

Report of the Directors

Including the statement of remuneration policy for the year ended 31 July 2007

The Directors submit their annual report and the audited consolidated financial statements of the Company and its subsidiaries for the year ended 31 July 2007.

Principal activities and business review

Wolseley plc is the parent of the Group and its operating subsidiaries are organised into two geographical divisions which are set out on pages 27 to 33. The principal activities of the Group are the distribution of plumbing, heating and air conditioning equipment, pipes, valves and fittings and building materials (including timber) within Europe and North America. In the USA, the Group also supplies other construction and installation services. In the UK, France and Austria, the Group operates tool hire centres and, in the UK, France and USA, it distributes electrical components and supplies.

Details of the development of the Group's businesses during the year, including an assessment of the Group's exposure to financial risks and how these are managed, and information which fulfils the requirements of the Business Review, are given in the Performance review on pages 22 to 41 and in the Group Chief Executive's review on pages 8 to 21, which are incorporated into this report by reference.

Results and dividends

The Group's consolidated income statement, set out on page 70, shows a decrease of 9.7 per cent in Group operating profit from £834 million in 2006 to £753 million. An analysis of revenue and operating profit is given on page 80 in note 2 to the accounts. Details relating to post balance sheet events are given on page 109. Shareholders were paid the 2007 interim dividend of 10.85 pence per share (2006: 9.85 pence) on 31 May 2007. The Directors recommend a final dividend of 21.55 pence per share (2006: 19.55 pence) making a total dividend for the year of 32.40 pence per ordinary share, an increase of 10.2 per cent on the 29.40 pence paid in respect of last year. Payment of the recommended final dividend, if approved at the Annual General Meeting, will be made on 30 November 2007 to shareholders registered at the close of business on 5 October 2007.

The Wolseley plc 2004 Overseas Employee Benefit Trust, the Wolseley plc 2004 Employee Benefit Trust and the Wolseley plc 2004 Directors Benefit Trust were established on 5 October 2004 in connection with the Wolseley Share Option Plan 2003 and the Wolseley plc 2002 Long Term Incentive Scheme, details of which are set out in the Remuneration report on pages 63 to 65. The trustees of each of the trusts have waived their rights to receive dividends on any shares held by them. Following purchases of shares in the capital of the Company made between November 2004 and January 2007, the trustees of the Wolseley plc 2004 Employee Benefit Trust hold 6,200,000 ordinary shares in the capital of the Company. The average purchase price was 1174.7 pence per share (excluding dealing costs). The amount of dividends waived in respect of the year ended 31 July 2007 was £1,572,000 (2006: £300,425).

The Company's dividend reinvestment plan continues to be available to eligible shareholders. Shareholders who do not currently participate in the plan and wish to do so can obtain an application form and explanatory booklet from the Company's Registrars, whose contact details are shown on page 127. The latest date for receipt of new applications to participate in respect of the 2007 final dividend is 9 November 2007.

Change of control

All of the Company's share schemes contain provisions relating to a change of control. Outstanding options and awards would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions at that time.

Acquisitions and disposals

Details of acquisitions made during the year are contained in the Performance review on page 25 and in note 31 to the accounts on page 106. There were no disposals of businesses during the year.

Future development

It remains your Board's intention to develop the Group through organic growth and by selective acquisitions.

Share capital

At the date of this report, 661,187,360 ordinary shares of 25 pence each have been issued and are fully paid up and are quoted on the London Stock Exchange. In addition, the Company has entered into a Level II American Depository Receipt programme with the Bank of New York Mellon, under which the Company's shares are traded in the form of American Depository Shares on the New York Stock Exchange. The rights and obligations attaching to the Company's ordinary shares, as well as the powers of the Company's Directors, are set out in the Company's Articles of Association, copies of which can be obtained from Companies House in the UK or by writing to the Company Secretary. There are no restrictions on the voting rights attaching to the Company's ordinary shares or on the transfer of securities in the Company. No person holds securities in the Company carrying special rights with regard to control of the Company. The Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or on voting rights. Unless expressly specified to the contrary in the Articles of Association of the Company, the Company's Articles of Association may be amended by a special resolution of the Company's shareholders.

During the year ended 31 July 2007, options were exercised pursuant to the Company's share option schemes, resulting in the allotment of 3,969,008 new ordinary shares. A further 22,136 new ordinary shares have been allotted under these schemes since the end of the financial year to the date of this report. In addition, a total of 59,500,000 new ordinary shares were issued and allotted on 25 September 2006 by a placement, further details of which can be found on page 40. Details of these allotments, including, where appropriate, the amounts subscribed for new shares are set out in note 28 to the accounts on page 102, which also contains details of options granted over unissued capital.

The Directors propose (Resolution 9 in the Notice of Meeting set out on pages 129 to 132) to renew the authority granted to them at the Annual General Meeting held in 2006 to allot equity shares up to an aggregate nominal value of £34,703,160 (representing the authorised but unissued ordinary share capital of the Company at the date of this report) (the 'section 80 authority'). If approved at the forthcoming Annual General Meeting, the authority will expire no later than 15 months from the date on which the resolution is passed, or at the conclusion of the Annual General Meeting to be held in 2008, whichever is the sooner.

The limited power granted to the Directors at last year's Annual General Meeting to allot equity shares for cash other than pro rata to existing shareholders expires no later than 29 February 2008. Subject to the terms of the section 80 authority, your Directors recommend (Resolution 10 in the Notice of Meeting) that this authority should be renewed so as to give them the ability, until the Annual General Meeting to be held in 2008, to issue ordinary shares for cash, other than pro rata to existing shareholders, in connection with a rights issue or up to a limit of 5 per cent of the ordinary share capital issued at the date of this report. Your Directors have no present intention to issue ordinary shares, other than pursuant to the Company's employee share schemes and any share dividend alternatives. The Directors recommend that you vote in favour of Resolutions 9 and 10 to maintain the Company's flexibility in relation to future share issues, including any issues to finance business opportunities should appropriate circumstances arise.

A Special Resolution will also be proposed (Resolution 11 in the Notice of Meeting) to renew the Directors' limited authority last granted in 2006 to repurchase the Company's ordinary shares in the market. The authority will be limited to a maximum of 66,118,736 ordinary shares (being 10 per cent of the Company's issued share capital at the date of this report) and also sets the minimum and maximum prices which may be paid. This authority will enable your Directors to continue to respond promptly should circumstances arise in which they consider such a purchase would result in an increase in earnings per share and would be in the best interests of the Company.

The Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 allow shares repurchased by the Company to be held as treasury shares that may be cancelled, sold for cash or used for the purpose of employee share schemes. The Company holds no shares in treasury but the Directors currently intend that any shares which are repurchased will be held in treasury. The authorities to be sought by each of Resolutions 10 and 11 are intended to apply equally to shares to be held by the Company as treasury shares and to the sale of treasury shares. The Directors consider it desirable for these general authorisations to be available to provide flexibility in the management of the Company's capital resources.

CREST

The Company's ordinary shares are in CREST, the settlement system for stocks and shares.

Substantial share interests

The Companies Act 1985 provisions in respect of substantial share interests were repealed on 20 January 2007 and, with effect from that date, the Disclosure and Transparency Rules of the UK Financial Services Authority came into force.

At 31 July 2007, the Company had received notification that holdings exceeding the 3 per cent notification threshold were as follows:

Name	%
Baillie Gifford & Co	7.004
Lloyds TSB Group plc	6.060
Legal & General Investment Management Limited	3.443
Aviva plc	3.096
Barclays plc	3.020

Directors

Brief particulars of the Directors in office at the date of this report are listed on pages 42 and 43 and further details of the Board composition as well as the Company's procedure with regard to the appointment and replacement of Directors are contained in the Corporate governance report on page 55. The Directors standing for re-election at the Annual General Meeting are Andrew Duff, Chip Hornsby and Jim Murray. Each Director, being eligible, offers himself for re-election. It is the view of the Board that Messrs Duff and Murray each bring considerable management experience and independent perspective to the Board's discussions and both are considered to be independent of management and free from any relationship or circumstance that could affect, or appear to affect, the exercise of their independent judgement.

Directors' interests in shares

The interests of the Directors in office at 31 July 2007 and of their families in the ordinary shares of the Company at the following dates were:

	31 July 2007	1 August 2006
G Davis	10,664	10,664
A J Duff	7,006	3,993
F N Hord	99,195	91,470
C A S Hornsby	68,366	57,709
R H Marchbank	26,760	26,462
J I K Murray	7,000	5,000
F W Roach	36,898	27,248
N M Stein	6,500	4,500
R M Walker	10,944	2,208
S P Webster	55,535	50,220
J W Whybrow	70,284	45,284

Between 1 August 2007 and 24 September 2007 there were no changes to the shareholdings of those Directors in office at the date of this report.

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Donations

The Company's Corporate social responsibility report is set out on pages 44 to 51. The Group's charitable donations in 2007 totalled £2,019,500 (2006: £2,445,000).

At each of the Annual General Meetings held since 2002, shareholders have passed a resolution, on a precautionary basis, to approve donations to EU political organisations and to incur EU political expenditure (as such terms are defined in section 347A of the Companies Act 1985 (as amended), which will be superseded by sections 362 to 379 of the Companies Act 2006 with effect from 1 October 2007), not exceeding £125,000 per annum. The Board has repeatedly confirmed that it operates a policy of not giving any cash contribution to any political party in the ordinary meaning of those words and that it has no intention of changing that policy. The Directors, however, propose to seek once more authority for the Group to make political donations and/or incur political expenditure in respect of each of the heads identified in Resolution 12 in the Notice of Annual General Meeting in amounts not exceeding £125,000 in total, which they might otherwise be prohibited from making or incurring under the terms of the Companies Act 2006 and which would not amount to 'donations' in the ordinary sense of the word. The authority sought by Resolution 12 in the Notice of Meeting will last until the Company's next Annual General Meeting.

Creditor payment policy

All Group companies are responsible for establishing terms and conditions of trading with their suppliers. It is the Group's policy that payments to suppliers are made within agreed terms and are, where applicable, consistent with the UK Government-backed Better Payment Practice Code. Copies of this Code can be obtained from the Company Secretary at the Company's registered office. At 31 July 2007, the Company had no trade creditors (2006: nil). The amount of trade creditors for the Group as at 31 July 2007 was equivalent to 59 days (2006: 52 days) of trade purchases.

Auditors and audit information

PricewaterhouseCoopers LLP are willing to continue as auditors of the Company and Resolution 7 in the Notice of Meeting concerning their reappointment and Resolution 8 in the Notice of Meeting concerning the determination of their remuneration are to be proposed at the Annual General Meeting. The Directors in office at the date of this report confirm that, so far as they are each aware, there is no relevant audit information of which PricewaterhouseCoopers LLP are unaware and each Director has taken all the steps that ought to have been taken as a Director to be aware of any relevant audit information and to establish that PricewaterhouseCoopers LLP are aware of that information.

Employee policies and involvement

The Group places particular importance on the involvement of its employees, keeping them regularly informed through informal bulletins, such as 'Directions' and other in-house publications, meetings and the Company's intranet, on matters affecting them as employees and on the issues affecting their performance. A European Works Council has been operating since 1996 to provide a forum for dialogue and consultation with employees on significant developments in the Group's operations, management's plans and expectations, organisational changes within the Group and for employee representatives to consult management about concerns over any aspect of the Group's operations. At the date of this report, there were 25 members comprising 14 employee representatives nominated from among employees from each European company with the balance being Company appointees. For the forthcoming year, as a result of the recent Woodcote acquisition, the European Works Council will see an increase in total membership to 29 with 18 employee representatives.

Permanent UK employees are invited to join the Company's pension arrangements which include defined contribution and defined benefit pension schemes. The principal UK scheme has one corporate and two individual trustees. The chairman of the trustees is David Tucker and, save for an independent trustee, all of the other trustees are UK-based employees or former employees of the Group. The other main UK scheme provides benefits for employees of the William Wilson Group and has five trustees. The chairman of the trustees is Ian Percy CBE and all of the other trustees are UK-based employees of the William Wilson Group or of the Company. Permanent employees outside the UK are offered membership of their employing companies' pension arrangements.

Employees are offered a range of benefits depending on their local environment, such as private medical cover. Employees are encouraged to become shareholders in the Company, where possible, through participation in the Company's share schemes. Priority is given to the training of employees and the development of their skills is of prime importance. Employment of disabled people is considered on merit with regard only to the ability of any applicant to carry out the function required. Arrangements to enable disabled people to carry out the function required will be made if it is reasonable to do so. An employee becoming disabled would, where appropriate, be offered retraining. The Group continues to operate on a largely decentralised basis; this provides encouragement for the development of entrepreneurial flair, balanced by a rigorous control framework exercised by a small head office team. Local managements are responsible for maintaining high standards of health and safety and for ensuring that there is appropriate employee involvement in decision-making.