisation and impairment 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 or impairment of acquired intangibles was recognised), businesses that have developed organically (where no intangibles are attributed) and those businesses more recently acquired (where amortisation and impairment 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. The Group uses trading profit and certain key performance indicators, calculated by reference to trading profit, for planning, budgeting and reporting purposes and for its internal assessment of the operating performance of individual businesses within the Group.

	2009 £m	2008 (restated) £m
Continuing operations		
Operating (loss)/profit	(606)	555
Add back: amortisation and impairment of acquired intangibles	595	162
Add back: exceptional items	458	70
Trading profit	447	787
Loss/(profit) before tax	(766)	399
Add back: amortisation and impairment of acquired intangibles	595	162
Add back: exceptional items	464	70
Profit before tax and exceptional items and the amortisation and impairment of acquired intangibles	293	631

### 13. Employee information and Directors' remuneration

	2009 £m	2008 (restated) £m
Employee benefit costs		
Wages and salaries	1,765	1,654
Social security costs	282	261
Pension costs – Defined contribution schemes (note 32)	43	37
Pension costs – Defined benefit schemes (note 32)	32	27
Share options granted to Directors and employees	9	5
Total employee benefit costs – continuing operations	2,131	1,984

Details of Directors' remuneration and share options are set out in the Remuneration report on pages 62 to 72, which form part of these financial statements. The aggregate emoluments for all key management are set out in note 40.

	2009	2008 (restated)
Average weekly number of employees		
UK and Ireland	13,731	15,372
France	9,666	10,725
Nordic	7,036	7,643
Central and Eastern Europe	2,904	3,965
Europe	33,337	37,705
US plumbing and heating	19,054	22,153
Canada	2,691	2,857
North America plumbing and heating	21,745	25,010
North America loan services	50	59
North America	21,795	25,069
Group – continuing operations	55,132	62,774

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

## 14. Intangible assets – goodwill

£m

<b>Cost</b>	
At 1 August 2008	2,155
Exchange rate adjustment	250
Disposals and transfers	(356)
At 31 July 2009	2,049
<b>Accumulated impairment losses</b>	
At 1 August 2008	160
Exchange rate adjustment	55
Impairment charge for the year	669
Disposals and transfers	(349)
At 31 July 2009	535
Net book amount at 31 July 2009	1,514

£m

<b>Cost</b>	
At 1 August 2007	1,892
Exchange rate adjustment	185
Additions	84
Disposals	(6)
At 31 July 2008	2,155
<b>Accumulated impairment losses</b>	
At 1 August 2007	2
Exchange rate adjustment	5
Impairment charge for the year	153
At 31 July 2008	160
Net book amount at 31 July 2008	1,995

The carrying value of goodwill by segment is as follows:

	2009 £m	2008 £m
UK and Ireland	299	408
France	245	226
Nordic	475	760
Central and Eastern Europe	45	76
Europe	1,064	1,470
US plumbing and heating	365	305
Canada	85	79
North America plumbing and heating	450	384
North America loan services	–	–
North America	450	384
Discontinued operations	–	141
Group	1,514	1,995

## **14. Intangible assets – goodwill continued**

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 an estimated average long-term nominal growth rate for each market (ranging from 1 per cent to 4 per cent), and discounted back to present value. The discount rate assumptions use an estimate of the Group’s weighted average cost of capital, based on the five year historic volatility of Wolseley shares and on benchmark interest rates, adjusted for the risk attributable to individual CGUs. The pre-tax discount rate ranges from 11 per cent to 14 per cent.

Impairment tests were performed for all CGUs during the year ended 31 July 2009. These impairment reviews have resulted in the recording of an impairment charge of £490 million in respect of continuing operations and £288 million in respect of discontinued operations relating to goodwill and acquired intangible assets held by the following businesses:

### *DT Group (Nordic)*

DT Group has experienced a significant downturn in its markets and is forecasting this to continue over the short and medium terms, with a gradual recovery to levels of activity below those it experienced in recent years. As a result of reflecting these reduced expectations in its value in use calculations, the Group has recognised a goodwill impairment charge of £359 million in respect of the Stark, Silvan and Starkki divisions of DT Group.

### *UK*

Wolseley UK has experienced a significant deterioration in its markets in the year and is forecasting this to continue over the short and medium term. As a result of reflecting these reduced expectations in its value-in-use calculations, the Group has recognised a goodwill impairment charge of £109 million in respect of the Electric Center, Build Center, Brandon Hire and Encon divisions of UK and Ireland.

### *Benelux (Central and Eastern Europe)*

The Group’s business in Benelux has performed below expectations at the time of the acquisition of the Centrateg business in Belgium, and the Group has reappraised the likely levels of revenue and margin that can be achieved in the long term. An impairment loss of £22 million (goodwill £21 million and other intangible assets £1 million) has been calculated on a value-in-use basis.

### *Stock (discontinued operations)*

Prior to its disposal, the Group announced its intention to exit the US Building Materials sector and performed an impairment review at that time. Accordingly, the Group regarded Stock as a single CGU and considered it appropriate to write off all the remaining goodwill and intangible assets of the business, resulting in an impairment charge of £288 million (goodwill £180 million and other intangible assets £108 million).

## 15. Intangible assets – other

	Software £m	Trade names and brands £m	Customer relationships £m	Other £m	Total £m
<b>Cost</b>					
At 1 August 2008	205	323	657	43	1,228
Exchange rate adjustment	4	22	103	5	134
Additions	77	–	–	–	77
Disposals and transfers	(3)	(4)	(234)	(7)	(248)
At 31 July 2009	283	341	526	41	1,191
<b>Accumulated amortisation and impairment losses</b>					
At 1 August 2008	50	61	257	19	387
Exchange rate adjustment	2	5	46	–	53
Amortisation charge for the year	19	25	84	8	136
Impairment charge for the year	43	1	106	2	152
Disposals and transfers	(3)	(4)	(233)	(6)	(246)
At 31 July 2009	111	88	260	23	482
Net book amount at 31 July 2009	172	253	266	18	709

	Software £m	Trade names and brands £m	Customer relationships £m	Other £m	Total £m
<b>Cost</b>					
At 1 August 2007	107	281	570	23	981
Exchange rate adjustment	2	40	37	8	87
Additions	99	2	50	12	163
Disposals	(3)	–	–	–	(3)
At 31 July 2008	205	323	657	43	1,228
<b>Accumulated amortisation and impairment losses</b>					
At 1 August 2007	23	24	136	8	191
Exchange rate adjustment	–	4	10	2	16
Amortisation charge for the year	15	24	102	9	150
Impairment change for the year	15	9	9	–	33
Disposals	(3)	–	–	–	(3)
At 31 July 2008	50	61	257	19	387
Net book amount at 31 July 2008	155	262	400	24	841

Software assets are generally either purchases from third parties or internally generated. Other intangible assets arise on business combinations. Included in the amounts above are £134 million (2008: £132 million) relating to assets under construction.

The Group continues to restrict capital expenditure on its Business Change Programme and as a consequence, certain software assets under development with a book value of £41 million will not be implemented and used as was originally intended and have therefore been impaired. In addition a further £2 million of software assets have been impaired as a result of restructuring actions.

More details on the impairment charge for the year in respect of trade names and brands and customer relationships is provided in note 14.

## Notes to the consolidated financial statements continued

Year ended 31 July 2009

### 16. Property, plant and equipment

	Land and buildings			Plant machinery equipment £m	Total £m
	Freehold £m	Finance lease £m	Operating leasehold improvements £m		
<b>Cost</b>					
At 1 August 2008	1,329	79	270	1,157	2,835
Exchange rate adjustment	133	8	37	169	347
Disposal of businesses	(73)	–	(21)	(209)	(303)
Additions	28	1	9	56	94
Disposals and transfers	(78)	(5)	(33)	(167)	(283)
Property reclassified as held for sale	(35)	–	–	(20)	(55)
At 31 July 2009	1,304	83	262	986	2,635
<b>Accumulated depreciation</b>					
At 1 August 2008	191	17	127	658	993
Exchange rate adjustment	20	2	15	110	147
Disposal of businesses	(22)	–	(13)	(168)	(203)
Depreciation charge for the year					
– owned assets	40	–	–	139	179
– leased assets	–	3	31	15	49
Impairment charge for the year					
– owned assets	19	–	–	27	46
– leased assets	–	9	3	–	12
Disposals and transfers	(14)	(5)	(16)	(125)	(160)
Property reclassified as held for sale	(6)	–	–	(15)	(21)
At 31 July 2009	228	26	147	641	1,042
Owned assets	1,076	–	115	311	1,502
Assets under finance leases	–	57	–	34	91
Net book amount – 31 July 2009	1,076	57	115	345	1,593
Net book amount – 1 August 2008	1,138	62	143	499	1,842

## 16. Property, plant and equipment continued

	Land and buildings			Plant machinery equipment £m	Total £m
	Freehold £m	Finance lease £m	Operating leasehold improvements £m		
<b>Cost</b>					
At 1 August 2007	1,155	66	273	1,033	2,527
Exchange rate adjustment	118	10	7	56	191
New businesses	14	5	1	3	23
Additions	74	–	28	133	235
Disposals and transfers	(14)	(2)	(39)	(68)	(123)
Property reclassified as held for sale	(18)	–	–	–	(18)
At 31 July 2008	1,329	79	270	1,157	2,835
<b>Accumulated depreciation</b>					
At 1 August 2007	152	14	104	539	809
Exchange rate adjustment	16	1	2	27	46
Charge for the year					
– owned assets	31	–	28	136	195
– leased assets	–	2	–	15	17
Disposals and transfers	(7)	–	(7)	(59)	(73)
Property reclassified as held for sale	(1)	–	–	–	(1)
At 31 July 2008	191	17	127	658	993
Owned assets	1,138	–	143	454	1,735
Assets under finance leases	–	62	–	45	107
Net book amount – 31 July 2008	1,138	62	143	499	1,842
Net book amount – 1 August 2007	1,003	52	169	494	1,718

Included in the amounts above are £8 million (2008: £39 million) relating to assets under construction. At 31 July 2009, £307 million of property, plant and equipment had been pledged as security for liabilities (2008: £318 million).

The impairment charge recorded in the year is primarily comprised of the impairment of assets in branches that have been closed in the year due to restructuring actions.

## 17. Investment in associate

	£m
At 1 August 2008	–
Additions	71
Exchange rate adjustment	(3)
Share of retained loss for the period	(15)
At 31 July 2009	<b>53</b>

On 6 May 2009 the Group sold 100 per cent of the shares of its subsidiary Stock Building Supply Holdings LLC to Saturn Acquisition Holdings LLC, a company incorporated in the USA, in exchange for 49 per cent of the voting rights and common equity of Saturn Acquisition Holdings LLC and nominal consideration. Since 6 May 2009 additional non-voting equity has been issued by Saturn Acquisition Holdings LLC such that as at 31 July 2009 the Group had a 44.43 per cent interest in its common equity.

The associate has a financial year ending 31 December. Summarised balance sheet information in respect of the Group's associate as at 31 July 2009 is set out below:

	2009 £m
Total assets	<b>397</b>
Total liabilities	<b>(278)</b>
Net assets	<b>119</b>
Group's share of associate's net assets	<b>53</b>

## Notes to the consolidated financial statements continued

Year ended 31 July 2009

### 18. Financial assets – available-for-sale investments

	2009 £m	2008 £m
Financial assets	3	4

These assets comprise tradeable government securities and equity investments in unlisted companies. They are mainly denominated in euros.

### 19. Deferred tax assets and liabilities

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

	2009 £m	2008 £m
Deferred tax		
Deferred tax assets	244	52
Deferred tax liabilities	(176)	(235)
	68	(183)
Current	(19)	(31)
Non-current	87	(152)
	68	(183)

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	Tax assets £m	Other £m	Total £m
At 1 August 2007	(161)	10	(128)	40	(62)	17	18	(266)
Credit/(charge) to income	59	(18)	33	(2)	1	12	16	101
Credit/(charge) to equity	–	–	–	33	–	–	(4)	29
Acquisition of subsidiaries	(20)	–	(1)	–	–	–	1	(20)
Currency translation adjustment	(18)	1	(15)	2	1	1	1	(27)
At 31 July 2008	(140)	(7)	(111)	73	(60)	30	32	(183)
Credit to income	111	9	40	4	31	17	90	302
Credit to equity	–	1	–	30	–	–	6	37
Disposal of subsidiaries	(111)	(1)	3	(1)	(6)	112	(51)	(55)
Currency translation adjustment	(10)	–	(9)	5	(14)	(8)	3	(33)
At 31 July 2009	(150)	2	(77)	111	(49)	151	80	68

Tax losses in the USA, UK and France have been recognised on the basis that following restructuring in the current period they are forecast to return to taxable profit in the future.

There are other potential deferred tax assets in relation to tax losses totalling £96 million (2008: £93 million) that have not been recognised on the basis that their future economic benefit is uncertain. The tax losses in Italy of £13 million and the Czech Republic of £14 million expire after five years. The remaining tax losses of £69 million can be carried forward indefinitely.

No deferred tax liability has been recognised in respect of a further £567 million (2008: £679 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. It is likely that the majority of the overseas earnings would qualify for the UK dividend exemption and therefore no tax liability is expected to arise.

### 20. Inventories

	2009 £m	2008 £m
Goods purchased for resale	1,624	2,025

£9,438 million has been charged to operating profit in relation to inventories recognised as an expense in the year (2008: £10,219 million). In addition an amount of £13 million has been credited to the income statement to reverse write downs of inventories to net realisable value (2008: credit of £21 million) following the reduction in inventory levels since 31 July 2008.

## 21. Trade and other receivables

	2009 £m	2008 £m
Current		
Trade receivables	1,722	2,479
Less: provision for impairment	(81)	(79)
Net trade receivables	1,641	2,400
Other receivables	111	97
Prepayments and accrued income	231	307
	<b>1,983</b>	<b>2,804</b>
Non-current		
Other receivables	116	96

Movements in the provision for impairment of trade receivables are as follows:

	2009 £m	2008 £m
At 1 August	79	55
Disposals	(24)	–
Charge for the year	119	85
Utilised in the year	(100)	(67)
Exchange	7	6
At 31 July	<b>81</b>	<b>79</b>

Provisions for impairment of receivables are made locally, and have two components:

- a provision for amounts that have been individually determined not to be collectible in full, because of known financial difficulties of the debtor or evidence of default or delinquency in payment, amounting to £66 million at 31 July 2009 (2008: £57 million); and
- a provision based on historic experience of non-collectability of receivables, amounting to £15 million at 31 July 2009 (2008: £22 million).

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.

Trade receivables can be aged with respect to the payment terms specified in the terms and conditions established with customers as follows:

	2009 £m	2008 £m
Amounts not yet due	876	1,269
Past due not more than one month	530	763
Past due more than one month and less than three months	211	316
Past due more than three months and less than six months	25	40
Past due more than six months	14	34
Amounts individually determined to be impaired	66	57
	<b>1,722</b>	<b>2,479</b>

Other receivables include an amount of £42 million (2008: £36 million) which has been discounted at a rate of 4.3 per cent (2008: 4.6 per cent) 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.

## Notes to the consolidated financial statements continued

Year ended 31 July 2009

### 21. Trade and other receivables continued

The currency analysis of current trade and other receivables is as follows:

	2009 £m	2008 £m
Sterling	475	598
US dollar	668	1,091
Euro	475	729
Other	365	386
Total	1,983	2,804

The currency analysis of non-current trade and other receivables is as follows:

	2009 £m	2008 £m
Sterling	1	2
US dollar	93	82
Euro	15	4
Other	7	8
Total	116	96

### 22. Financial assets: trading investments

	2009 £m	2008 £m
US Life Assurance policies (denominated in US dollars)	–	5
Short-term securities (denominated in Danish Krone)	155	–
Total	155	5

The short-term securities, which are stated at market value, have an effective interest rate of 3.9 per cent and fall due by January 2010.

### 23. Derivative financial instruments

Non-current assets	2009 £m	2008 £m
Interest rate swaps: fair value hedges	34	–
Derivative financial assets	34	–

Current assets	2009 £m	2008 £m
Interest rate swaps: fair value hedges	4	5
Interest rate swaps: cash flow hedges	–	10
Currency swaps: at fair value through profit and loss	7	–
Currency swaps: net investment hedges	12	1
Derivative financial assets	23	16

Current liabilities	2009 £m	2008 £m
Interest rate swaps: cash flow hedges	(14)	(8)
Currency swaps: net investment hedges	(11)	–
Derivative financial liabilities	(25)	(8)

Non-current liabilities	2009 £m	2008 £m
Interest rate swaps: cash flow hedges	(11)	–
Derivative financial liabilities	(11)	–

## 23. Derivative financial instruments continued

### 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 six-month LIBOR. 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, with the valuation gains being deferred in equity until realised. The contracts expire between August 2009 and August 2011 (2008: September 2008 and August 2011), and the fixed interest rates range between 2.59 per cent and 4.59 per cent (2008: 2.49 per cent and 5.42 per cent).

Hedge of interest rate cash flows	2009 £m	2008 £m
At 1 August	2	9
Valuation losses on effective hedges charged to equity	(20)	–
Valuation losses charged to income statement	(1)	–
Cash settlements in the period	(5)	(8)
Exchange	(1)	1
At 31 July	(25)	2

The Group's private placement borrowings are at fixed rates. Interest rate swaps contracts comprising fixed interest receivable on notional principal of \$729 million (2008: \$729 million) 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 (see note 6). The contracts expire between November 2012 and November 2020 and the fixed interest rates range between 4.93 per cent and 5.32 per cent (2008: 4.93 per cent and 5.32 per cent).

Hedge of fair value of fixed interest borrowings	2009 £m	2008 £m
At 1 August	5	(17)
Valuation gains credited to income statement	36	22
Exchange	(3)	–
At 31 July	38	5

### 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 fair value through income statement	2009 £m	2008 £m
At 1 August	–	–
Valuation gains credited to income statement	7	–
At 31 July	7	–

At the balance sheet date the Group had entered into certain short-term currency swaps as follows:

	2009		2008	
	Currency million	£m	Currency million	£m
Bought forward	DKK 1,716	196	DKK 1,508	159
Sold forward	SEK 1,464	(122)	SEK 1,274	(106)
	EUR 70	(60)	EUR 57	(45)
	NOK 41	(4)	NOK 65	(6)
	USD 5	(3)	USD 4	(2)
		7		–

## Notes to the consolidated financial statements continued

Year ended 31 July 2009

### 23. Derivative financial instruments continued

	2009 £m	2008 £m
Hedge of net investment in overseas operations		
At 1 August	1	–
Valuation (losses)/gains on effective hedges credited to equity	(36)	1
Cash settlements in the period	36	–
At 31 July	1	1

At the balance sheet date the Group had entered into certain short-term currency swaps and forward contracts which were designated and effective as hedges of overseas operations 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)		
		1		1

Valuation gains or losses have been deferred in equity.

### 24. Construction loans

	2009 £m	2008 £m
Construction loan receivables (secured)	202	255
Less: provision for impairment	(39)	(18)
Net construction loan receivables	163	237
Borrowings to finance construction loan receivables (unsecured)	(163)	(237)
	–	–

Construction loan receivables are secured principally against homes in the course of construction or completed homes awaiting sale and are all denominated in US dollars. These loans are generally settled when completed homes are sold, rather than at a fixed term. The average age since origination is 20 months (2008: 14 months). As the contractual maturity of these loans, which did not exceed 12 months from the reporting date, was set at origination to correspond to the normal operating cycle of the construction business, and the Group expects to realise the loans within their contractual maturity, these loans have all been classified as current assets.

As at 31 July 2009, the effective rate of interest thereon was 8 per cent (2008: 9 per cent). The fair value of construction loan receivables and borrowings to finance construction loans approximates to book value.

Movements in the provision for impairment of construction loan receivables are as follows:

	2009 £m	2008 £m
At 1 August	18	5
Charge for the year – before exceptional items	13	20
Charge for the year – exceptional	25	–
Utilised in the year	(17)	(7)
At 31 July	39	18

## 24. Construction loans continued

Construction loan receivables on which payments are delinquent are subject to foreclosure of the property on which the loan is secured, such that the disposal proceeds of the property can be applied in settlement of the outstanding liability. After foreclosure, the balance of receivables net of provisions for impairment is transferred to assets held for sale.

Provisions for impairments of receivables comprise:

- a provision for amounts that have been individually determined not to be collectable in full, because of known financial difficulties of the debtor or evidence of default or delinquency in payment, amounting to £13 million at 31 July 2009 (2008: £6 million); and
- a provision based on historic experience of the shortfall of disposal proceeds of foreclosed properties to the outstanding balance due, amounting to £26 million at 31 July 2009 (2008: £12 million).

Management consider that there is no further credit risk provision required above the current provision for impairment.

In addition to the exceptional charge of £25 million for impairment of construction loan receivables shown above, an exceptional charge of £6 million was made to write down assets held for sale to their recoverable amount.

Construction loan receivables can be aged with respect to the payment terms specified in the terms and conditions established with customers as follows:

	2009 £m	2008 £m
Amounts not yet due	107	186
Past due not more than one month	20	22
Past due more than one month and less than three months	10	12
Past due more than three months and less than six months	10	6
Past due more than six months	42	23
Amounts individually determined to be impaired	13	6
	<b>202</b>	<b>255</b>

Construction loan receivables at 31 July 2009 includes £54 million in respect of loans on which foreclosure proceedings have been started (2008: £24 million). The fair value of collateral held in respect of construction loans receivable is sufficient to cover the net amount of construction loans receivable. During the year ended 31 July 2009 disposal proceeds of £36 million (2008: £10 million) were realised from the sale of foreclosed properties, in respect of loans with a carrying value of £46 million (2008: £12 million).

## 25. Cash and cash equivalents

	2009 £m	2008 £m
Cash and cash equivalents	277	216
Short-term bank deposits	358	105
Total cash and cash equivalents	<b>635</b>	<b>321</b>

The effective interest rate as at 31 July 2009 on cash and cash equivalents was 0.5 per cent (2008: 3.1 per cent). The average maturity of short-term bank deposits was three days (2008: 12 days). The fair values of cash and cash equivalents approximate to book value due to their short maturities.

Cash and cash equivalents includes an amount of £3 million held in escrow to settle deferred consideration on acquisitions (2008: £5 million).

As of 31 July 2008, cash deposits amounting to £65 million were charged in favour of Lloyds TSB Bank plc to secure letters of credit provided by that bank.

The currency analysis of cash and cash equivalents is as follows:	2009 £m	2008 £m
Sterling	218	54
US dollar	263	149
Euro	101	90
Other	53	28
Total	<b>635</b>	<b>321</b>

## Notes to the consolidated financial statements continued

Year ended 31 July 2009

### 26. Assets and liabilities held for sale

	2009 £m	2008 £m
Properties awaiting disposal	73	43
Assets of disposal groups held for sale	15	–
Assets held for sale	88	43
Liabilities of disposal groups held for sale	15	–

Properties awaiting disposal at 31 July 2009 includes £43 million relating to properties obtained after foreclosing on construction loans (2008: £27 million).

On 27 July 2009 the Group announced that it had decided to sell its businesses in Belgium, Slovakia and the Czech Republic included in the Central and Eastern Europe segment. A sale process has commenced and accordingly these businesses have been classified as disposal groups held for sale.

### 27. Trade and other payables

	2009 £m	2008 £m
Current		
Amounts falling due within one year:		
Trade payables	1,847	2,053
Bills of exchange payable	166	264
Other tax and social security	92	115
Other payables	176	154
Accruals	302	360
Deferred income	3	10
Total trade and other payables	2,586	2,956
Non-current		
Other payables	59	68

The fair value of other payables falling due after more than one year is estimated at £59 million (2008: £68 million).

## 28. Bank loans and overdrafts

	2009 £m	2008 £m
Current		
Bank overdrafts	37	118
Bank loans	5	31
Senior unsecured loan notes	–	127
<b>Total bank loans and overdrafts</b>	<b>42</b>	<b>276</b>

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

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

	2009 £m	2008 £m
US dollar	7	198
Euro	35	50
Other currencies	–	28
<b>Total</b>	<b>42</b>	<b>276</b>

	2009 £m	2008 £m
Non-current		
Bank loans	1,051	1,960
Senior unsecured notes	606	480
<b>Total bank loans</b>	<b>1,657</b>	<b>2,440</b>

£216 million of the bank loans are secured against the Group's freehold property (2008: £212 million).

The non-current loans are repayable as follows:

	£m	£m
Due in one to two years	125	2
Due in two to three years	830	106
Due in three to four years	51	1,625
Due in four to five years	1	159
Due in over five years	650	548
<b>Total</b>	<b>1,657</b>	<b>2,440</b>

At 31 July 2009, loans with a par value of £560 million carried a fixed interest rate (2008: £600 million). The weighted average interest rate paid on fixed interest borrowings is 5.1 per cent (2008: 5.0 per cent). 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.

The fair value of fixed interest rate loans is £613 million, compared to their carrying value of £606 million (2008: £602 million compared to their book value of £600 million). The floating rate loans payable after one year generally attract variable interest rates based on six-month LIBOR. Thus the fair value of these instruments approximates to their book value.

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

	2009 £m	2008 £m
Sterling	–	–
US dollar	713	646
Euro	632	1,464
Other currencies	312	330
<b>Total</b>	<b>1,657</b>	<b>2,440</b>

## Notes to the consolidated financial statements continued

Year ended 31 July 2009

### 28. Bank loans and overdrafts continued

#### *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 £1,551 million (2008: £2,833 million).

The loss on translation of the borrowings into sterling of £381 million (2008: gain of £283 million) has been taken to the translation reserve.

### 29. Financial instruments and financial risk management

#### (a) Financial instruments by category

The accounting policies for financial instruments have been applied to the following items:

Assets at 31 July 2009	Cash and cash equivalents £m	Loans and receivables £m	Derivatives used for hedging £m	Fair value through profit or loss £m	Available-for-sale £m	Total £m
Trade and other receivables – non-current	–	116	–	–	–	116
Available-for-sale investments	–	–	–	–	3	3
Trade and other receivables – current	–	1,752	–	–	–	1,752
Trading investments	–	–	–	155	–	155
Derivative financial assets – non-current	–	–	34	–	–	34
Derivative financial assets – current	–	–	23	–	–	23
Construction loan receivables	–	163	–	–	–	163
Cash	635	–	–	–	–	635
	<b>635</b>	<b>2,031</b>	<b>57</b>	<b>155</b>	<b>3</b>	<b>2,881</b>
Impairment losses in the year	–	157	–	–	–	157

Liabilities as at 31 July 2009	Derivatives used for hedging £m	Other financial liabilities £m	Total £m
Trade and other payables	–	2,248	2,248
Construction loans borrowings	–	163	163
Bank loans and overdrafts	–	1,699	1,699
Finance lease obligations	–	71	71
Derivative financial liabilities	36	–	36
	<b>36</b>	<b>4,181</b>	<b>4,217</b>

Assets at 31 July 2008	Cash and cash equivalents £m	Loans and receivables £m	Derivatives used for hedging £m	Fair value through profit or loss £m	Available-for-sale £m	Total £m
Trade and other receivables – non-current	–	96	–	–	–	96
Available-for-sale investments	–	–	–	–	4	4
Trade and other receivables – current	–	2,804	–	–	–	2,804
Trading investments	–	–	–	5	–	5
Derivative financial assets	–	–	16	–	–	16
Construction loan receivables	–	237	–	–	–	237
Cash	321	–	–	–	–	321
	<b>321</b>	<b>3,137</b>	<b>16</b>	<b>5</b>	<b>4</b>	<b>3,483</b>
Impairment losses in the year	–	116	–	–	22	138

## 29. Financial instruments and financial risk management continued

Liabilities as at 31 July 2008	Derivatives used for hedging £m	Other financial liabilities £m	Total £m
Trade and other payables	–	3,024	3,024
Construction loans borrowings	–	237	237
Bank loans and overdrafts	–	2,716	2,716
Finance lease obligations	–	87	87
Derivative financial liabilities	8	–	8
	8	6,064	6,072

### (b) Financial risk management

The Group is exposed to market risks arising from its international operations, and the financial instruments which fund them. The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk and liquidity risk. The Group has well defined policies for the management of interest rate, liquidity, foreign exchange and counterparty exposures, which have been consistently applied during the financial years ended 31 July 2008 and 2009. By the nature of its business the Group also has trade credit and commodity price exposures, the management of which is delegated to operating businesses. There has been no change since the year end in the major financial risks faced by the Group.

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.

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.

#### Capital risk management

The Group's sources of funding currently comprise cash flows generated by operations, equity contributed by shareholders and borrowings from banks and other financial institutions. To assess the appropriateness of its capital structure to current and forecast trading, the Group's principal measure of financial gearing is the ratio of net debt to EBITDA (earnings before interest, taxes, depreciation and amortisation). The Group aims to maintain this ratio in the range of 1.50 to 2.25. The Group's main borrowing facilities all contain a financial covenant limiting the ratio of net debt to EBITDA to 3.5:1. As at 31 July 2009 the ratio was 1.4:1 (2008: 2.7:1). In addition, the Group monitors the ratio of net debt to shareholders' funds such that it is consistent with the Group's targeted ratio of net debt to EBITDA. At 31 July 2009 the ratio of net debt to shareholders' funds was 28.4 per cent (2008: 73.5 per cent).

In order to maintain or adjust the capital structure, the Group may adjust the amounts of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

#### Liquidity risk

The Group maintains a policy of ensuring sufficient borrowing headroom to finance all investment and bolt-on acquisitions for the following financial year with an additional contingent safety margin. Large acquisitions are funded shortly before the acquisition is made.

As at 31 July 2009, the Group had undrawn centrally managed facilities maturing as follows:

	2009 facility £m	2008 facility £m
Less than one year	100	200
Between two and three years	683	–
Between three and four years	43	759
Between four and five years	852	200

## Notes to the consolidated financial statements continued

Year ended 31 July 2009

### 29. Financial instruments and financial risk management continued

The Group has estimated its anticipated contractual cash outflows including interest payable in respect of its bank and construction loan borrowings on an undiscounted basis. The principal assumptions are that floating rate interest is calculated using the prevailing interest rate at the balance sheet date, and cash flows in foreign currency are translated using spot rates at the balance sheet date. These cash flows can be analysed by maturity as follows:

As at 31 July 2009	Debt £m	Construction loan borrowings £m	Interest on debt £m	Interest rate and currency swaps £m	Total £m
Due in less than one year	5	163	61	29	258
Due in one to two years	125	–	56	6	187
Due in two to three years	830	–	33	1	864
Due in three to four years	49	–	30	–	79
Due in four to five years	1	–	29	–	30
Due in over five years	614	–	188	–	802
<b>Total</b>	<b>1,624</b>	<b>163</b>	<b>397</b>	<b>36</b>	<b>2,220</b>

As at 31 July 2008	Debt £m	Construction loan borrowings £m	Interest on debt £m	Interest rate swaps £m	Total £m
Due in less than one year	274	237	122	8	641
Due in one to two years	2	–	116	–	118
Due in two to three years	106	–	112	–	218
Due in three to four years	1,625	–	40	–	1,665
Due in four to five years	159	–	31	–	190
Due in over five years	548	–	166	–	714
<b>Total</b>	<b>2,714</b>	<b>237</b>	<b>587</b>	<b>8</b>	<b>3,546</b>

During the year ended 31 July 2009 facilities amounting to £1,017 million matured, were cancelled or were repaid early. A forward start multi-currency syndicated facility of €1 billion (£853 million) was arranged, which was a restatement and extension of the Group's existing €2.8 billion facility. This facility will commence when the existing facility matures on 1 August 2011 or is cancelled by the Group prior to this date, and will expire on 1 August 2013.

#### 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 40 per cent of the Group's revenue is in US dollars and 24 per cent in euros. 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 for the year ended 31 July 2009 and subsequently is to adjust the currencies in which its debt is denominated to match the currencies in which its trading profits are generated, as this hedges the ratio of net debt to EBITDA in the covenant calculation. Net debt at 31 July 2009 can be analysed by currency as follows:

As at 31 July 2009	Trading investment £m	Interest rate swaps £m	Finance lease obligations £m	Cash, overdrafts and bank loans £m	Currency bought/(sold) forward £m	Total £m
Sterling	–	–	(4)	218	(251)	(37)
US dollars	–	38	(11)	(457)	(230)	(660)
Euros	–	(25)	(49)	(566)	440	(200)
Other	155	–	(7)	(259)	49	(62)
<b>Total</b>	<b>155</b>	<b>13</b>	<b>(71)</b>	<b>(1,064)</b>	<b>8</b>	<b>(959)</b>

## 29. Financial instruments and financial risk management continued

The Group's policy for the year ended 31 July 2008 and earlier was to maintain the majority of its debt in the currencies of its operating companies as this hedged both the net assets and cash flows of the Group. Net debt at 31 July 2008 could be analysed by currency as follows:

As at 31 July 2008	Trading investment £m	Interest rate swaps £m	Finance lease obligations £m	Cash, overdrafts and bank loans £m	Currency bought/(sold) forward £m	Total £m
Sterling	–	–	(4)	54	119	169
US dollars	5	1	(21)	(695)	89	(621)
Euros	–	6	(52)	(1,424)	(361)	(1,831)
Other	–	–	(10)	(330)	154	(186)
<b>Total</b>	<b>5</b>	<b>7</b>	<b>(87)</b>	<b>(2,395)</b>	<b>1</b>	<b>(2,469)</b>

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 141. The net effect of currency translation was to increase revenue by £2,439 million (16.5 per cent) (2008: £324 million, or 2.0 per cent) and to increase trading profit by £147 million (18.7 per cent) (2008: £18 million, or 2.0 per cent). 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:

	2009 (Strengthening) weakening of sterling	2008 (Strengthening) weakening of sterling
US dollar	<b>27.3%</b>	(2.6)%
Euros	<b>16.2%</b>	10.0%

### Interest rate risk

To manage the Group's exposure to interest rate fluctuations, the Group's policy is that at least 20 per cent of bank borrowings required during the next two years should be at fixed rates. 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.

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

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 Group's net debt at 31 July 2009 and 31 July 2008, after including the effect of interest rate swaps, is set out in the following tables.

As at 31 July 2009 – currency	Floating	Fixed	Total
Sterling	<b>(33)</b>	<b>(4)</b>	<b>(37)</b>
US dollars	<b>(479)</b>	<b>(181)</b>	<b>(660)</b>
Euros	<b>471</b>	<b>(671)</b>	<b>(200)</b>
Other currencies	<b>(55)</b>	<b>(7)</b>	<b>(62)</b>
<b>Total</b>	<b>(96)</b>	<b>(863)</b>	<b>(959)</b>

As at 31 July 2008 – currency	Floating	Fixed	Total
Sterling	173	(4)	169
US dollars	(226)	(395)	(621)
Euros	(984)	(847)	(1,831)
Other currencies	(176)	(10)	(186)
<b>Total</b>	<b>(1,213)</b>	<b>(1,256)</b>	<b>(2,469)</b>

## 29. Financial instruments and financial risk management continued

### Credit risk

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. North American Loan Services 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. At 31 July 2009 the maximum exposure to credit risk was £2,031 million (2008: £2,830 million) of which £163 million (2008: £237 million) is secured against homes under construction or completed homes awaiting sale.

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. All of the major businesses use professional, dedicated credit teams, in some cases field-based. Historic write-off rates are low and appropriate provisions are made for debts that may be impaired on a timely basis.

North American Loan Services' 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 KPIs are monitored regularly by management outside the business.

The Group has cash balances deposited for short periods with financial institutions, and enters into certain contracts (such as interest rate swaps) which entitle the Group to receive future cash flows from financial institutions. These transactions give rise to credit risk on amounts due from counterparties with a maximum exposure of £850 million (2008: £346 million). This risk is managed by setting credit and settlement limits for a panel of approved counterparties, all of which have credit ratings equivalent to Standard & Poor's A or higher. The limits are approved by the Treasury Committee and ratings are monitored regularly.

### Market price risk

The Group monitors its interest rate and currency risk by reviewing the effect on financial instruments 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 a charge to the income statement of £4 million (2008: £25 million) and a charge to equity of £4 million (2008: £9 million). Similarly, it is estimated that a weakening of sterling by 10 per cent against all the currencies in which the Group does business would result in a charge to the income statement of £2 million (2008: nil) and a charge to equity of £122 million (2008: £293 million).

The Group does not require operating businesses to adhere to a formalised risk management policy in respect of trade credit risk or commodity price risk, and does not consider that there is a useful way of quantifying the Group's exposure to any of the macro-economic variables that might affect the collectability of receivables or the prices of commodities.

## 30. Obligations under finance leases

	Gross 2009 £m	Gross 2008 £m	Net 2009 £m	Net 2008 £m
Due within one year	15	24	12	19
Due in one to five years	48	59	36	44
Due in over five years	34	34	23	24
	97	117	71	87
Less: future finance charges	(26)	(30)		
Present value of finance lease obligations	71	87		
Current			12	19
Non-current			59	68
Total obligations under finance leases			71	87

It is the Group's policy to lease certain of its property, plant and equipment under finance leases. The average lease term is nine years (2008: eight years). For the year ended 31 July 2009, the average effective borrowing rate was 5.6 per cent (2008: 5.5 per cent). 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 2009 £m	Net 2008 £m
Sterling	4	4
US dollars	11	21
Euros	49	52
Other currencies	7	10
	71	87

### 31. Provisions

	Environmental and legal £m	Wolseley Insurance £m	Restructuring £m	Other provisions £m	Total £m
At 1 August 2007	42	48	15	25	130
Utilised in the year	(1)	(15)	(16)	(3)	(35)
Charge for the year	–	17	49	11	77
New businesses	–	–	–	–	–
Exchange differences	1	1	2	2	6
At 31 July 2008	42	51	50	35	178
Utilised in the year	(6)	(22)	(100)	(15)	(143)
Charge for the year	16	20	354	25	415
Disposal of businesses	(1)	–	(106)	(1)	(108)
Exchange differences	7	8	4	5	24
At 31 July 2009	58	57	202	49	366

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

	Environmental and legal £m	Wolseley Insurance £m	Restructuring £m	Other provisions £m	Total £m
<b>At 31 July 2009</b>					
Current	6	16	79	21	122
Non-current	52	41	123	28	244
<b>Total provisions</b>	<b>58</b>	<b>57</b>	<b>202</b>	<b>49</b>	<b>366</b>

	Environmental and legal £m	Wolseley Insurance £m	Restructuring £m	Other provisions £m	Total £m
At 31 July 2008					
Current	3	15	36	6	60
Non-current	39	36	14	29	118
<b>Total provisions</b>	<b>42</b>	<b>51</b>	<b>50</b>	<b>35</b>	<b>178</b>

Wolseley Insurance provisions represent an estimate, based on historical experience, of the ultimate cost of settling outstanding claims and claims incurred but not reported on certain risks retained by the Group (principally US casualty and global property damage).

The environmental and legal provision includes 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 £42 million (2008: £36 million) related to asbestos litigation involving certain Group companies. This amount has been actuarially determined as at 31 July 2009 based on advice from independent professional advisers. Asbestos related litigation is covered by insurance and accordingly an equivalent insurance receivable has been recorded in other receivables (note 21). The provision and the related receivable have been stated on a discounted basis using a long-term discount rate of 4.3 per cent (2008: 4.6 per cent). The level of insurance cover available significantly exceeds the expected level of future claims and no material profit or cash flow impact is expected to arise in the foreseeable future. There were 273 claims outstanding at 31 July 2009 (2008: 293).

Restructuring provisions include provisions for staff redundancy costs, future lease rentals on closed branches and asset write-downs. In determining the provision for onerous leases, the cash flows have been discounted on a pre-tax basis using appropriate government bond rates. The weighted average maturity of these obligations is approximately five years.

Other provisions mainly consist of separation costs relating to the disposal of Stock, rental commitments on vacant properties other than those arising from restructuring actions, dilapidations on leased properties and warranties. The weighted average maturity of these obligations is approximately four years.

## Notes to the consolidated financial statements continued

Year ended 31 July 2009

### 32. Retirement benefit obligations

#### (i) Description of plans

##### United Kingdom

The principal scheme 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 scheme's retirement benefits are funded by a salary sacrifice arrangement from employees with the balance being paid by Group companies. Employees salary sacrifice either 5 per cent or 8 per cent of earnings depending on the level of benefits accruing. The Group contribution rate is calculated on the Projected Unit Method and agreed with an independent consulting actuary. During the year, this scheme was closed to new members and a defined contribution plan was established. However employees in the eligibility period on 31 May 2009 are still able to join when they reach the end of their eligibility period.

##### Outside the United Kingdom

###### North America

The principal schemes 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 2009 the cost of defined contribution plans of continuing operations charged to the income statement was £21 million (2008: £17 million).

In addition, the Group operates two defined benefit schemes in the United States. In Canada, a defined benefit scheme and a defined contribution scheme are operated. One of the US schemes and the Canadian scheme 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 scheme. The remaining schemes 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. In the year to 31 July 2009 the cost of defined contribution schemes charged to the income statement was £22 million (2008: £20 million).

##### Post-retirement healthcare

There are no material obligations to provide post-retirement healthcare benefits.

The Group expects to contribute £40 million to the UK defined benefit schemes in the year ending 31 July 2010 and £11 million to the non-UK defined benefit schemes.

#### (ii) Financial impact of plans

As disclosed in the balance sheet	2009 £m	2008 £m
Current liability	(33)	(22)
Non-current liability	(308)	(214)
<b>Total liability</b>	<b>(341)</b>	<b>(236)</b>

  

Analysis of balance sheet liability	2009 £m	2009 £m	2008 £m	2008 £m
Fair value of plan assets:				
UK	511		542	
Non-UK	129		130	
		640		672
Present value of defined benefit obligation:				
UK	(737)		(693)	
Non-UK	(244)		(215)	
		(981)		(908)
<b>Net deficit recognised in balance sheet</b>		<b>(341)</b>		<b>(236)</b>

## 32. Retirement benefit obligations continued

	2009 £m	2008 £m
Analysis of total expense recognised in income statement		
Current service cost	34	27
Curtailment	(2)	–
Charged to administrative expenses	32	27
Interest on pension liabilities	57	47
Expected return on scheme assets	(47)	(50)
Charged/(credited) to finance costs	10	(3)
<b>Total expense recognised in income statement</b>	<b>42</b>	<b>24</b>

	2009 £m	2008 £m
Analysis of amount recognised in the statement of recognised income and expense		
Actuarial loss	(115)	(140)
Unrecognised surplus	–	5
	<b>(115)</b>	<b>(135)</b>
Deferred tax thereon	36	37
<b>Total amount recognised in the statement of recognised income and expense</b>	<b>(79)</b>	<b>(98)</b>

The cumulative amount of actuarial losses recognised in the statement of recognised income and expense was a loss of £177 million (2008: loss of £62 million).

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

	2009 UK		2008 UK	
	Long-term rate of return expected at 31 July 2009	Value at 31 July 2009 £m	Long-term rate of return expected at 31 July 2008	Value at 31 July 2008 £m
Equities	8.0%	350	8.2%	348
Bonds	5.0%	141	5.2%	174
Other	4.7%	20	4.6%	20
<b>Total market value of assets</b>	<b>7.1%</b>	<b>511</b>	<b>7.1%</b>	<b>542</b>

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

	2009 Non-UK		2008 Non-UK	
	Long-term rate of return expected at 31 July 2009	Value at 31 July 2009 £m	Long-term rate of return expected at 31 July 2008	Value at 31 July 2008 £m
Equities	7.6%	59	7.6%	63
Bonds	4.6%	52	5.0%	53
Property	4.7%	6	5.3%	12
Other	3.9%	12	2.1%	2
<b>Total market value of assets</b>	<b>6.0%</b>	<b>129</b>	<b>6.2%</b>	<b>130</b>

## Notes to the consolidated financial statements continued

Year ended 31 July 2009

### 32. Retirement benefit obligations continued

	UK 2009 £m	Non-UK 2009 £m	Total 2009 £m	UK 2008 £m	Non-UK 2008 £m	Total 2008 £m
Fair value of plan assets						
At 1 August	542	130	672	588	123	711
Expected return on plan assets	38	9	47	41	9	50
Actuarial loss	(87)	(26)	(113)	(103)	(14)	(117)
Employer's contributions	42	5	47	30	4	34
Participants' contributions	1	2	3	8	5	13
Transfers	–	2	2	–	–	–
Settlements	–	(1)	(1)	–	(1)	(1)
Benefits paid	(25)	(10)	(35)	(22)	(7)	(29)
Currency translation	–	18	18	–	11	11
At 31 July	511	129	640	542	130	672
Actual return on plan assets	(48)	(17)	(65)	(62)	(5)	(67)

The expected long-term rates of return for equities are long-term assumptions and were set after taking actuarial advice. The expected equity returns can be considered as a risk free rate of return (determined by reference to government bond rates in the countries in which the plans are based) plus a risk premium to reflect the additional risks associated with equities. For the UK scheme the expected return implies a premium of 3.2 per cent per year as at 31 July 2009 (2008: 3.4 per cent) over the expected return from government bonds. For the principal overseas schemes in 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 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 per cent of the assets in equities and 25 per cent 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.

	UK 2009 £m	Non-UK 2009 £m	Total 2009 £m	UK 2008 £m	Non-UK 2008 £m	Total 2008 £m
Present value of defined benefit obligation						
At 1 August	693	215	908	630	188	818
Current service cost	28	6	34	22	5	27
Curtailment and settlement	(2)	(1)	(3)	–	(2)	(2)
Interest cost	44	13	57	36	11	47
Participants' contributions	1	2	3	8	4	12
Benefits paid	(26)	(20)	(46)	(22)	(14)	(36)
Transfers	–	2	2	–	–	–
Actuarial (gain)/loss	(1)	3	2	19	4	23
Currency translation	–	24	24	–	19	19
At 31 July	737	244	981	693	215	908

	2009 £m	2008 £m
Analysis of present value of defined benefit obligation		
Amounts arising from wholly unfunded plans	61	63
Amounts arising from plans that are wholly or partly funded	920	845
	981	908

## 32. Retirement benefit obligations continued

### (iii) Valuation assumptions

The financial assumptions used to estimate defined benefit obligations are:

	2009		2008	
	UK	Non-UK	UK	Non-UK
Discount rate	6.0%	5.3%	6.3%	5.4%
Inflation rate	3.7%	1.6%	4.0%	2.1%
Increase to deferred benefits during deferment	3.7%	0.5%	4.0%	2.4%
Increases to pensions in payment	3.6%	1.0%	3.9%	2.3%
Salary increases	4.7%	1.9%	5.0%	3.0%

The life expectancy assumptions used to estimate defined benefit obligations at 31 July 2009 are:

	2009		2008	
	UK	Non-UK	UK	Non-UK
Current pensioners (at age 65) – male	20.0	19.6	20.1	19.3
Current pensioners (at age 65) – female	23.0	22.0	22.8	21.7
Future pensioners (at age 65) – male	21.1	19.8	20.8	19.3
Future pensioners (at age 65) – female	24.1	22.1	23.5	21.9

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
History of experience gains and losses – UK schemes					
Fair value of plan assets	511	542	588	501	404
Present value of defined benefit obligation	(737)	(693)	(630)	(619)	(527)
Deficit in the plan	(226)	(151)	(42)	(118)	(123)
Experience adjustments to scheme assets					
Amount	(87)	(103)	40	36	46
Percentage of scheme assets	(17)%	(19)%	7%	7%	11%
Experience adjustments on scheme liabilities					
Amount	–	–	(8)	–	–
Percentage of the present value of scheme liabilities	–	–	1%	–	–

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
History of experience gains and losses – non-UK schemes					
Fair value of plan assets	129	130	123	112	105
Present value of defined benefit obligation	(244)	(215)	(188)	(182)	(180)
Deficit in the plan	(115)	(85)	(65)	(70)	(75)
Experience adjustments to scheme assets					
Amount	(26)	(14)	5	–	4
Percentage of scheme assets	(20)%	(11)%	4%	–	4%
Experience adjustments on scheme liabilities					
Amount	1	6	3	(2)	–
Percentage of the present value of scheme liabilities	0%	3%	2%	1%	–

## Notes to the consolidated financial statements continued

Year ended 31 July 2009

### 33. Share capital

	Authorised		Allotted and issued	
	2009	2008	2009	2008
Number of ordinary 25 pence shares (million)	–	800	–	662
Number of deferred 24 pence shares (million)	890	–	887	–
Number of ordinary 10 pence shares (million)	364	–	284	–
Total number of shares (million)	1,254	800	1,171	662
Nominal value of ordinary 25 pence shares (£ million)	–	200	–	165
Nominal value of deferred 24 pence shares (£million)	214	–	213	–
Nominal value of ordinary 10 pence shares (£ million)	36	–	28	–
Total nominal value of shares (£ million)	250	200	241	165

All the allotted and issued shares, including those held by Employee Benefit Trusts, are fully paid or credited as fully paid.

#### Allotment of shares during the year

On 1 April 2009 the Company issued 225 million ordinary 25 pence shares by way of a share 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.

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

In addition, from 1 August 2008 to 31 July 2009, shares in the Company were issued to satisfy options exercised under the Company's share schemes. A summary of the movements in the year is detailed in the following table:

	2009	2008
Number of 25 pence ordinary shares in issue at 1 August	661,982,888	661,165,224
Exercise of savings related share options	5,652	394,962
Exercise of executive share options	–	422,702
Share placing (April 2009)	225,000,000	–
Capital reorganisation	(886,988,540)	–
Number of 25 pence ordinary shares in issue at 31 July	–	661,982,888
Number of 10 pence ordinary shares in issue after capital reorganisation in which ordinary 1 penny shares converted to ordinary 10 pence shares (April 2009)	88,698,854	–
Rights issue of 10 pence ordinary shares (April 2009)	195,137,478	–
Exercise of savings related share options	3,034	–
Number of 10 pence ordinary shares in issue at 31 July	283,839,366	–
Number of 24 pence deferred shares in issue after capital reorganisation	886,988,540	–
Number of 24 pence deferred shares in issue at 31 July	886,988,540	–

The deferred shares have no voting rights, no entitlement to a dividend and cannot be traded.

#### Employee 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 the trusts participated in the rights issue and consequently purchased 1,361,760 shares for £5.4 million. The market value of the 1,978,037 shares held by the Employee Benefit Trusts at 31 July 2009, which have a nominal value of £0.25 million, was £26 million (2008: £21 million). During the year, 6,413 shares have been allocated from the Employee Benefit Trust to employees under the Restricted Share Plan. Dividends due on shares held by the Employee Benefit Trusts are waived in accordance with the provisions of the trust deeds.

### 34. Share-based payments

The Group operates seven 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, the Wolseley Irish Sharesave Scheme 2000 and the Wolseley European Sharesave Plan 2001 (collectively, the “Employees Savings Option Schemes”); and the Wolseley Employee Share Purchase Plan 2001 (the “ESPP”).

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 per cent 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 ESPP vest over a one-year period.

The Group also operates a Long Term Incentive Scheme (“LTIS”) and the Wolseley Restricted Share Plan (“RSP”) for senior executives. Under the LTIS, executives are 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. Under the RSP, executives (excluding Directors) are granted free shares. The vesting period is three years and there are no performance measures other than retained employment.

Following the capital reorganisation and share issue which was completed during April 2009, appropriate adjustments were made to reflect the dilutive effect of both transactions on outstanding awards. The calculations were made in accordance with HM Revenue and Customs recommendations (“HMRC”). Such calculations were reviewed by the Company’s auditors, who performed specific procedures to recalculate the adjustments made to outstanding awards, on the basis that the Directors of the Company deemed the adjustments to be fair and reasonable.

After adjustments had been made to outstanding awards to reflect the capital reorganisation, a further adjustment was made using the theoretical ex-rights price calculation (“TERP”) as agreed with HMRC. All outstanding awards made under the Company’s share plans were multiplied by a TERP factor of 2.398177677 and the respective option prices and market prices at allocation were multiplied by a factor of 0.416983283.

These formulae were designed to minimise the effect of the capital reorganisation and the share issue upon outstanding awards and, subject to roundings, ensured that the overall value of outstanding awards was the same after adjustment.

## Notes to the consolidated financial statements continued

Year ended 31 July 2009

### 34. Share-based payments continued

The tables below show the effect of the converted share volume and values following the share capital restructuring and the rights issue. For further details of the capital restructuring and the rights issue refer to note 33.

#### Share options outstanding during the year

	Year ended 31 July			
	2009 Shares 000's	2009 Weighted average exercise price £	2008 Shares 000's	2008 Weighted average exercise price £
<b>Executive Option Schemes</b>				
Outstanding as at 1 August	23,796	9.51	16,672	10.23
Granted	23,796	3.21	9,154	8.06
Exercised	–	–	(422)	4.84
Surrendered or expired pre rights issue	(4,418)	11.21	(1,608)	9.93
Outstanding as at 30 April	43,174	5.85		
Converted following rights issue	10,332	24.41		
Surrendered or expired post rights issue	(345)	23.12		
Outstanding as at 31 July	9,987	24.46	23,796	9.51
Exercisable as at 31 July	1,220	33.31	5,681	7.95
Weighted average fair value of options granted during the year		5.02		2.30
<b>Employees Savings Option Schemes and ESPP</b>				
Outstanding as at 1 August	7,934	4.94	3,833	9.10
Granted	14,678	1.67	6,831	4.15
Exercised	(6)	4.03	(395)	4.75
Surrendered or expired pre rights issue	(5,738)	4.55	(2,335)	9.50
Outstanding as at 30 April	16,868	2.23		
Converted following rights issue	4,007	9.23		
Exercised following rights issue	(3)	17.97		
Surrendered or expired post rights issue	(161)	14.52		
Outstanding as at 31 July	3,843	9.01	7,934	4.94
Exercisable as at 31 July	52	34.72	257	7.90
Weighted average fair value of options granted during the year		3.91		0.93

The weighted average share price at the date of exercise for share options exercised during the period was £14.95 (2008: £5.82). The total intrinsic value of options exercised during the period was nil (2008: £1 million). The aggregate intrinsic value of options outstanding and exercisable at 31 July 2009 was £21 million and nil respectively (2008: nil and nil).

#### Details of shares outstanding and exercisable under the LTIS and RSP

	Year ended 31 July			
	2009 Shares 000's	2009 Weighted average exercise price £	2008 Shares 000's	2008 Weighted average exercise price £
Outstanding as at 1 August	2,612	10.26	2,189	11.38
Granted	3,315	2.87	1,226	7.86
Vested	(4)	13.49	(6)	13.49
Surrendered or expired pre rights issue	(860)	10.47	(797)	9.60
Outstanding as at 30 April	5,063	5.39		
Converted following rights issue	1,213	22.45		
Vested post rights issue	(3)	56.25		
Surrendered or expired post rights issue	(239)	20.90		
Outstanding as at 31 July	971	22.74	2,612	10.26
Exercisable as at 31 July	–	–	–	–
Weighted average fair value of shares awarded		4.96		0.78

### 34. Share-based payments continued

#### Details of options exercisable

Options outstanding and exercisable at 31 July 2009 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 £
£0.01 – £5.00	–	–	–	–	–	–
£5.01 – £10.00	3,351	3	7.15	–	–	–
£10.01 – £15.00	5,497	9	13.39	22	1	14.58
£15.01 – £20.00	426	2	17.46	65	2	19.06
£20.01 – £25.00	187	3	22.67	187	3	22.67
£25.01 – £30.00	29	–	27.40	25	–	27.40
£30.01 – £35.00	2,417	8	33.24	322	4	30.98
£35.01 – £40.00	636	5	39.52	624	5	39.57
£40.01 – £45.00	53	2	41.91	–	–	–
£45.01 – £50.00	38	2	48.00	27	2	47.78
£50.01 – £55.00	1,196	7	50.08	–	–	–
	13,830	7	20.21	1,272	4	33.37

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 fair value of shares granted under the RSP was calculated as the market price of the shares at the date of grant reduced by the present value of dividends expected to be paid over the vesting period.

The principal assumptions required by these methodologies were:

	Executive Share Options		Employee Share Options		Long Term Incentive Schemes	
	2009	2008	2009	2008	2009	2008
Risk free interest rate	<b>4.09%</b>	4.93%	<b>2.17%</b>	4.19%	<b>3.66%</b>	4.93%
Expected annual increase in dividends*	<b>n/a</b>	10.00%	<b>n/a</b>	10.00%	<b>n/a</b>	n/a
Expected dividend yield	<b>n/a</b>	n/a	<b>n/a</b>	n/a	<b>1.04%</b>	2.94%
Expected volatility	<b>35.82%</b>	26.15%	<b>47.86%</b>	31.03%	<b>45.00%</b>	25.00%
Expected life	<b>5.8 years</b>	5.7 years	<b>1–7 years</b>	1–7 years	<b>3 years</b>	3 years

\* The initial assumption was a dividend yield of zero up to 31 July 2010 (2008: 11.94 pence and 23.71 pence for interim and final dividends respectively).

Expected volatility has been estimated on the basis of historic volatility over the expected term, excluding the effect of extraordinary volatility due to the capital reorganisation and rights issue. Expected life has been estimated on the basis of historical data on the exercise pattern.

## Notes to the consolidated financial statements continued

Year ended 31 July 2009

### 35. Shareholders' funds and statement of changes in shareholders' equity

For the year ended 31 July 2009	Share capital £m	Share premium £m	Translation reserve £m	Retained earnings		Total £m	
				Hedging reserve £m	Own shares £m		Profit and loss account £m
Profit for the year attributable to equity shareholders	-	-	-	-	-	(1,173)	(1,173)
Exchange gain on translation of overseas operations	-	-	661	-	-	-	661
Exchange loss on translation of borrowings designated as hedges of overseas operations	-	-	(381)	-	-	-	(381)
Actuarial loss on retirement benefits	-	-	-	-	-	(115)	(115)
Valuation loss on interest rate swaps (less amounts reclassified and reported in net income)	-	-	-	(20)	-	-	(20)
Tax on gains/(losses) not recognised in the income statement	-	-	-	6	-	36	42
Total recognised income and expense	-	-	280	(14)	-	(1,252)	(986)
New share capital subscribed	76	203	-	-	-	720	999
Purchase of own shares by Employee Benefit Trust	-	-	-	-	(5)	-	(5)
Credit to equity for share-based payments	-	-	-	-	-	9	9
Dividends	-	-	-	-	-	-	-
Net additions to shareholders' funds	76	203	280	(14)	(5)	(523)	17
Opening shareholders' funds	165	949	(52)	3	(73)	2,367	3,359
Closing shareholders' funds	241	1,152	228	(11)	(78)	1,844	3,376

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.

### 35. Shareholders' funds and statement of changes in shareholders' equity continued

For the year ended 31 July 2008	Share capital £m	Share premium £m	Translation reserve £m	Retained earnings			Total £m
				Hedging reserve £m	Own shares £m	Profit and loss account £m	
Profit for the year attributable to equity shareholders	–	–	–	–	–	74	74
Exchange loss on translation of overseas operations	–	–	412	–	–	–	412
Exchange gain on translation of borrowings designated as hedges of overseas operations	–	–	(283)	–	–	–	(283)
Actuarial loss on retirement benefits	–	–	–	–	–	(135)	(135)
Available-for-sale-investments reclassified and reported in net profit for the year	–	–	–	–	–	13	13
Tax on gains/(losses) not recognised in the income statement	–	–	–	–	–	33	33
Total recognised income and expense	–	–	129	–	–	(15)	114
New share capital subscribed	–	4	–	–	–	–	4
Credit to equity for share-based payments	–	–	–	–	–	5	5
Dividends	–	–	–	–	–	(215)	(215)
Net additions to shareholders' funds	–	4	129	–	–	(225)	(92)
Opening shareholders' funds	165	945	(181)	3	(73)	2,592	3,451
Closing shareholders' funds	165	949	(52)	3	(73)	2,367	3,359

### 36. Reconciliation of (loss)/profit to net cash inflow from operating activities

	2009 £m	2008 £m
(Loss)/profit for the year	<b>(1,173)</b>	74
Net finance costs	<b>145</b>	156
Share of after tax loss of associate	<b>15</b>	–
Tax (income)/expense	<b>(246)</b>	71
Loss on disposal of businesses and revaluation of disposal groups	<b>121</b>	–
Depreciation and impairment of property, plant and equipment	<b>286</b>	212
Amortisation and impairment of non-acquired intangibles	<b>62</b>	30
Loss/(profit) on disposal of property, plant and equipment	<b>3</b>	(16)
Amortisation and impairment of acquired intangibles	<b>894</b>	306
Decrease in inventories	<b>483</b>	220
Decrease in trade and other receivables	<b>928</b>	247
Decrease in trade and other payables	<b>(565)</b>	(61)
Increase in provisions and other liabilities	<b>238</b>	18
Share-based payments and other non-cash items	<b>9</b>	5
Cash generated from operations	<b>1,200</b>	1,262

## Notes to the consolidated financial statements continued

Year ended 31 July 2009

### 37. Analysis of the net outflow of cash in respect of the purchase of businesses

	2009 £m	2008 £m
Purchase consideration	–	187
Deferred and contingent consideration paid in the year	18	21
Cash consideration	18	208
Cash, cash equivalents and bank overdrafts acquired	–	(9)
Net cash outflow in respect of the purchase of businesses	18	199

### 38. Disposals

During the year ended 31 July 2009, the Group disposed of two businesses in the Central and Eastern Europe segment, Mart Kft and Wasco-Anbuma (NV) Belgium. On 6 May 2009 the Group disposed of Stock Building Supply Holdings LLC; further details are given in note 9.

	Stock £m	Other disposals £m	Total assets disposed of £m
Property, plant and equipment	97	5	102
Financial assets	1	–	1
Inventories	150	11	161
Receivables	214	12	226
Assets held for sale	19	–	19
Cash, cash equivalents and bank overdrafts	15	4	19
Finance leases	(4)	–	(4)
Payables and provisions	(202)	(5)	(207)
Deferred tax	–	2	2
Total	290	29	319
Cash consideration received	–	(17)	(17)
Shares in associate received (before deferred tax arising on transactions)	(128)	–	(128)
Disposal and operation costs	44	–	44
Cumulative translation recycled from reserves	(47)	–	(47)
Loss on disposal	159	12	171

During the year ended 31 July 2008, the Group disposed of three non-core businesses for a consideration of £18 million including debt disposed of £2 million.

	2008 Assets disposed of £m
Intangible fixed assets – goodwill	6
Property, plant and equipment	2
Inventories	1
Receivables	5
Borrowings	(2)
Payables	(2)
Total	10
Consideration received	(16)
Profit on disposal	(6)

### 39. Reconciliation of opening to closing net debt

For the year ended 31 July 2009	At 1 August £m	Cash flows £m	Acquisitions and disposals £m	New finance leases £m	Fair value and other adjustments £m	Exchange movement £m	At 31 July £m
Cash and cash equivalents	321						635
Bank overdrafts	(118)						(37)
	203	371	–	–	–	24	598
Financial assets: trading investments	5	150	(1)	–	–	1	155
Derivative financial instruments	8	31	–	–	(16)	(2)	21
Bank loans	(2,598)	1,406	–	–	(106)	(364)	(1,662)
Obligations under finance leases	(87)	26	4	(4)	–	(10)	(71)
	(2,469)	1,984	3	(4)	(122)	(351)	(959)

For the year ended 31 July 2008	At 1 August £m	Cash flows £m	Acquisitions and disposals £m	New finance leases £m	Fair value and other adjustments £m	Exchange movement £m	At 31 July £m
Cash and cash equivalents	244						321
Bank overdrafts	(184)						(118)
	60	136	–	–	–	7	203
Financial assets: trading investments	4	–	–	–	–	1	5
Derivative financial instruments	(8)	(8)	–	–	23	1	8
Bank loans	(2,443)	254	(39)	–	(49)	(321)	(2,598)
Obligations under finance leases	(80)	19	(4)	(13)	–	(9)	(87)
	(2,467)	401	(43)	(13)	(26)	(321)	(2,469)

### 40. 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.

Key management personal compensation (including Directors)	2009 £m	2008 £m
Salaries, bonuses and other short-term employee benefits	5	6
Termination and post-employment benefits	2	2
Share-based payments	1	1
Total compensation	8	9

More detailed disclosures on the remuneration of the Directors are provided in the Remuneration report on pages 62 and 72.

### 41. Capital commitments

Authorised capital expenditure which was contracted for but not provided in these accounts was as follows:

	2009 £m	2008 £m
Property, plant and equipment	2	18
Intangible assets: software	8	9
Total capital commitments	10	27

## 42. Operating lease commitments

Future minimum lease payments under non-cancellable operating leases for the following periods are:

	2009 £m	2008 £m
Within one year	258	267
Later than one year and less than five years	659	723
After five years	412	513
<b>Total operating lease commitments</b>	<b>1,329</b>	<b>1,503</b>

Operating lease payments mainly 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 2009 is £16 million (2008: £21 million).

The commitments shown above include commitments for onerous leases which have already been provided for. At 31 July 2009 provisions include an amount of £124 million in respect of minimum lease payments for such onerous leases net of sublease payments expected to be received (note 31).

## 43. Contingent liabilities

The Group has quantifiable contingent liabilities under sundry guarantees, performance bonds and indemnities of £13 million (2008: £13 million) 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.

## 44. 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.

## 45. 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 Group's accounting periods beginning on or after 1 August 2009 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 IFRS 2 Share-based Payment (applicable 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 Group's future financial statements.

### **IFRS 3 (revised) Business Combinations and amendment to IAS 27 Consolidated and Separate Financial Statements (applicable from 1 August 2009)**

These amendments make a number of changes to the method of accounting for business combinations, including a requirement to expense acquisition costs and to measure contingent consideration at fair value at acquisition date, and then record subsequent changes to the estimate in the income statement. Management is currently assessing the impact of this amendment on the Group's future financial statements.

### **IAS 1 (revised) Presentation of financial statements (applicable from 1 August 2009)**

This amendment requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. Preparers will have the option of presenting items of income and expense and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of comprehensive income). Management is currently assessing the impact of this interpretation on the Group's future financial statements.

### **Amendment to IAS 23 Borrowing Costs (applicable from 1 August 2009)**

This amendment requires the capitalisation of borrowing costs, to the extent they are directly attributable to the acquisition, production or construction of assets that need a period of time to get ready for their intended use or sale. Management is currently assessing the impact of this interpretation on the Group's future financial statements.

### **IFRIC 16 Hedges of a Net Investment in a Foreign Operation (applicable from 1 August 2009)**

IFRIC 16 provides guidance on identifying the foreign currency risks that qualify as a hedged risk in the hedge of a net investment in a foreign operation; where, within a group, hedging instruments that are hedges of a net investment in a foreign operation can be held to qualify for hedge accounting; and how an entity should determine the amounts to be reclassified from equity to profit or loss for both the hedging instrument and the hedged item. Management is currently assessing the impact of this interpretation on the Group's future financial statements.

# Independent auditors' report to the members of Wolseley plc

We have audited the consolidated financial statements of Wolseley plc for the year ended 31 July 2009 which comprise the Group income statement, the Group statement of recognised income and expense, the Group balance sheet, the Group cash flow statement, the Group accounting policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

## Respective responsibilities of Directors and auditors

As explained more fully in the Directors' responsibilities statement set out on page 58, the Directors are responsible for the preparation of the consolidated financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the consolidated financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Sections 495 and 496 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

## Opinion on financial statements

In our opinion the consolidated financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 July 2009 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

## Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Remuneration report for the financial year for which the consolidated financial statements are prepared is consistent with the consolidated financial statements.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of Directors' remuneration report specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

## Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 38, in relation to going concern; and
- the part of the Corporate Governance Report relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

## Other matter

We have reported separately on the parent company financial statements of Wolseley plc for the year ended 31 July 2009 and on the information in the Remuneration report that is described as having been audited.



## Michael Phillips (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London

28 September 2009

# Company balance sheet

As at 31 July 2009

	Notes	2009 £m	2008 £m
<b>Fixed assets</b>			
Investments	2	5,702	4,806
		<b>5,702</b>	4,806
<b>Current assets</b>			
Debtors	3	3,380	2,771
Cash at bank and on hand		360	615
		<b>3,740</b>	3,386
<b>Creditors: amounts falling due within one year</b>	4	<b>(4,791)</b>	(4,953)
<b>Net current liabilities</b>		<b>(1,051)</b>	(1,567)
<b>Total assets less current liabilities</b>		<b>4,651</b>	3,239
Creditors: amounts falling due after one year	5	(279)	(664)
<b>Net assets</b>		<b>4,372</b>	2,575
<b>Capital and reserves</b>			
Called up share capital	6	241	165
Share premium	7	1,152	949
Profit and loss reserve	8	2,979	1,461
<b>Total shareholders' funds</b>	9	<b>4,372</b>	2,575

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

The Company financial statements on pages 130 to 137 were approved by the Board of Directors on 28 September 2009 and were signed on its behalf by



**Ian K Meakins**  
Group Chief Executive



**Stephen P Webster**  
Chief Financial Officer

# 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)		
		1		1

### 13. Bank loans and overdrafts

	2009 £m	2008 £m
Creditors: amounts falling due within one year		
Bank overdrafts	188	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	71	–
US dollar	11	101
Euro	59	147
Other	47	60
	188	308

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

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

Due in two to five years	268	664
	268	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	268	402
Euro	–	234
Other	–	28
	268	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.