Notes to the Company financial statements

Year ended 31 July 2007

1. Company accounting policies

Basis of accounting
These Companies Act financial statements are prepared under the historical cost convention and in accordance with applicable UK accounting standards.

The principal accounting policies, as set out below, have been applied consistently throughout the period. The amendment to the Financial Reporting Standard 26 'Financial Instruments: Measurement' (FRS 26) has been adopted by the Company for the first time in these financial statements. The amendment requires a financial guarantee to be recorded within the accounts at its fair value. The impact on the restated Company's reserves at 1 August 2006 of applying this new accounting policy is a decrease in reserves of £8 million (1 August 2005: £11 million) and an increase in profit for the year of £3 million (2006: £3 million).

Note 7 on page 86, note 27 on pages 98 to 102, note 28 on pages 102 to 103 and note 29 on pages 103 and 104 of the Wolseley plc consolidated financial statements form part of these financial statements.

Under section 203(4) of the Companies Act 1985 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 with the exception of differences on foreign currency borrowings to the extent that they are used to finance or provide a hedge against foreign currency investments.

Investments
Fixed asset investments are recorded at cost less provision for impairment.

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

Provision is made for deferred taxation in so far as a liability or asset has arisen as a result of transactions that had occurred by the balance sheet date and have given rise to an obligation to pay more tax in the future, or the right to pay less tax in the future. An asset has not been recognised to the extent that the transfer of economic benefits in the future is uncertain. Deferred tax assets and liabilities recognised have not been discounted. Provision is made for UK or foreign taxation arising on the distribution to the UK of retained profits of overseas subsidiary undertakings where dividends have been recognised as receivable.

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

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

Derivative financial instruments are recognised as assets and liabilities measured at their fair values at the balance sheet date. Where derivative financial instruments do not fulfil the criteria for hedge accounting contained in FRS 26, changes in their fair values are recognised in the income statement.

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

Notes to the Company financial statements
Year ended 31 July 2007

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, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. 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 only one class of shares, ordinary shares, which are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax.

Where the Company or the Company's employee benefit trusts purchase 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 remeasured unless the conditions on which the award was granted are modified. For cash-settled schemes, the fair value is determined at the date of grant and is remeasured at each balance sheet date until the liability is settled. Generally, the compensation cost is recognised on a straight-line basis over the vesting period. Adjustments are made to reflect expected and actual forfeitures during the vesting period due to the failure to satisfy service conditions or achieve non-market performance conditions.

The Company has applied FRS 20 retrospectively only to equity-settled awards that had not vested as at 1 August 2004 and were granted on or after 7 November 2002 and cash-settled awards that had not vested as at 1 August 2004.

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

2. Fixed asset investments

	£m
Cost as at 1 August 2006	4,408
Provisions as at 1 August 2006 and 31 July 2007	(26)
Net book value as at 1 August 2006 and 31 July 2007	**4,382**

All of the above investments are in unlisted shares. Particulars of principal subsidiary undertakings are listed on pages 121 and 122 of the Annual Report.

3. Debtors

Amounts falling due within one year	**2007 £m**	2006 £m
Amounts due from Group companies	**2,138**	1,143
Corporation tax recoverable	**52**	8
Deferred tax	**–**	5
Derivative financial assets (note 12)	**10**	10
Other debtors and prepayments	**1**	–
Total debtors	**2,201**	1,166

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

4. Creditors: amounts falling due within one year

	2007 £m	Restated 2006 £m
Bank loans and overdrafts (note 13)	**526**	38
Derivative financial liabilities (note 12)	**1**	4
Amounts due to Group companies	**2,990**	1,916
Financial guarantees	**5**	8
Other creditors	**9**	10
Total creditors: amounts falling due within one year	**3,531**	1,976

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

5. Creditors: amounts falling due after one year

	2007 £m	2006 £m
Bank loans (note 13)	**311**	1,176

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 28 on pages 102 and 103, to the Wolseley plc consolidated financial statements.

7. Share premium

	£m
At 1 August 2006	288
Shares issued	657
At 31 July 2007	**945**

Notes to the Company financial statements

Year ended 31 July 2007

8. Profit and loss reserve

	£m
At 1 August 2006 (as previously reported)	2,016
Prior period adjustment (note 1)	(8)
At 1 August 2006 (restated)	2,008
Purchase of own shares for employee benefit trust	(27)
Loss for the period	(71)
Dividends	(198)
Equity-settled employee share options	20
At 31 July 2007	**1,732**

Included in the profit and loss reserve is an amount of £939 million which may not be distributable. The balance of £793 million is distributable.

9. Reconciliation of movements in equity shareholders' funds

	2007 £m	2006 £m
Opening shareholders' funds (as previously reported)	**2,453**	1,463
Prior period adjustment (note 1)	**(8)**	(11)
Opening shareholders' funds (restated)	**2,445**	1,452
Issue of share capital of £0.25 each	**16**	1
Share premium on issue of shares	**657**	47
Purchase of own shares for employee benefit trust	**(27)**	(27)
(Loss)/profit for the period (as previously reported)	**(71)**	1,101
Prior period adjustment (note 1)	**–**	3
Profit for the period (restated)	**(71)**	1,104
Dividends	**(198)**	(162)
Equity settled employee share options	**20**	20
Deferred tax on equity settled employee share options	**–**	1
Cash flow hedges	**–**	13
Deferred tax on cash flow hedges	**–**	(4)
Closing shareholders' funds	**2,842**	2,445

10. Retirement benefit obligations

The Company participates in the Wolseley Group Retirement Benefits Plan. This is a defined benefit multi-employer scheme, 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 scheme and accordingly accounts for the scheme as if it were a defined contribution scheme. Information in respect of the scheme is provided in note 27, on pages 98 to 102, to the Wolseley plc consolidated financial statements. The total contribution to the defined benefit scheme in the year was £1 million (2006: £1 million)

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 29, on pages 103 and 104, to the Wolseley plc consolidated financial statements. The Company recognised an equity-settled share-based payment charge of £3 million in the year (2006: £3 million).

12. Derivative financial instruments

Current assets	2007 £m	2006 £m
Interest rate swaps	**10**	10
Currency swaps: at fair value through profit and loss	**–**	–
Derivative financial assets	**10**	10

Current liabilities	2007 £m	2006 £m
Interest rate swaps	**(1)**	(2)
Currency swaps: at fair value through profit and loss	**–**	(2)
Derivative financial liabilities	**(1)**	(4)

Interest rate swaps

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

The Company's bank borrowings generally attract variable interest rates based on six-month LIBOR. Certain interest rate swaps are designated and effective as cash flow hedges, and the valuation gains have been deferred in equity until realised.

Hedge of interest rate cash flows	2007 £m	2006 £m
At 1 August	**8**	–
Valuation gains on effective hedges credited to equity	**–**	9
Valuation losses charged to profit and loss	**–**	(1)
Cash settlements in the period	**1**	–
At 31 July	**9**	8

Outstanding interest rate swap contracts at 31 July 2007 comprised fixed interest payable on notional principal of US$650 million and €1,280 million (2006: US$650 million and €770 million) and fixed interest receivable on notional principal of US$350 million (2006: US$350 million). The contracts expire between September 2007 and August 2011 (2006: September 2006 and August 2009), and the gains deferred in equity will reverse in the profit and loss account over that period. The fixed interest rates varied between 2.313 per cent and 5.415 per cent (2006: 2.313 per cent and 5.415 per cent).

Currency swaps

The Company uses currency swaps either to obtain the optimum return on its surplus funds or to hedge the spot exchange rate risk of its assets and liabilities, principally loans. The fair value of currency swaps has been estimated as the cost of closing out the contracts using market prices at the balance sheet date.

At fair value through profit and loss	2007 £m	2006 £m
At 1 August	**(2)**	(11)
Valuation gains credited to profit and loss	**2**	5
Cash settlements in the period	**–**	4
At 31 July	**–**	(2)

At the balance sheet date the Company had entered into certain short-term currency swaps amounting to assets of US$150 million, DKK640 million, £98 million and SEK 16 million (2006: assets of US$627 million, €222 million and CHF22 million) and liabilities of €172 million, CAD136 million and CHF127 million (2006: liabilities of £419 million and CAD169 million).

Notes to the Company financial statements

Year ended 31 July 2007

13. Bank loans and overdrafts

Current	**2007 £m**	2006 £m
Bank overdrafts	**188**	38
Loans	**338**	–
	526	38

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

The currency analysis of bank loans and overdrafts is as follows:	**£m**	£m
Sterling	**11**	(150)
US dollar	**159**	80
Euro	**338**	100
Other	**18**	8
	526	38

Non-current	**2007 £m**	2006 £m
Bank loans	**311**	1,176

The non-current loans are repayable as follows:	**£m**	£m
Due in one to two years	**16**	34
Due in two to five years	**295**	99
Due in over five years	**–**	1,043
	311	1,176

At 31 July 2007, no loans carried a fixed interest rate (2006: £nil). Interest payments on floating rate loans are determined by reference to short-term benchmark rates applicable to the relevant currency or market, such as LIBOR.

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

	2007 £m	2006 £m
Sterling	**–**	120
US dollar	**147**	618
Euro	**164**	406
Other	**–**	32
	311	1,176

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 the Company has a quantifiable contingent liability for value added tax of certain subsidiary undertakings of £8 million (2006: £5 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.

At 31 July 2007 the Company has counterparty exposure of £232 million (2006: £497 million) in respect of unsettled currency swaps. These currency swaps have a fair value of nil and further details are included in note 12 on page 117.

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 and employee costs

The average number of employees (including Directors) of the Company in the year ended 31 July 2007 was 17 (2006: 15). Total employee costs of the Company for the year were £6 million (2006: £6 million).

16. Dividends

Details of the Company's dividends are set out in note 7 on page 86, to the Wolseley plc consolidated financial statements.

17. Related party transactions

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

18. Post-balance sheet events

There are no significant post-balance sheet events.