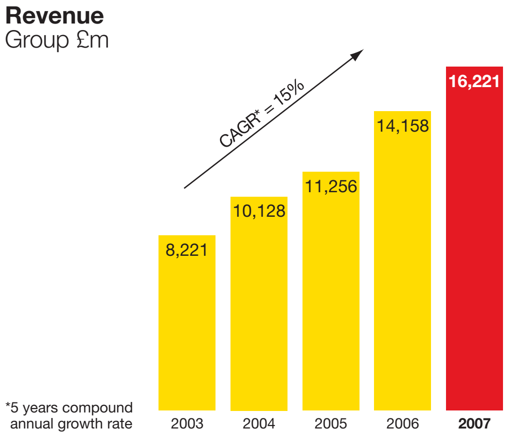
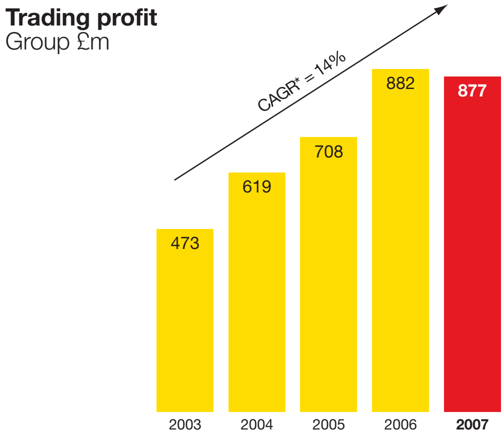
A CHALLENGING BUT REWARDING YEAR

2007 has seen a record level of investment of £1.7 billion in acquisitions, including DT Group. Whilst our financial performance has been impacted by the weak new residential housing market in the USA and the weakening of the US dollar, the Group is in a strong financial position with free cash flow up 120 per cent.

Chief Financial Officer
Steve Webster





Introduction

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

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

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

The Performance review discusses the following areas:

Basis of preparation of financial information
As noted on page 41, these financial statements are the second prepared under IFRS. In respect of five year information included in this Performance review, information for years 2003 and 2004 has been prepared under UK GAAP. Information for 2005, 2006 and 2007 has been prepared in accordance with IFRS.

Company overview and performance monitoring

Company overview
Wolseley's business is the distribution of construction materials and the provision of related services primarily to a specialist market of professional contractors. The Group is the world's number one distributor of heating and plumbing products to professional contractors and a leading supplier of building materials to the professional market. The Group is an international business, operating 5,296 branches in 28 countries and employing around 79,000 people.

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

The divisional teams are supported by global functional teams such as acquisitions, sourcing, supply chain, business improvement, finance and human resource development. This structure allows the Group to focus on the key competencies by which the business is driven forward. These key competencies and the business model are described in the Group Chief Executive's review on pages 8 to 21.

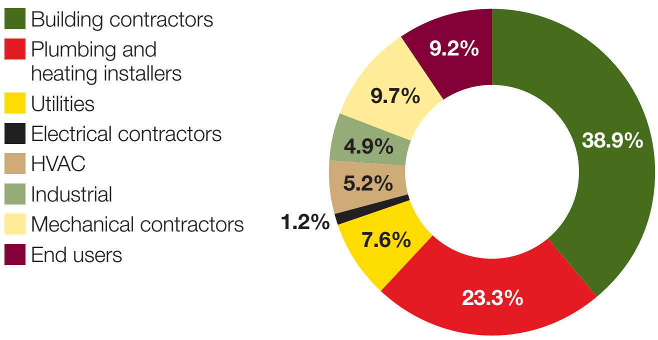
The principal activities of the Group are:

- the distribution of plumbing, heating and air conditioning equipment within Europe and North America;
- the distribution of building materials in the UK, Ireland, France, the Nordic region, Eastern Europe and the USA;
- the distribution of electrical components and supplies primarily in the UK, Ireland and France;
- the distribution of pipes, valves, fittings and waterworks in Europe and North America;
- the provision of construction and installation services in the USA and equipment hire in the UK, Austria and France.

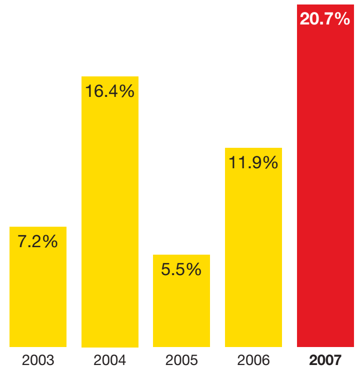
Wolseley's products
The Group supplies materials used in the construction industry. The range of products used in construction is broad and the Group continually seeks opportunities to widen that choice for its customers. The main product categories supplied to customers are set out on page 24.

Wolseley's customers
The Group has a wide range of customers operating in different industry sectors that range from the individual plumber or builder through to national contractor chains and house builders, and include large industrial and commercial organisations. Wolseley's primary customer focus is on professional contractors. These contractors work with households, governments, property developers and industrial companies in the construction of new

Customer mix – Group



Revenue growth from acquired businesses



homes, offices and industrial buildings or in the repair and maintenance of existing premises. Increasingly, the Group has structured around core business groups or brands allowing its local companies to put real focus on these sectors, whilst enhancing customer service and developing further product expertise.

Competitive environment

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

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

Other market factors

The changing demographics of the European and North American markets, with a generally ageing population and increasing immigration, suggests that demand for new housing will continue at relatively high levels over the long-term, although short term weaknesses in demand may be experienced from time to time, as is currently the case in the USA. As the housing stock ages, it will increase demand in the repair and remodelling sector. Activity in the commercial and industrial sector, which has been strong over the past year, varies according to the level of business investment, government spending and commercial property yields. The Group's business model gives it the flexibility and agility to respond to changes in the market place across many different business cycles. The diversity of the Group's business provides further resilience in performance.

While the Group does not operate in a regulated industry, the performance of the Group can be impacted by Government legislation. The key regulatory influences centre on environmental legislation and stipulations imposed when building or remodelling buildings. Such changes in legislation present an opportunity for growth in response to increasing demand as customers or end users respond by changing their buying habits. For example, the UK business is currently building a sustainable energy centre to provide a shop window for energy efficient products increasingly required by regulation and in response to increased environmental awareness of customers.

Performance monitoring

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

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

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

The KPIs used by the Group to monitor its performance are currently being reassessed in light of the recently launched 'Earn, Turn, Grow' initiative described in the Group Chief Executive's review on pages 8 to 21. This review is likely to result in the replacement or redefinition of some of the financial KPIs detailed in the next section for monitoring performance in the year ending 31 July 2008, with more emphasis being placed on measures such as like-for-like growth and cash-to-cash days which are integral to the 'Earn Turn, Grow' initiative.

Wolseley's products

Plumbing, heating and air conditioning

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

Electrical

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

Building materials

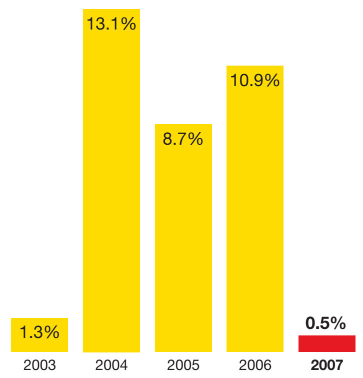
- Insulation
- Plaster and plasterboard
- Roofing materials
- Bricks, blocks and aggregates
- Tiles and flooring
- Timber products
- Doors and frames
- Glass
- Beams, trusses and frames
- Hardware

Civils/waterworks, industrial and commercial

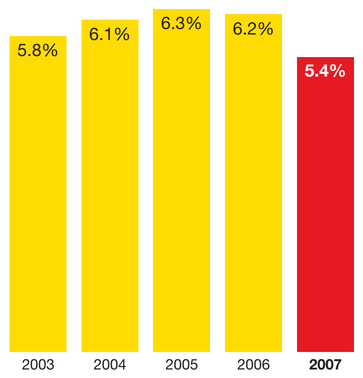
- Tanks and treatment plants
- Sheet material
- Drainage pipes, associated supplies and covers
- Underground pressure pipes
- Small bore pressure pipes and fittings
- Other pipes, valves and fittings

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

Growth in organic revenue



Trading margin

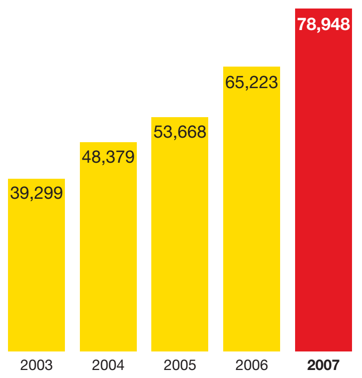


Key Performance Indicators

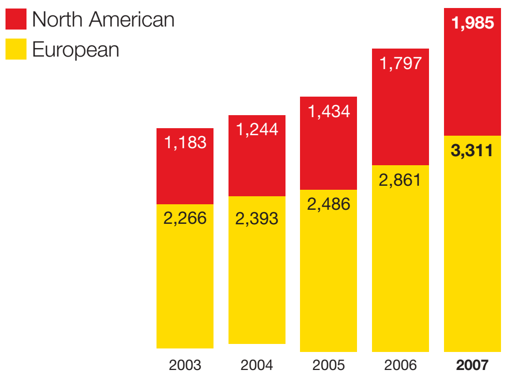
The Group has utilised the following indicators of performance to assess its development against its strategy and financial objectives during the year ended 31 July 2007.

Key Performance Indicator and definition	Review of performance
Growth in organic revenue The total increase or decrease in revenue for the year adjusted for the impact of currency exchange, new acquisitions in the year and the incremental impact of acquisitions in the prior year. The Group seeks to achieve, on average, double-digit growth in revenue both through organic growth and through acquisitions. Over the economic cycle the Group would expect growth to come broadly evenly from both sources.	• Organic revenue increased in the year by 0.5 per cent. • Ferguson achieved organic revenue growth of 5.5 per cent. Stock Building Supply ('Stock') experienced an organic revenue decline of 24.2 per cent due to the weak new residential housing market in the US. • The UK business outperformed the market and achieved 9.9 per cent organic growth. • Each of the Austrian, Swiss and Dutch businesses achieved double-digit organic growth. • Over the past five years the Group has delivered average organic revenue growth of 6.9 per cent.
Growth in acquired revenue The growth in revenue from businesses that the Group has acquired during the financial year and the incremental effect of the prior year's acquisitions.	• A total of 44 acquisitions were completed during the year, including the Group's largest ever acquisition, DT Group, for an aggregate consideration including net debt of £1,718 million. • Acquisitions made in 2007 contributed £2,067 million to revenue in the year or 12.7 per cent and £132 million to trading profit or 15.0 per cent. • Over the past five years the Group has delivered average acquired revenue growth of 12.3 per cent with 20.7 per cent in the last year, both exceeding target.
Trading margin The ratio of trading profit to revenue expressed as a percentage. The Group seeks to achieve a growth in trading profits higher than the growth in revenue through year-on-year improvements in trading margin as a result of continuous improvement in operations and the benefits of its international scale and leverage.	• Overall, Group trading margin fell from 6.2 per cent in 2006 to 5.4 per cent in 2007 primarily as a result of the weak new residential housing market in the USA and a number of restructuring projects throughout the Group. • Trading margin improvement was achieved in Ferguson but Stock's margin was significantly lower than last year. • The European trading margin reduced due to lower trading margins in the UK following competitive pressures in the first half, restructuring costs and revenue investments. • Over the past five years, the Group's trading margin has been around 6 per cent and this is targeted to increase to a minimum of 7 per cent by 2011.
Free cash flow Free cash flow represents cash flow from operating activities less maintenance capital expenditure, tax, dividends and interest. The Group seeks to generate sufficient free cash flow over the business cycle to fund normal bolt-on acquisitions and expansion capital expenditure.	• Free cash flow increased significantly from £285 million in 2006 to £626 million, up by 120 per cent as a result of greater focus being placed on enhancing working capital performance across the Group. • Over the past five years after dividends, average free cash flow was £288 million.
Return on gross capital employed The ratio of trading profit to the aggregate of the monthly average of shareholders' funds, minority interests, net debt and cumulative goodwill and acquired intangibles written off. The Group targets to deliver an incremental return on gross capital employed at least 4 per cent in excess of the pre-tax weighted average cost of capital. A major driver of decisions relating to acquisitions and capital expenditure is the incremental return on capital generated by those investments.	• Return on gross capital employed in 2007 decreased from 18.8 per cent to 13.7 per cent due to the significant reduction in profit at Stock and higher acquisition spend in the year and was 2.1 per cent ahead of the estimated pre-tax weighted average cost of capital of 11.6 per cent. • Average return on gross capital employed over the past five years was 17.3 per cent. • Return on gross capital employed in Europe was 12.7 per cent, down from 16.2 per cent in 2006 and in North America 16.2 per cent, down from 21.9 per cent in 2006.

Average Group employee numbers



Branch numbers



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

	2007	2006	2005	2004	2003
Growth in organic revenue	**0.5%**	10.9%	8.7%	13.1%	1.3%
Growth in acquired revenue	**20.7%**	11.9%	5.5%	16.4%	7.2%
Trading margin	**5.4%**	6.2%	6.3%	6.1%	5.8%
Free cash flow after dividends (£ million)	**626**	285	321	(60)	269
Return on gross capital employed	**13.7%**	18.8%	19.1%	18.4%	16.7%

Note: 2007, 2006 and 2005 figures prepared under IFRS. 2004 and 2003 figures prepared under UK GAAP.

Human resource development performance indicators
Wolseley's 79,000 people are the cornerstone of providing service to its customers and are one of its key competitive advantages. As much of the customer experience is generated through ongoing relationships with the Group's branch personnel or sales force, staff turnover rates are considered an important indicator and these are reviewed as part of the monthly reporting.

The overall turnover rate for 2007 was 24 per cent (2006: 22 per cent), which reflects a number of branch closures and restructuring activities at Stock and Wolseley UK. Excluding these one-off items, the underlying turnover rate improved compared with the prior year and is in line with industry standards. Turnover in 2007 at the management level of staff was at much lower rates.

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

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

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

	2007	2006	2005	2004	2003
Europe	**3,311**	2,861	2,486	2,393	2,266
North America	**1,985**	1,797	1,434	1,244	1,183
Total	**5,296**	4,658	3,920	3,637	3,449

The Group also aims to increase its geographic footprint in its chosen areas of operation, Europe and North America. During the year, the Group expanded its geographical diversity significantly, entering eight new countries, by acquiring DT Group, which has operations in Denmark, Sweden, Finland, Norway and Greenland, and Woodcote which has operations in the Czech Republic, Hungary, Slovak Republic, Poland, Romania and Croatia. In North America, Stock expanded operations into the state of Arizona.

The Group has continued its strategy of moving into new market segments within the construction materials and services industry. Ferguson acquired Improvement Direct, an ecommerce business with a network of online stores, providing immediate entry into the home improvement segment, a key strategic move for North America. In addition, most recent Stock acquisitions have been in the non-residential housing market which is part of the Group's strategy to diversify the product offering at Stock into the repairs, maintenance and improvement ('RMI') and industrial and commercial sectors and reduce exposure to the new residential housing market.

In Europe, eight bolt-on acquisitions have been completed by DT Group to further expand its footprint in the Nordic region. Additional acquisitions have been made in Central and Eastern Europe in line with the strategy to expand the Group's critical mass in that region, while in France acquisitions have expanded the Group's presence in the new residential market. The Group's electrical distribution activities have been expanded through an acquisition in Ireland.

Environmental
Wolseley is taking an active role in the sourcing and supply of renewable and sustainable building materials. Wolseley UK's Sustainable Building Centre ('SBC'), a 6,800 square foot, interactive showcase for renewable and sustainable building materials, is presently under construction and is scheduled to be fully operational by April 2008. The building features the best available sustainable construction products selected from a bespoke range provided through Wolseley UK trading brands. The range, which has been established since the beginning of 2007, is already proving attractive to many Wolseley customers in a diverse range of business segments. Wolseley UK intends that the SBC will become the leading UK industry resource for sustainable building products and supporting information, promoting sustainable building best practices.

The Group's approach to environmental measures is set out in the Corporate social responsibility report on pages 44 to 51. In accordance with the reporting guidelines suggested by the UK Government's Department for Environment, Food and Rural Affairs, the Group has developed a range of environmental measures, including those in the areas of carbon dioxide emissions, waste management and water use which are disclosed in the Corporate social responsibility report on pages 45 to 46.

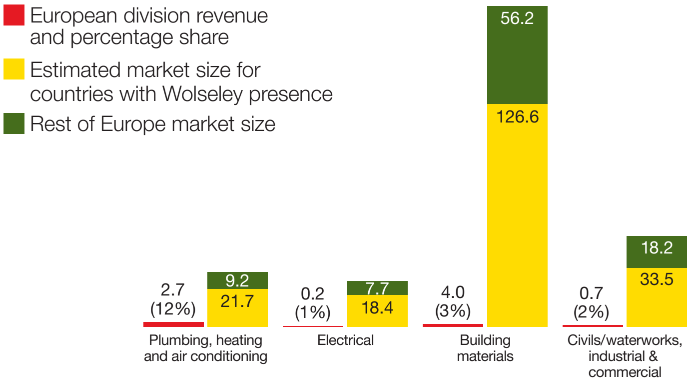
47%

The increase in reported revenue of the European division

£292bn

The estimated size of the total market opportunity in Europe

Europe revenue and market share
£bn



Operations

Europe

Market

The European Division continues to develop under four geographic areas ('clusters') – UK and Ireland, France, the Nordic region and Central and Eastern Europe. The latter is responsible for the division's operations in Austria, the Benelux region, Italy, Switzerland and Eastern Europe.

The division has over 3,300 branches serving a diverse range of customers and market sectors within construction materials.

In the opinion of management, Wolseley UK's plumbing business is the UK's largest distributor of plumbing and heating products, Brossette is the second largest distributor of plumbing and heating equipment in France, PBM is the second largest integrated distributor of heavyside building materials in France and DT Group is the leading distributor of building materials for trade professionals and consumers in the Nordic region.

European markets each have their own economic growth rates and market participants. The diversity of the Wolseley operations and the fragmentation that exists in the European markets present significant growth opportunities for the Group. Some important trends at present include:

- An increasing rate of residential repair and maintenance across Europe, as more is spent on upgrading the ageing housing stock.
- An increasing percentage of flats/apartments in the building mix, helping plumbing and heating products.
- Infrastructure growth in recently joined EU members in the Central and Eastern Europe region.
- High levels of migrant workers creating both employment within construction and 'hot spots' for residential growth.
- The growth of sustainable construction products across Europe.
- Increased usage of modern methods of construction, such as offsite fabrication.

Wolseley has a well balanced product offer across Europe and is able to adopt and adapt business practices to exploit these market trends within its specific country markets.

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

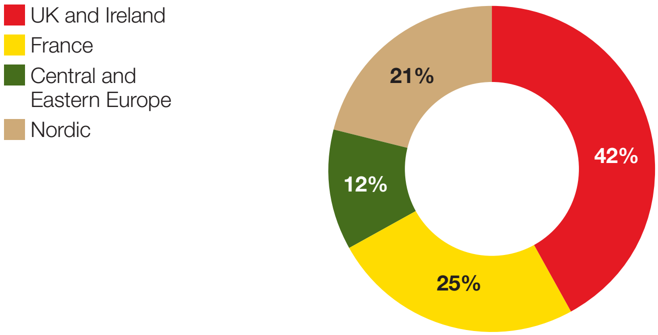
Market size

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

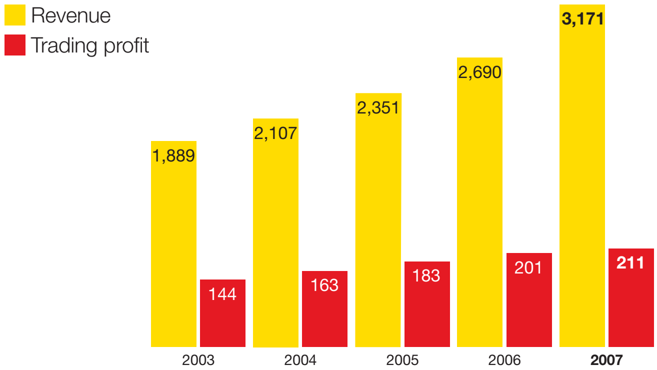
	Total for countries with Wolseley presence			UK and Ireland		
	Revenue £bn	Estimated market size £bn	Estimated market share %	Sales £bn	Estimated market size £bn	Estimated market share %
Plumbing, heating & air conditioning	2.7	21.7	12%	1.6	5.2	30%
Electrical	0.2	18.4	1%	0.1	3.2	3%
Building materials	4.0	126.6	3%	1.1	30.6	4%
Civils/waterworks, industrial & commercial	0.7	33.5	2%	0.4	3.8	11%
Total	**7.6**	**200.2**	**4%**	**3.2**	**42.8**	**7%**

	France			Central and Eastern Europe			Nordic		
	Sales £bn	Estimated market size £bn	Estimated market share %	Sales £bn	Estimated market size £bn	Estimated market share %	Sales £bn	Estimated market size £bn	Estimated market share %
Plumbing, heating & air conditioning	0.5	5.1	10%	0.6	9.8	6%	–	1.6	0%
Electrical	–	6.2	0%	–	7.1	0%	0.1	1.9	5%
Building materials	1.3	23.2	6%	0.1	58.8	0%	1.5	14.0	11%
Civils/waterworks, industrial & commercial	0.1	5.8	2%	0.2	20.6	1%	–	3.3	0%
Total	**1.9**	**40.3**	**5%**	**0.9**	**96.3**	**1%**	**1.6**	**20.8**	**8%**

Europe revenue



Revenue and trading profit
UK and Ireland £m



An analysis of the estimated total market opportunity in Europe, including those territories where at 31 July 2007 Wolseley had no presence, is set out below:

	Europe (Total)			Rest of Europe
	Sales £bn	Estimated market size £bn	Estimated market share %	Estimated market size £bn
Plumbing, heating & air conditioning	2.7	30.9	9%	9.2
Electrical	0.2	26.1	1%	7.7
Building materials	4.0	182.8	1%	56.2
Civils/waterworks, industrial & commercial	0.7	51.7	1%	18.2
Total	**7.6**	**291.5**	**3%**	**91.3**

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

- the residential market analysed between new construction and RMI;
- the non-residential market ('the commercial and industrial market') analysed between new construction and RMI; and
- the civil infrastructure market.

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

	Sales £bn	**Sales %**
Residential:		
New construction	2.2	29%
Repairs, maintenance and improvements	3.1	41%
Non-Residential:		
New construction	1.1	15%
Repairs, maintenance and improvements	0.9	11%
Civil infrastructure	0.3	4%
Total	**7.6**	**100%**

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

Significant opportunities are available to broaden the division's reach both geographically and in terms of market segment. The acquisitions of DT Group and Woodcote represent significant steps in this regard.

Divisional performance

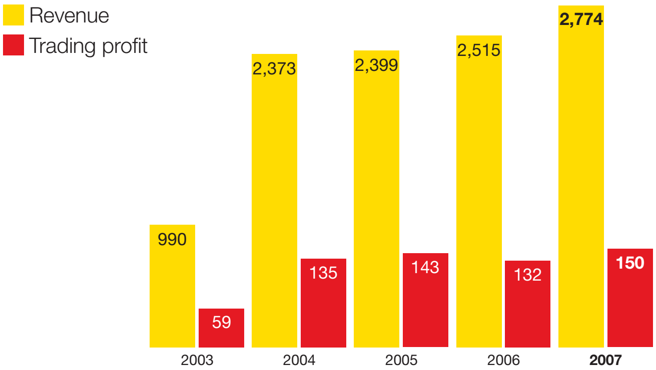
Most of the European operations achieved good revenue and profit improvements and the results also benefited from acquisitions which expanded the geographic diversity of the Group.

Reported revenue, in sterling, for this division increased by 46.8 per cent to £7,559 million (2006: £5,150 million), of which 8.8 per cent was from organic growth. Recent acquisitions accounted for £2,010 million (39.0 per cent) of revenue growth, including DT Group in the Nordic region in September 2006. Trading profit, in sterling, increased by 36.9 per cent to £433 million (2006: £316 million). Currency translation reduced divisional revenue by £50 million (1.0 per cent) and trading profit by £2 million (0.6 per cent). Excluding DT Group, European revenues and trading profit, in sterling, were up by 15.4 per cent and 5.5 per cent respectively.

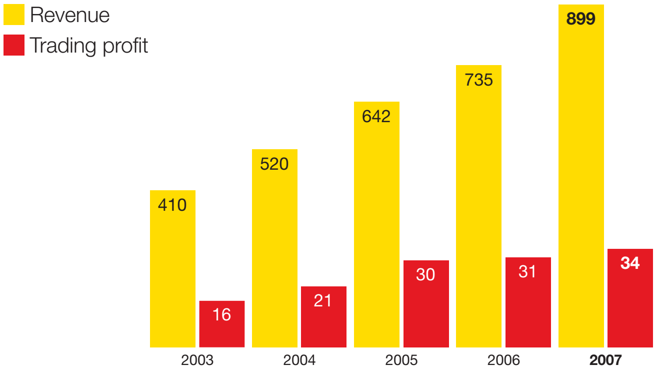
The overall divisional trading margin, after the allocation of central costs, declined from 6.1 per cent to 5.7 per cent of revenue, primarily due to lower trading margins in Wolseley UK and in Italy. Underlying margin improvements were achieved in France and most of the Central and Eastern European operations.

During the year, a further eight countries and net 450 branches were added to the European network, giving a total of 3,311 locations (2006: 2,861), including 363 added through acquisitions.

Revenue and trading profit
France €m



Revenue and trading profit
Central & Eastern Europe £m



UK and Ireland
Wolseley UK grew strongly in a market which showed a gradually improving trend over the year, despite rising interest rates. Government spending on schools, hospitals and social housing RMI underpinned the construction market. In Ireland, the market saw continued rapid decline in housing starts, with some of the shortfall taken up by strong RMI activity.

Against this background, Wolseley UK recorded a 17.9 per cent increase in revenue to £3,171 million (2006: £2,690 million). Organic growth of 9.9 per cent was a significant outperformance compared to the market generally, which is estimated to have risen by around 3 per cent.

Trading profit increased by 5.0 per cent compared to the prior year, including the benefit from acquisitions. Whilst gross margin improved slightly, the trading margin fell from 7.5 per cent to 6.7 per cent. The trading margin was lower due to the effect of £13 million of one-off restructuring costs relating to 40 branch closures and the rationalisation of central offices, the initial dilutive impact of opening 125 new branches and the integration of the head offices of Brooks and Heatmerchants in Ireland.

During the year, 59 net new locations were added in the UK and Ireland, including 12 branches added as a result of acquisitions, taking the total number of branches for Wolseley UK to 1,917 (2006: 1,858).

France
In France, housing starts slowed significantly in the second half but remained at positive levels, whilst RMI, which represents approximately two-thirds of revenue for both Brossette and PBM, continues to show only marginal growth.

Against this background, Wolseley's French operations showed good growth with revenue up 10.3 per cent to €2,774 million (2006: €2,515 million), including organic growth of 5.9 per cent. Trading profit was up 13.1 per cent to €150 million (2006: €132 million) and trading margin improved to 5.4 per cent (2006: 5.3 per cent). The Wolseley France management structure is now fully in place with a number of central functions supporting the three business divisions, each of which performed well in the period. At the end of June 2007, a 210,000 square foot national DC was opened at Orléans initially supplying complementary building products to more than 300 PBM locations.

The two PBM businesses (Heavyside and Import and Wood Solutions) together achieved a double-digit increase in revenue and underlying improvement in trading margin.

In the Brossette plumbing and heating business, revenue rose 7.6 per cent to total more than €1 billion for the first time, with 5.2 per cent organic revenue growth. The improved trading margin benefited from the recent reorganisation including the centralisation of a number of functions such as purchasing and logistics.

The number of branches in France increased by 40 to 825 (2006: 785).

Nordic
DT Group achieved a very strong performance, ahead of expectations at the time of acquisition by Wolseley on 25 September 2006. For the ten months of Wolseley ownership to 31 July 2007, revenue was DKK17,858 million (£1,617 million) and trading profit was DKK1,097 million (£99 million). The trading margin was 6.1 per cent. This performance was achieved in markets that remained good, although there were signs of the new residential market in Denmark softening a little towards the end of the year.

DT Group's integration was completed ahead of schedule and it has already made a valuable contribution to Group initiatives. During the period, eight bolt-on acquisitions were completed, including expansion into the plumbing and heating business in Norway and the purchase of the remaining 40 per cent of a builders' merchant in Greenland. DT Group has also started to source and procure private label products with other Group companies and assisted the UK and Irish businesses to introduce its Craftsman concept into some branches, for clothing, personal protection equipment and tools. The range of plumbing products in existing DT locations continues to be expanded.

For the 12 months to 31 July 2007, DT Group's management accounts show an underlying increase in revenue over the prior year of 14.6 per cent, including double-digit organic growth, and in trading profit, of 26.5 per cent.

DT Group had 275 branches as at 31 July 2007.

Central and Eastern Europe
The Group's other Continental European operations enjoyed generally good results with growth significantly ahead of generally flat markets. Revenue, in sterling, in Central and Eastern Europe was up by 22.4 per cent to £899 million (2006: £735 million), reflecting organic growth of 11.7 per cent and the benefit of acquisitions. Trading profit, in sterling, was up 9.6 per cent to £35 million (2006: £31 million). The trading margin declined to 3.8 per cent (2006: 4.3 per cent) due to the previously announced £3 million restructuring charge in Italy following the opening of the new distribution centre and a lower trading margin in Belgium.

In the other Benelux countries, both Wasco in the Netherlands and CFM in Luxembourg made excellent progress with double-digit revenue and trading profit growth.

Tobler, in Switzerland, had another strong year with double-digit organic growth whilst increasing its trading margin.

ÖAG, in Austria, reported double-digit organic revenue growth and an improvement in trading margin, despite significant preparation work ahead of the implementation of its new IT platform which went live in August 2007.

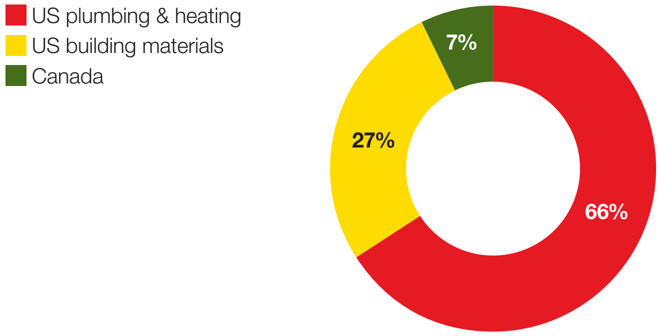
+14.8%

The increase in local currency revenue of Ferguson

-3.8%

The decrease in reported sterling revenues of the North America division

North America revenue



In Italy, revenue increased although profits were down, as expected, due to the initial costs of the new €20 million (£14 million) DC that commenced branch deliveries at the end of 2006 and the €4 million (£3 million) one-off restructuring charge, primarily relating to the closure of warehouses no longer required. The number of branches fed from the new DC will be further expanded over the next six months.

In Eastern Europe, the Woodcote acquisition in October 2006, which took Wolseley into Croatia, Slovakia, Poland and Romania for the first time, is performing strongly across all regions.

During the year, 76 net new locations were added in Central and Eastern Europe, including 45 branches through acquisitions, taking the total number to 294 (2006: 218).

North America

Market

The Group's activities in North America centre around two main market areas – plumbing and heating distribution, which are served by Ferguson and Wolseley Canada, and building materials distribution, which is served by Stock. Ferguson and Wolseley Canada have now been integrated to bring a more strategic approach to plumbing and heating distribution at a North American level.

Ferguson is the largest wholesale distributor of plumbing supplies, pipes, valves and fittings in the USA and a major distributor of heating, ventilation and air conditioning systems[1]. The company also distributes waterworks products, fire protection products and industrial pipes, valves and fittings as well as operating a number of speciality businesses, serving markets such as the nuclear industry and a maintenance, repairs and operations management services business. Ferguson is managed through 'business groups' such as Heating Ventilation and Air Conditioning ('HVAC') and Waterworks. These business groups allow management to focus on the specific needs of key groups of customers. Ferguson is present in 50 states, as well as the District of Columbia and has 1,417 branches (2006: 1,237 branches).

Wolseley Canada distributes plumbing, heating and piping products, including heating, ventilation and air conditioning, waterworks, refrigeration, industrial pipes, valves and fittings and fire protection products as well as industrial plumbing supplies to customers through its 260 branches (2006: 246 branches).

Stock is the second largest supplier of building materials to professional home builders and contractors in the USA[2]. Stock is present in 33 states with 308 locations (2006: 314 locations) and provides contractors with building materials such as structural timber products, roofing materials, doors, windows, insulation and hardware. Stock also assembles and sells a variety of engineered wood products including roof trusses, and offers customer delivery, design and installation as well as financing and credit services.

In general, the North American plumbing and heating distribution market is fragmented with an estimated 95 per cent of distribution operations employing less than 100 people. Consolidation of market players has accelerated with some of the major retailers having moved more significantly into the market. The North American building materials market is also very fragmented.

Both markets have been impacted in the year by weakness in the new residential sector of the market which has been affected by an oversupply of new homes, rising interest rates and sub-prime mortgage default issues. Despite this, Ferguson has shown good organic growth outperforming the market and gaining market share. Although Stock's revenue declined, it also outperformed its market.

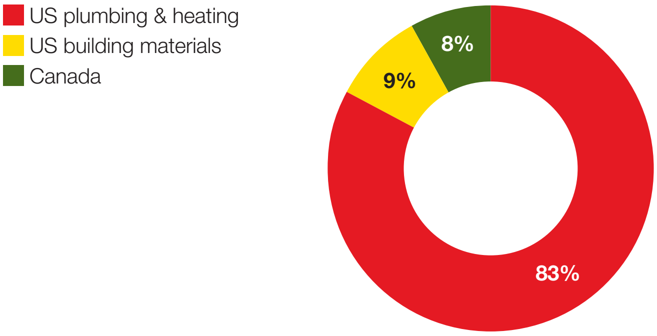
Demographic trends support high rates of home ownership and residential construction in the long-term with 'baby boomers' entering their peak earnings time and purchasing second or trade-up homes. Baby boomers, who are thought to control a majority of the wealth in the USA, are also expected to have a significant effect on the repair and remodel market as their decision to improve their existing homes will be less influenced by the state of the economy.

The plumbing and heating distribution market is driven by new construction and remodelling sales. The latter market is less cyclical. The building materials market is influenced similarly although Stock's business is currently more focused on the new residential construction sector and has therefore been significantly affected by weakness in that market in the year, as well as by lumber and panel commodity prices which have declined in this period of weak demand. Annualised housing starts in the USA at 31 July 2007 were 1.37 million per annum[3], compared with just below 1.8 million per annum at 31 July 2006.

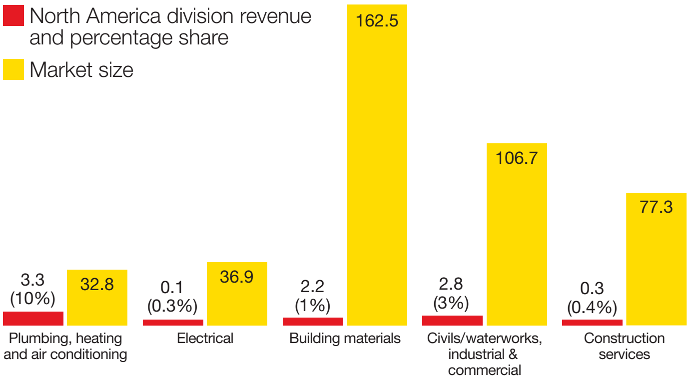
Splitting the US into four geographic regions and using US Census information (for housing starts) and estimates provided by North America's Home Improvement Research Institute (for remodelling), it is possible to analyse the split and growth or decline in activity of new housing and remodelling by region. This can then be compared to Wolseley's share of its business in each of these regions although it should be noted that this also includes some revenue from non-residential sources.

[1] Source: Supply House Times, May 2007
[2] Source: ProSales, 2007
[3] Source: US Census Bureau

North America trading profit



North America revenue and market share
£bn



Region	New residential: Calendar 2006 share of starts	New residential: Decline versus 2005	Remodelling: Calendar 2006 share	Remodelling: Growth versus 2005	Wolseley: Share of revenue in 2006/7
Northeast	9.3%	(11.9)%	17.3%	7.8%	7.5%
Midwest	15.5%	(21.8)%	23.0%	6.2%	15.6%
South	50.5%	(8.6)%	36.0%	9.1%	46.5%
West	24.7%	(15.4)%	23.7%	8.6%	30.4%

Note: New residential and remodelling information relates to calendar years whereas the Wolseley information relates to the year ended 31 July 2007.

In the South and West areas which in 2006 represented 75.2 per cent of new housing starts and 59.7 per cent of remodelling activity, the division had 76.9 per cent of its business and hence is well placed to exploit these key markets.

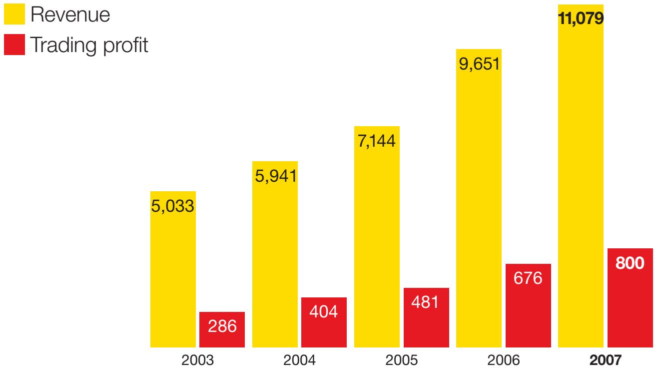
Management has estimated overall market sizes for North America. For the materials market, market size is based on the final selling cost to the installer or end user. For construction services, the market only includes those activities currently serviced by Wolseley. Management's best estimate of both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

	Wolseley North America			USA			Canada		
	Sales £bn	Estimated market size £bn	Estimated market share %	Sales £bn	Estimated market size £bn	Estimated market share %	Sales £bn	Estimated market size £bn	Estimated market share %
Plumbing, heating and air conditioning	3.3	32.8	10%	2.9	27.6	10%	0.4	5.2	8%
Electrical	0.1	36.9	0%	0.1	30.3	0%	–	6.6	0%
Building materials	2.2	162.5	1%	2.2	148.6	1%	–	13.9	0%
Civils/waterworks, industrial & commercial	2.8	106.7	3%	2.6	102.7	3%	0.2	4.0	5%
Construction services	0.3	77.3	0%	0.3	57.8	1%	–	19.5	0%
Total	**8.7**	**416.2**	**2%**	**8.1**	**367.0**	**2%**	**0.6**	**49.2**	**1%**

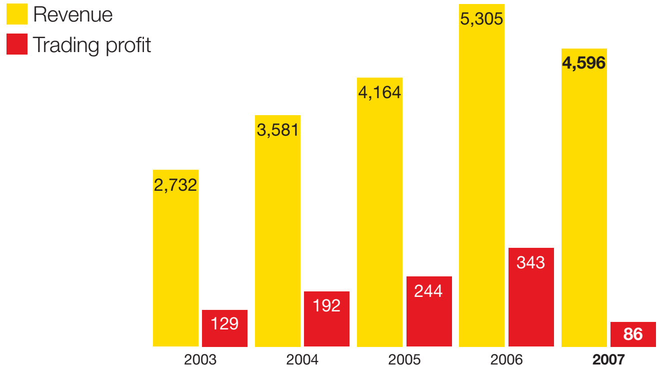
Management has also estimated the business drivers for its revenues in a consistent manner to the European division. The results are shown below:

	Sales £bn	**% Sales**
Residential:		
New construction	3.4	38%
Repairs, maintenance and improvements	1.3	15%
Non-residential:		
New construction	2.1	25%
Repairs, maintenance and improvements	1.1	13%
Civil Infrastructure	0.8	9%
Total	**8.7**	**100%**

Revenue and trading profit
US plumbing & heating US$m



Revenue and trading profit
US building materials US$m



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

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

Divisional performance

The North American division performed well ahead of a market which was significantly impacted by a slowdown in the new housing sector, maintaining its position as the leading distributor of construction products to the professional contractor in North America.

Reported revenue, in sterling, of the division decreased 3.8 per cent to £8,662 million (2006: £9,008 million), reflecting the 8.1 per cent negative impact of currency translation and an organic revenue decline of 4.6 per cent, partly offset by acquisitions. Trading profit, in sterling, declined by 19.2 per cent to £487 million (2006: £603 million), after charging £12 million of one-off costs relating to headcount reductions and branch closures. Currency translation reduced divisional revenue by £726 million (8.1 per cent) and trading profit by £49 million (8.1 per cent).

The North American operations are being increasingly integrated with a number of central functions now supporting all three businesses. Since 1 August 2007, Wolseley Canada has been integrated into Ferguson, operating with the same business structure which focuses on specific customer types, and will benefit from leveraging the US operations, including the DC network. There has been a particular focus to reduce aggregate corporate costs across the North American businesses and functions and these have declined by 8 per cent. There was a net increase of 188 branches in North America to 1,985 (2006: 1,797). Two new DCs in Frost Proof, Florida and Stockton, California are scheduled to be opened before the end of the 2008 financial year, adding more than one million square feet of space to the North American DC network.

In the USA, the new residential market continued to be challenging, but the RMI market and the commercial and industrial sectors continued to provide opportunities for growth. Aggregate revenue, in dollars, from the Group's US businesses, including acquisitions, was 4.8 per cent higher but US trading profit, in dollars, was down by 13.2 per cent due to the decline in profits in Stock. US Dollar weakness led to an 8.2 per cent adverse currency translation impact when US results are reported in sterling.

US plumbing and heating

Ferguson produced another strong performance with 5.5 per cent organic growth, from its focus on core businesses and the advantages gained from its DC network. Commercial and industrial activity remained strong throughout the year and the RMI market remained robust for most of the financial year. However, there were increasing signs of the RMI market slowing towards the end of the period in response to weaker consumer sentiment relating to the problems in the sub-prime sector and concerns associated with the impact of the deteriorating housing market on the US economy.

Local currency revenue in the US plumbing and heating operations rose by 14.8 per cent to $11,079 million (2006: $9,651 million) with trading profit up by 18.4 per cent to $800 million (2006: $676 million). Organic revenue growth of 5.5 per cent was significantly ahead of the market generally, benefiting from the diversity of the business across waterworks, heating, ventilation and air conditioning, industrial and commercial as well as residential markets. Gross margin was up slightly and the trading margin also improved from 7.0 per cent to 7.2 per cent and is the highest ever trading margin achieved. The higher trading margin reflects the business diversity and the specialist product offering as well as a focus on cost efficiency. Increases in commodity prices, mainly copper, gave rise to one-off profits amounting to around $20 million in the year (2006: $43 million).

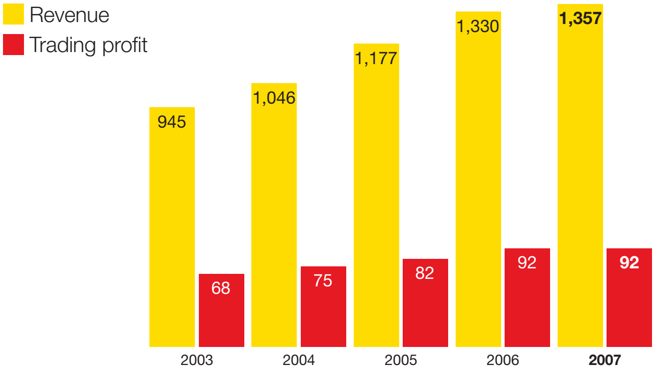
Ferguson's total branch numbers increased by 180 to 1,417 locations (2006: 1,237).

US building materials

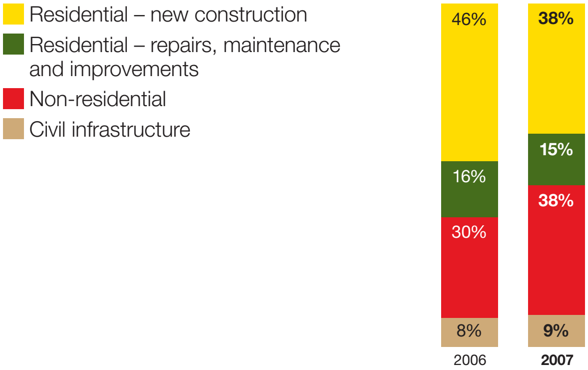
The continued slowdown in the new residential market, which accounted for approximately 80 per cent of the activity in this business, caused a reduction in volumes, increased price competition and also led to significantly lower lumber and structural panel prices. These factors have inevitably impacted on Stock's financial performance despite an aggressive cost reduction programme. Stock continues to outperform in most of its major markets with a 15 per cent reduction in volumes compared to the 25 per cent average decline in housing starts.

New housing has continued to be a difficult market with housing starts having fallen from an average annualised rate of 2.02 million for the 12 months to 31 July 2006 to an average of 1.54 million this year, with the figure in August 2007 being lower, at 1.33 million. There continues to be significant regional variation with the markets in Utah, Idaho, Texas and the Carolinas performing relatively better than the weakest markets in the northeast, midwest, Las Vegas, Colorado and Florida.

Revenue and trading profit
Canada C$m



North America revenue by business drivers



In local currency, Stock's revenue was down 13.4 per cent to $4,596 million (2006: $5,305 million) with trading profit down 74.9 per cent to $86 million (2006: $343 million), after charging the previously announced one off costs of $22 million relating to branch closures and headcount reductions. During the year, there was a reduction of around 3,500 people, representing approximately 20 per cent of Stock's total workforce. The decline in organic revenue in the year was 24.2 per cent, reflecting the 15 per cent fall in volume and commodity price deflation in lumber and structural panels, which fell 20 per cent and 24 per cent respectively. The deflation in commodities, which account for around 43 per cent of Stock's revenue, had the effect of reducing local currency revenue by $470 million (9 per cent). Acquisitions contributed $577 million (10.9 per cent) to revenue growth.

Stock's gross margin was slightly lower due to pricing pressure in the difficult markets. The trading margin declined significantly from 6.5 per cent to 1.9 per cent, primarily due to lower volumes and prices and the effect of one off restructuring costs.

As part of a cost cutting programme, a number of initiatives have been undertaken including centralising the sourcing of commodity products, headcount reductions and the closure of 46 branches.

Stock will continue with its strategy of diversifying its business to reduce its dependency on the new residential market and expand its presence in the commercial and industrial and RMI markets by a combination of acquisitions and organic growth. The Group continues to believe that the US housing market offers good long-term growth opportunities and Stock will continue to expand its geographic coverage in selective residential markets where value creating opportunities are identified.

As previously announced, there was also a $10 million goodwill and intangible asset impairment provision recorded as a result of market conditions in the Midwest region, where a number of branches were closed. At 31 July 2007, Stock had 308 branches, although, following the previously announced closure plans, its branch network going forward will comprise 287 branches across 33 states (2006: 314 branches).

Wolseley Canada
In Canada, although housing markets held up reasonably well and economic activity remained positive, business from the oil and gas exploration industries in Western Canada was weak for most of the year as a result of warmer weather, lower natural gas prices and higher gas inventory levels.

Against this background, Wolseley Canada's local currency revenue increased by 2.1 per cent to C$1,357 million (2006: C$1,330 million and trading profit increased by 0.7 per cent to C$92 million. The trading margin declined slightly to 6.8 per cent (2006: 6.9 per cent) reflecting the initial start up costs of the new regional DC in Oakville, Ontario.

Branch numbers in Canada were increased by 14 to 260 (2006: 246).

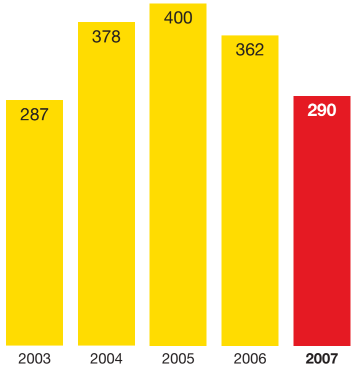
Future outlook
Recent events relating to the sub-prime market in the US and the subsequent concerns over liquidity in global financial markets have created uncertainty which is reflected in less favourable recent sales trends for a number of the Group's businesses. It is too early to assess whether these trends will continue.

There are no signs yet of any upturn in the US housing market and the RMI market is now beginning to soften. The commercial and industrial market should remain positive, albeit at lower rates of growth. The strength and diversity of the Group's US operations and their ability to respond rapidly to the changing operating environment will enable them to continue to outperform the market.

Generally in Europe, the underlying fundamentals of the construction markets remain sound and Wolseley's operations are expected to show further good progress.

Irrespective of market conditions, the Group will continue to execute its strategy of value creation through a combination of organic growth and acquisitions. The Group is confident that it will generate competitive advantage by pursuing the initiatives relating to supply chain, sourcing and private label. The rigorous focus on cash flow maximisation and cost efficiency will continue as will the swift and decisive action in response to prevailing market conditions. The Group is positioned well to benefit from any improvement in business and consumer confidence.

Lumber prices
Per thousand board feet US$



Risk management

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

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

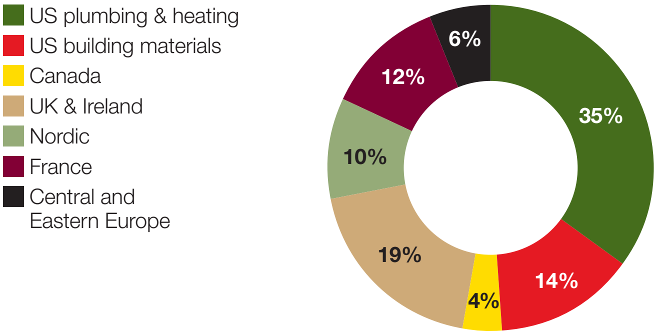
The ability of Wolseley to monitor, assess and respond to these business risks can often provide it with competitive advantages and hence the business' resources are carefully managed in these areas. The principal risks faced by the Group and its management response thereto are summarised below:

Risk	Resource management
Market conditions Wolseley's products are distributed to a wide range of customers in connection with commercial, industrial and residential construction projects and the Group's results are consequently dependent on the levels of activity in their markets. The level of activity varies by market depending on many factors including general economic conditions, the availability of credit to finance customer investment, mortgage and other interest rates, inflation, unemployment, demographic trends, weather, the price of fuel and consumer confidence.	The Group's businesses closely monitor both market and geographic trends and understand lead and lag indicators in order to take timely actions to address issues affecting trading. The diversity of the Group's operations, the nature of its customer base and its ability to react to market changes also provide a degree of protection. The Group actively manages both its acquisitions activity and new branch openings to ensure it is best placed to exploit market opportunities.
Product prices and availability The market price and availability of products distributed by the Group, such as stainless steel, copper, plastic, lumber and other products (or commodities used in such products), can fluctuate. These fluctuations can affect operating results. Lumber prices are affected both by changes in the availability of the raw logs and by changes in the volume and age profile of production capacity in the industry. Panel prices in the US are affected by housing demand and production capacity. Product shortages may arise as a result of unexpected demand or production difficulties and this could have an effect on the Group's operations.	The Group's businesses actively review market prices for their supplies and take steps to protect themselves or, indeed, maximise opportunities arising from significant anticipated price rises. In many cases, the businesses are able to cooperate with their supplier base to manage the effects of such product price changes. Generally, the Group is able to pass on price increases from its suppliers to its customers. The Group sources products from a wide variety of manufacturers and suppliers with none of these accounting for more than 5 per cent of its total material and supply purchases during the 2007 financial year. Increasing collaboration with suppliers including joint demand forecasting initiatives is also helping to better manage product shortage issues.
Competitive pressures The Group operates in a number of different markets with differing characteristics. The principal aspects of the Group's offerings that have an impact on its competitive position in a market are product availability, supply chain efficiency, pricing, the quality of its people, customer service, branch location, availability of credit, an efficient and streamlined organisation, technical product knowledge with respect to application and usage and advisory and other service capabilities. In its markets, Wolseley competes with and is affected by the actions of many local and regional distributors together with product manufacturers. Consolidation in the building materials market may produce pressure on prices and margins, although the competitive environment remains highly fragmented.	The Group actively works with its customers to find innovative ways to meet their changing needs in order to remain at the forefront of its chosen markets. Wolseley's value proposition is based on the service, expertise and the product breadth it offers rather than strictly competing on price. The combination of Wolseley's international scale, allowing it to continually invest efficiently in people, technology and logistics, thus reducing the underlying cost base, together with local company autonomy for managing the customer base, is designed to enhance the Group's competitive position.

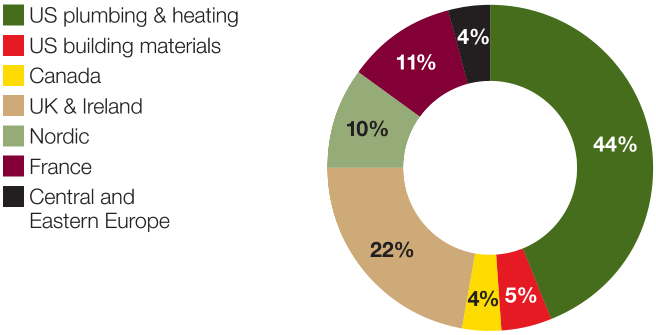
Risk	Resource management
Systems and infrastructure capabilities Wolseley targets sustained double-digit growth from a combination of acquisitions and organic growth. This growth places increasing demands on Wolseley's existing systems and on its supply chain and logistics infrastructure. Additionally, to support and enable future growth, the Group is undertaking multiple business change initiatives and is in the process of installing a common IT platform across the Group.	Wolseley is committed to investing to support its short, medium and long-term growth targets and ensure the appropriate infrastructure is in place. There are several business improvement initiatives under way relating to supply chain, sourcing, private label, human resources, the deployment of technology and customer service. These initiatives are actively and carefully planned with defined governance procedures in place. An important component of this planning process is to ensure that the risks of disruption to the business are controlled and monitored.
Identification and successful integration of acquisitions Wolseley's growth strategy is in part dependent on acquiring businesses. Market consolidation may, over a period of time, lead to increased competition for targets and, as a result, higher acquisition prices or fewer value-creating prospects. The integration of acquisitions also involves a number of unique risks, including diversion of management's attention, failure to retain key personnel of the acquired business and risks associated with unanticipated events or liabilities.	The Group continually reviews acquisition targets through established processes and searches. The status of targeting and progress in making acquisitions is reported regularly to the Board and the Executive Committee. The Group employs dedicated acquisition and integration teams whose processes have given the Group a successful track record of integrating acquisitions and achieving expected results. Recent changes have been made to the Group's management structure to increase the central resource focused on identifying and integrating acquisitions. The Group typically targets high quality businesses for acquisition, which not only quickly contribute to cash flow and earnings, but also expand the depth of management knowledge and expertise and provide opportunities for best practice sharing with existing businesses. The Group continues to expect to find sufficient, suitably priced acquisitions, to enable it to meet its growth targets. The Group also has the advantage of being able to expand and leverage its extensive existing network as an alternative means to achieving growth in certain areas. Post acquisition reviews are carried out on all acquisitions to ensure achievement of the planned integration benefits.
Governmental regulations The Group's operations are affected by various statutes, regulations and laws in the countries and markets in which it operates. While the Group is not engaged in a regulated industry, it is subject to the laws governing businesses generally, including laws affecting land usage, zoning, environmental (including laws and regulations affecting the supply of lumber), health and safety, transportation, labour and employment practices (including pensions), competition and other matters. In addition, building codes or particular tax treatments may affect the products Wolseley's customers are allowed to use and, consequently, changes in these may affect the saleability of some Wolseley products.	The Group monitors regulations across its markets to ensure that the effects of changes are minimised. Certain changes in regulations may also positively impact the businesses. For instance, changes in building regulations in the UK with regard to the level of heat insulation required in new buildings have presented a growth opportunity for Wolseley UK. Such changes may also provide demand for a broader and higher margin product range.

Risk	Resource management
Litigation The international nature of Wolseley's operations exposes it to the potential for litigation from third parties. In the US, the risk of litigation is generally higher than that in Europe in such areas as workers' compensation, general employer liability and environmental and asbestos litigation. There is risk that due to the increasing sourcing of products from lower cost countries, recourse to the manufacturer may be more difficult were a product to fail for a customer.	Wolseley has a culture and approach which is designed to resolve disputes directly with the party in question in a spirit of openness and co-operation. Litigation is regarded as a last resort. In the case of asbestos litigation, Wolseley employs independent professional advisers to actuarially determine the potential gross liability, which necessitates the application of certain assumptions relating to claims development and the cost of settling such claims over the remaining lifetime of the potential litigants, which is approximately 50 years. There are a number of factors which could enable actual experience to differ from the assumptions made. Actual experience is reviewed against the assumptions each year and the liability adjusted in the financial statements. Wolseley has insurance which significantly exceeds the current estimated liability relating to asbestos claims. Based on current estimates, no profit or cash flow impact is therefore expected to arise in the foreseeable future. Wolseley has recognised a discounted liability of £35 million in respect of asbestos litigation. An equal receivable amount of £35 million is shown in other receivables reflecting the discounted sum recoverable from insurers in respect of this liability.
People Wolseley's ability to provide leadership and products and services to customers is dependent on retaining sufficiently qualified, experienced and motivated personnel. In order to achieve its growth strategy and increase productivity, Wolseley must continue to increase this skill and experience base to develop the managers of the future.	One of Wolseley's key competitive advantages is the quality and experience of its people. Local companies have allocated specific responsibilities for reviewing the performance of senior managers and employees with high potential. Development and succession planning for these individuals is planned and strong performance is actively rewarded. The Group continues to invest significant time and money in senior management, manager development and graduate trainee and graduate recruitment programmes.
Risks related to international operations Wolseley has its principal operations in Europe and North America and is therefore subject to the specific risks of conducting business in these regions. In addition, there are particular risks arising from managing operations internationally: • fluctuations in currency exchange rates may affect Wolseley's reported operating results and its financial position; • changes in tax regulation and international tax treaties could affect the financial performance of Wolseley's foreign operations; and • changes in other regulations/treaties may also affect the ability of the Group to repatriate profits from its foreign operations. The management of Wolseley's businesses and personnel across 28 countries can also present logistical and management challenges due to different business cultures, laws and languages.	Wolseley believes that the benefits of its geographical spread outweigh the associated risks. The portfolio effect of economic conditions, exchange rates and other associated factors of having operations in Europe and North America provide some protection in terms of the long-term performance of Wolseley. The Group continually seeks opportunities to increase its business diversity and has programmes in place to share best practice. Increasingly, the Group's businesses are working together to meet customers' needs and to ensure the Group achieves more international leverage. The Group seeks to manage its foreign currency risk and the steps it takes are described in the Financial Risk Management section on pages 40 to 41. The Group actively works with its taxation advisers to minimise its tax exposure and risk.

Group revenue



Group trading profit



Risk

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.

Stock 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.

Resource management

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. Not only does this lessen the risk of non-payment but it can also provide opportunities where these teams can work with higher risk customers to provide innovative, secured credit arrangements.

Historic write-off rates are low and appropriate provisions are made for debts that may be impaired on a timely basis.

Stock's construction loans are secured on the related properties and are managed by a dedicated lending team within that business. Policies are also applied to provide further protection and KPIs are monitored regularly by management outside the business.

Financial review

Revenue and operating profit

After taking account of currency translation, Group revenue increased by 14.6 per cent from £14,158 million to £16,221 million.

Operating profit decreased by 9.7 per cent from £834 million to £753 million. Trading profit decreased by 0.6 per cent from £882 million to £877 million, before deducting amortisation and impairment of acquired intangibles of £124 million (2006: £48 million).

Currency translation

Currency translation decreased Group revenue by £776 million (5.5 per cent) and Group trading profit by £51 million (5.8 per cent) compared with 2006. Over the past five years the constant currency growth of the Group is as follows:

Annual growth in constant currency	**% 2007**	% 2006	% 2005	% 2004	% 2003
Revenue growth	**21.2**	22.8	14.2	29.5	8.5
Trading profit growth	**5.5**	21.6	19.7	37.2	6.9

Note: 2007, 2006 and 2005 figures prepared under IFRS. 2004 and 2003 figures prepared under UK GAAP.

The effect of US dollar depreciation has been to decrease translated US profits by £46 million (8.2 per cent) compared with 2006. US dollar denominated profits account for 50.7 per cent of the Group's trading profit.

There has been a less significant reduction in the Euro translation rate which has decreased Euro trading profits by £2 million. (1.7 per cent) compared with 2006. Euro denominated profits accounted for 17.8 per cent of Group trading profit in 2007. If the results of the Group are translated into dollars at the average rate for the respective year the results of the Group are as follows:

US$ million	**2007**	2006	2005	2004	2003
Revenue in US$	**31,610**	25,322	20,839	17,746	13,113
Trading profit in US$	**1,709**	1,577	1,311	1,085	754
Operating profit in US$	**1,467**	1,491	1,300	1,017	706

Note: 2007, 2006 and 2005 figures prepared under IFRS. 2004 and 2003 figures prepared under UK GAAP.

Further US$ figures and the basis of computation of the above figures can be found within the Information in US dollars section on page 125.

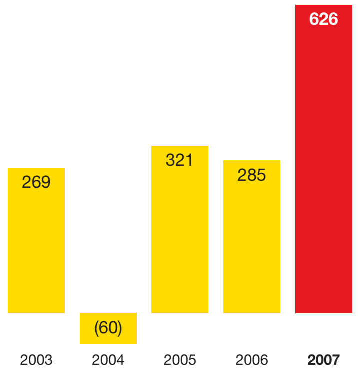
Finance costs

Net finance costs of £119 million (2006: £65 million) reflect an increase in Group debt as a result of the acquisition of DT Group and other acquisitions and an increase in interest rates, partly offset by the effect of strong operating cash flow. Net interest receivable on construction loans amounted to £11 million (2006: £12 million). Interest cover was 7 times (2006: 14 times).

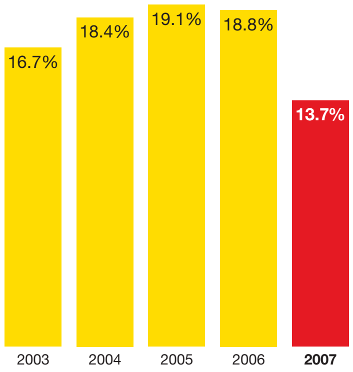
Tax

The effective tax rate, being tax payable on profit before tax and amortisation and impairment of acquired intangibles, decreased from 28.4 per cent to 25.4 per cent. This is due to a higher proportion of the Group's profits coming from lower tax jurisdictions in Europe following the DT Group acquisition, the reduction in tax rates in some companies and the impact of deferred tax on share options.

Free cash flow
£m



Group return on gross capital employed



Earnings per share

Before the amortisation and impairment of acquired intangibles, earnings per share decreased by 11.2 per cent from 98.90 pence to 87.80 pence. Basic earnings per share were down by 19.0 per cent to 73.52 pence (2006: 90.77 pence). The average number of shares in issue during the year was 644 million (2005: 592 million).

Dividends

The Board is recommending a final dividend of 21.55 pence per share (2006: 19.55 pence per share) to be paid on 30 November 2007 to shareholders registered on 5 October 2007. The total dividend for the year of 32.40 pence per share is an increase of 10.2 per cent on last year's 29.40 pence. Dividend cover is 2.3 times (2006: 3.1 times). The increase in dividend for the year reflects the Board's confidence in the future prospects of the Group and its strong financial position. The dividend reinvestment plan will continue to be available to eligible shareholders.

Financial position

Shareholders' funds increased by £859 million from £2,592 million to £3,451 million. The net increase comprised the following elements:

	2007 £m	2006 £m
Retained profits	**474**	537
Dividends	**(198)**	(162)
New share capital subscribed (share placing and exercise of share options)	**673**	31
Purchase of own shares by ESOP trusts	**(27)**	(27)
Exchange translation (including related taxes)	**(132)**	(131)
Share-based payments (including related taxes)	**22**	34
Other	**47**	9
Increase in shareholders' funds	**859**	291

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

On 25 September 2006, a placing of approximately 10 per cent of Wolseley plc's issued ordinary share capital raised £655 million before issue costs of £9 million to restore the Group's financial flexibility and enable it to continue to pursue its strategy of organic and acquisitive growth.

The Group's employee benefit trusts purchased 2.6 million shares for £27 million, including dealing costs, during the period in order to allow greater flexibility in the settlement of long-term employee incentives.

Net debt, excluding construction loan borrowings, at 31 July 2007 amounted to £2,467 million compared to £1,950 million at 31 July 2006, giving gearing of 71.5 per cent compared with 75.2 per cent at the previous year end and down from 89.6 per cent at the half year. The movement of sterling against overseas currencies, particularly the US dollar, resulted in a translation difference of £86 million which decreased net debt on the balance sheet.

The Group seeks to maintain a level of gearing, generally in the range of 40 to 100 per cent, to strike an appropriate balance between maintaining an efficient capital structure and having sufficient flexibility to fund further acquisitions. Interest cover for the year was 7 times (2006: 14 times). The Group is content to see interest cover in the 7–10 times range over a number of years but would allow the cover to reduce to 5 times in appropriate circumstances.

In the US, construction loan receivables, financed by an equivalent amount of construction loan borrowings, were £286 million (2006: £313 million). The decrease reflects a more cautious approach to lending following the decline in the US new housing market and the decline in the US dollar.

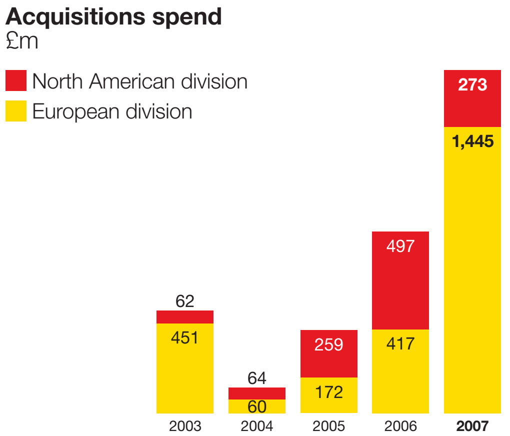
Return on gross capital employed ('ROGCE') decreased from 18.8 per cent to 13.7 per cent as a result of the significant reduction in profit at Stock and higher acquisition spend, partly offset by some organic growth and tighter control over working capital. The ROGCE remains above the Group's weighted average cost of capital.

The unamortised balance of acquisition goodwill in the balance sheet as at 31 July 2007 is £1,890 million (2006: £1,173 million) with the increase being due to the goodwill arising on acquisitions in the year offset by a small amount of goodwill impairment in Stock. As set out on page 89 in note 12 to the accounts, the Group recognised, in accordance with IAS 38, acquired intangibles of £549 million (2006: £251 million). These represent, principally, customer relationships and brand names.

Provisions in the balance sheet (note 26) include the estimated liability for asbestos claims on a discounted basis. This liability has been determined by independent professional actuarial advisers. The asbestos related litigation is fully covered by insurance and accordingly an equivalent insurance receivable has been included in receivables. The level of insurance cover available significantly exceeds the expected level of future claims and no profit or cash flow impact is therefore expected to arise in the foreseeable future. There were 320 claims outstanding at 31 July 2007 (2006: 246).

The Group's retirement benefit obligations have decreased from £189 million to £111 million, largely due to an actuarial gain of £67 million on the main UK defined benefit pension scheme. Full details of the pension schemes operated by the Group are set out in note 27 to the accounts.

£396m
Capital expenditure invested in the year



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

	2007 £m	2006 £m	2005 £m	2004 £m	2003 £m
Cash flow from operating activities	**1,299**	850	765	325	608
Maintenance capex[1]	**(191)**	(140)	(117)	(108)	(93)
Tax	**(167)**	(206)	(151)	(128)	(108)
Dividends	**(198)**	(162)	(145)	(136)	(113)
Interest	**(117)**	(57)	(31)	(13)	(25)
Free cash flow	**626**	285	321	(60)	269
Acquisitions less disposals[2]	**(1,346)**	(820)	(401)	(123)	(504)
Expansion capex	**(205)**	(206)	(122)	(28)	(15)
Other	**408**	(38)	1	96	(31)
Movement in debt	**(517)**	(779)	(201)	(115)	(281)

Note: 2007, 2006 and 2005 figures prepared under IFRS. 2004 and 2003 figures prepared under UK GAAP.

[1] Maintenance capex is considered as equivalent to depreciation.
[2] Excluding debt acquired.

Net cash flow from operating activities increased from £850 million to £1,299 million, despite the reduction in trading profit as the Group has improved its management of working capital. Free cash flow after dividends was £626 million (2006: £285 million).

Capital expenditure increased from £346 million to £396 million, reflecting continued investment in the business. During the period the distribution centre and branch network in the US was expanded, investment continued in distribution centres in France and Italy and further expenditure was incurred on the common IT platform. Capital expenditure is expected to remain at a relatively high level over the next few years with further investments in distribution centres, new branch openings and IT as the Group continues to put in place the infrastructure required to support substantial growth and improved margins.

Investments in acquisitions completed during the year, including any deferred consideration and net debt, amounted to £1,718 million (2006: £914 million) with £1,339 million invested in DT Group and £379 million invested in 43 bolt-on acquisitions. These 43 acquisitions are expected to add around £671 million per annum of incremental revenues in a full year. Further details regarding acquisitions are included on page 106 in note 31 to the accounts.

Shareholder return
The Group monitors relative Total Shareholder Return (‘TSR’) for incentive purposes (as set out within the Remuneration report on pages 63 and 64) and for assessing relative financial performance.

For the year ended 31 July 2007, Wolseley achieved an annualised TSR of 5.96 per cent based on the average closing price achieved during July 2007, which put it in 57th position against the monitored peer group of 65 companies drawn from the FTSE 100 and the building materials and construction sectors utilised for the latest award under the long-term incentive plan. Details of TSR performance since 2003 and the composition of the peer group are set out in the Remuneration report. We continue to monitor return on capital including goodwill, throughout the Group, as one of the key measures of business performance. ROGCE (as defined in the Five year summary on page 124) was 13.7 per cent (2006: 18.8 per cent), ahead of the Group’s weighted average cost of capital. At the close of business on the date of the Report of the Directors, the value of an ordinary share as quoted in the Financial Times was 807.5 pence per share (2006: 1094.0 pence), a decline of 26.2 per cent. The decrease primarily reflects adverse market sentiment relating to the Group’s exposure to the weak US housing market. The market capitalisation of the Group at the date of this Report was £5,339 million (2006: £7,190 million). The total dividend of 32.40 pence per share in respect of the financial year gives a yield of 4.0 per cent.

Other financial matters

Financial risk management

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

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

Details of financial instruments are shown on page 92 in note 20 to the accounts.

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

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

Capital structure

The Group monitors two principal measures of financial gearing, the ratio of net debt to shareholders' funds and the ratio of net debt to EBITDA (earnings before interest, taxes, depreciation and amortisation). Over the longer term the Group aims to maintain the ratio of net debt to shareholders' funds within the range of 50 to 75 per cent and as at 31 July 2007 the ratio was 71.5 per cent.

The Group's main borrowing facilities all contain a financial covenant limiting the ratio of net debt to EBITDA. For all facilities agreed after 1 August 2005 this ratio has been set at 3.5. As at 31 July 2007 the ratio was 2.2:1 (2006: 1.9:1). The Group aims to maintain this ratio generally in the range of 1.5 to 2.3.

For the Group, these two ratios are highly correlated both historically and prospectively and the two ranges are closely aligned.

Interest rate risk

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

At the year end approximately £1,102 million of the Group's net debt was at fixed rates for one year or more, after taking account of swaps.

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.

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 such as DT Group are funded shortly before the acquisition is made.

The Group currently has undrawn centrally managed facilities in excess of £1 billion.

On 25 September 2006 DT Group was acquired, funded by a syndicated bank facility for €1,500 million (£1,011 million) with a maturity of 18 months. Also on 25 September the Group placed approximately 10 per cent of Wolseley plc issued ordinary share capital raising £646 million. These net proceeds were used to repay €964 million (£646 million) of the 18 month facility. As at 31 July 2007, the outstanding drawings under the 18 month facility were €500 million (£338 million). This facility will mature during the year ending 31 July 2008 and will be refinanced from existing facilities. A further £250 million of short-term facilities with core banks are renewed on an annual basis.

Following its acquisition by Wolseley, DT Group renegotiated its local bank facilities consisting of a DKK3,000 million (£272 million) multi-currency revolving facility and DKK2,076 million (£188 million) of mortgage facilities. These facilities are now on the same commercial terms and financial covenants as the main Group facilities.

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

Maturity	**2007 Facility £m**	2006 Facility £m
Less than one year	**588**	200
1–2 years	**155**	34
2–3 years	**313**	174
3–4 years	**103**	343
4–5 years	**1,887**	111
Greater than 5 years	**367**	2,282
Total	**3,413**	3,144

At 31 July 2007, the Group had committed undrawn loan facilities of £1,204 million available to fund working capital, investments and general corporate purposes, as follows:

	2007 Facility £m	2006 Facility £m
Less than one year	**250**	200
1–2 years	**–**	–
Over two years	**954**	580

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

Details of average exchange rates used in the translation of overseas earnings and of year-end exchange rates used in the translation of overseas balance sheets, for the principal currencies used by the Group, are shown in the Five year summary on page 124. The net effect of currency translation was to decrease revenue by £776 million (5.5 per cent) and to decrease trading profit by £51 million (5.8 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:

	2007 (Strengthening)/ weakening of sterling	2006 (Strengthening)/ weakening of sterling
US dollar	**(8.2)%**	3.5%
Euro	**(1.7)%**	0.1%

Commodity risk

The Group's operating performance is affected by price fluctuations in stainless steel, nickel alloy, copper, aluminium, plastic, lumber and other commodities. The Group seeks to minimise the effects of changing prices through economies of purchasing and inventory management, resulting in cost reductions and productivity improvements as well as price increases to maintain reasonable profit margins. With the exception of lumber futures held to hedge future sales commitments, no trading instruments are held in respect of these commodities. At 31 July 2007, the Group held no lumber futures contracts.

Market price risk

The Group regularly monitors its interest rate and currency risk by reviewing the effect on profit before tax over various periods of a range of possible changes in interest rates and exchange rates. On the basis of the Group's analysis, it is estimated that the maximum effect of a rise of one percentage point in the principal interest rates on the Group's continuing businesses would result in an increase in the interest charge of approximately £17 million. Similarly, it is estimated that a strengthening of sterling by 10 per cent against all the currencies in which the Group does business would reduce operating profit before amortisation and impairment of acquired intangibles by approximately £72 million (8.3 per cent) due to currency translation, with the US dollar reduction being £45 million and the Euro reduction being £12 million.

Financial reporting

These financial statements are the Group's second prepared under IFRS. The Group's accounting policies set out on pages 73 to 77 of the accounts have remained unchanged from those disclosed last year.

Insurance

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

Going concern

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

Stephen P Webster
Chief Financial Officer
24 September 2007