

Registered number: 00636445

Wolseley UK Limited  
Annual report and financial statements  
for the year ended 31 July 2012



# **Wolseley UK Limited**

## **Annual report and financial statements for the year ended 31 July 2012**

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# **Wolseley UK Limited**

## **Directors and advisers**

### **Executive directors**

S Ashmore

D Harding

K Jones

### **Company secretary**

G Middlemiss

### **Independent auditors**

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Benson House

33 Wellington Street

Leeds

LS1 4JP

### **Registered office**

The Wolseley Center

Harrison Way

Spa Park

Royal Leamington Spa

CV31 3HH

### **Registered number**

00636445

# **Wolseley UK Limited**

## **Directors' report for the year ended 31 July 2012**

The Directors present their report and the audited financial statements of the Company for the year ended 31 July 2012

### **Business review and principal activities**

The Company is a wholly owned subsidiary of its ultimate parent company Wolseley plc and operates as part of the UK business of the Wolseley plc group of companies ( 'the Group')

On 26 July 2012, by Special Resolution and in accordance with section 641 of the Companies Act 2006, the amount standing to the credit of the share premium account of the Company was reduced by £600,000,000 with the reserves created on such reduction being allocated to a distributable reserve the profit and loss account (see note 18 and 19)

During the year ended 31 July 2012 the Company disposed of Build Center and its investments in Encon Limited and Bathstore com Limited in line with the strategy of focusing on businesses with significant scale and leading market positions

On 4 November 2011, the Company completed the sale of Build Center, the Company's building materials distribution business, to Jewson Limited, resulting in a profit on disposal of £13,372,000 (see note 5) At disposal, Build Center employed around 1,600 people and operated through a network of around 150 branches

On 27 October 2011, the Company's investment in Encon Limited was sold to a company formed by management of the Encon business, resulting in a profit on disposal of £41,000 (see note 12) In the prior year, an exceptional impairment charge of £37,701,000 of the Company's investment in Encon Limited was recognised At disposal, the Encon group employed around 560 people and operated through a national network of 24 locations

On 11 May 2012, the Company's investment in Bathstore com Limited was sold to Endless LLP, resulting in a loss on disposal of £34,574,000 (see note 12) At disposal, Bathstore employed around 500 people and operated through a national network of 169 locations

The management team of the Company is now in a strong position to focus on its core businesses with market leading positions in plumbing and heating and adjacent businesses

Plumb and Parts Center is a leading distributor of plumbing and heating products The business operates through a national branch network and can deliver superior fill rates and a wide range of products through its distribution centres The business also supplies a wide range of spares and replacements Efficiencies arise from purchasing volumes, from opportunities to cross-sell and from shared sites During the year, the business continued to deliver strong financial performance in a tough trading environment and continues to look for opportunities to improve customer service and grow revenue

Pipe and Climate Center distribute pipes, valves, fittings, air conditioning and refrigeration products The business has a sound track record of profitability, and volumes are particularly dependent on non-residential new build projects

Drain Center is a specialist in above and below ground drainage

Integrated Services offers outsourced inventory management and procurement services for maintenance activities on a long-term contract basis, mainly to public institutions such as housing associations

The Company also acts as a holding company and has a substantial investment in a group of French companies, which are also part of the Group

# **Wolseley UK Limited**

## **Directors' report for the year ended 31 July 2012 (continued)**

### **Business review and principal activities (continued)**

As announced in July 2012, the Group is currently reviewing the future strategic options for the business in France. Market conditions have been more challenging than expected in France and the outlook is becoming increasingly uncertain. As a result, the expectations of profitability have been reduced resulting in an exceptional impairment of the investment held of £221,000,000.

On 20 September 2012, B Participations SAS, a French subsidiary of the Company, effected a decrease of equity (by reducing the nominal value of its shares) and a share premium repayment resulting in a total amount due to the Company of €1,434,907,000 which has reduced the cost of the investment held in B Participations SAS, see the Post Balance Sheet Events note 28 on page 41.

As shown in the Company's profit and loss account on pages 9 and 10, total turnover decreased by 10.7% in the year, due principally to the disposal of the Build Center business.

Turnover from continuing operations increased by 1.7% in the year and the business has made excellent progress in replacing the volumes represented by the previously announced large contract loss in April 2011. Demand in the heating market declined throughout the year, although demand for other product categories performed better. There is no evidence yet of improving market conditions and therefore growth will only come from market share gains in the short term. Price inflation in the continuing businesses was approximately 1 per cent. The major business units of Plumb and Parts Center, Pipe and Climate Center and Drain Center gained market share.

Operating profit before exceptional items of £76.4 million (2011: £58.4 million) was higher than last year.

Plumb and Parts Center achieved a good performance in lacklustre markets and increased gross margins despite strong competition. Pipe and Climate Center continued to perform well, generating good growth and higher trading profits. Activity levels in Drain Center slowed in the second half of the year and the business protected gross margins.

At 31 July 2012 the total number of branches operated by the Company was 900 (2011: 1,045).

The balance sheet on page 11 and note 20 on page 35 of the financial statements show that the Company's financial position at the year end has, in net assets terms, decreased by £279.4 million. This is principally due to the exceptional impairment charge and loss on disposal of investments referred to above. Due mainly to changes in amounts due to the parent company, the level of net current assets currently stands at £652.5 million. Details of amounts owed to the parent company are shown in note 15 on pages 31 to 32.

The Group manages its operations on a segmental basis. For this reason, the Directors believe that further key performance indicators for the Company are not necessary or appropriate for an understanding of the development, performance or position of the business. Details of the key performance indicators are shown on pages 20 to 21 of the Group's Annual Report for the year ended 31 July 2012 ("the Group's Annual Report"). The performance of the UK division of the Group, which includes the Company, is discussed on pages 30 to 31 in the Group's Annual Report.

### **Principal risks and uncertainties**

There are a number of risks and uncertainties which the Directors believe could have an impact on the Company's long-term performance. The Company has in place an extensive risk management programme which is designed to ensure that significant and emerging risks are identified, assessed and managed effectively. The principal risks faced by the Company and its management response are summarised below.

# Wolseley UK Limited

## Directors' report for the year ended 31 July 2012 (continued)

### *Market conditions*

The Company's products are in the main distributed to professional contractors in connection with commercial, industrial and residential construction projects and the Company's results are consequently dependent on the levels of activity in these markets. In light of debt levels in Europe and concerns about economic recovery in the US, there continues to be a risk that markets may fluctuate rapidly or experience further downturns.

The Company believes it has effective measures in place to respond to market conditions. Existing measures in place include resource allocation processes, planning, budgeting and forecasting processes, debt reduction and refinancing, cost reduction, pricing and gross margin management initiatives, including a focus on customer service and productivity improvement, and improvements in monthly management information.

Measures introduced in the last 12 months included disposal of businesses where the Company could not establish a market leading position in attractive markets. As already noted, the Build Center business and investments in Encon Limited and Bathstore.com Limited were disposed of during the year.

### *Market erosion*

Market conditions continued to increase competition during the year which, if not mitigated, could lead to downward pressure on sales prices and profit margins. Gross margin improvement initiatives remain a priority and the focus is on continuous improvement in customer service, product availability and product mix.

### *Liquidity and funding risks and financial risk management*

The Company's risks relating to liquidity and funding and financial management are managed by the Group and are discussed on page 41 of the Group's Annual Report.

### *Governmental and other regulations*

The Company's operations are affected by various statutes, regulations and laws in the countries and markets in which it operates. While the Company is not engaged in a highly regulated industry, it is subject to the laws governing businesses generally, including laws affecting competition, international trade, corruption and fraud, land usage, zoning, the environment, health and safety, transportation, labour and employment practices (including pensions), data protection, payment terms and other matters.

The Company monitors regulation across its markets to ensure that the effects of changes are minimised. During the year, a number of initiatives were undertaken to respond to new or updated laws and regulations. These include for instance, the continual review and improvement of anti-fraud and anti-bribery procedures. The Group has been monitoring the progress of the EU Late Payment Directive. Initial analysis has been completed and the Group is well prepared to adapt if necessary.

### *Credit risk*

The Company provides credit terms to many of its customers. There is an associated risk that customers may not be able to pay outstanding balances due to the Company. There are established procedures in place to review and collect outstanding receivables. Significant outstanding and overdue balances are reviewed regularly and prompt action is taken. Some protection is provided for significant customers through credit insurance arrangements and the Company has a professional, dedicated credit team. Appropriate provisions are made promptly for debts that may be impaired.

### *Risks related to international transactions*

The Company's risks relating to international transactions are managed by the Group. The Group seeks to manage its foreign currency risk and the steps it takes are described on page 41 of the Group's Annual Report.

# **Wolseley UK Limited**

## **Directors' report for the year ended 31 July 2012 (continued)**

### **Health, safety and environment**

The Company recognises the importance of its environmental responsibilities. In relation to health, safety and environmental principles, the Company operates in accordance with the Group policies, which are described on pages 53 to 54 in the Group's Annual Report. Environmental principles include the integration of environmental management into business operations, a commitment to prevent pollution and comply with local environmental legislation and ensuring proper communication with employees on environmental matters. Health and safety principles include the prohibition of substance abuse, fleet maintenance in compliance with local legislation, the provision and use of protective clothing and apparatus and full safety training for all employees.

Details of the Group's risk management programme are on pages 42 to 47 of the Group's Annual Report.

### **Employment policies**

Details of the number of employees and related costs can be found in note 2 to the financial statements.

It is the Company's policy to give full and fair consideration to applications for employment made by disabled persons, to continue wherever possible the employment of staff who become disabled and to provide equal opportunities for the training and career development of disabled employees.

Considerable importance is placed on the involvement of employees. The Company is committed to providing employees with information on matters of concern to them on a regular basis, so that the views of employees can be taken into account when making decisions that are likely to affect their interests. This is done through formal and informal meetings, in-house publications and the Company's intranet site, which provides up to date information on significant developments in the Group. Company employees can participate in the Wolseley plc savings related share option scheme.

### **Results and dividends**

The Company's loss for the financial year was £220.1 million (2011: loss of £8.1 million). The Directors do not recommend the payment of a dividend (2011: £nil).

### **Payments to creditors**

The number of days creditors outstanding at 31 July 2012 was 92 (2011: 99).

It is the Company's policy to establish terms and conditions of trading with its suppliers and to make payments to suppliers within these agreed terms.

### **Donations**

During the year the Company made charitable donations of £79,000 (2011: £13,000), principally to local charities serving the communities in which the Company operates.

### **Directors**

The Directors of the Company during the year ended 31 July 2012 and up to the date of signing the financial statements were:

M J Neville (resigned 31 October 2011)

S Ashmore

D Harding

K Jones (appointed 31 October 2011)

# **Wolseley UK Limited**

## **Directors' report for the year ended 31 July 2012 (continued)**

In accordance with the Company's Articles of Association, the Company has always indemnified its directors and officers in respect of liabilities incurred as a result of their office, subject to the limits of law. Qualifying third party indemnity provisions (as defined in section 234 Companies Act 2006) have been granted to all directors and officers in office and remain in force. The Company has also arranged appropriate insurance cover in respect of legal action against its directors and officers.

### **Statement of Directors' responsibilities**

The Directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to

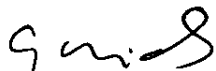
- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### **Disclosure of information to auditors**

So far as the Directors are aware, there is no relevant audit information (that is, information needed by the Company's auditors in connection with preparing their report) of which the Company's auditors are unaware, and each Director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board



G Middlemiss

Company Secretary

12 December 2012



# **Wolseley UK Limited**

## **Independent auditors' report to the members of Wolseley UK Limited**

We have audited the financial statements of Wolseley UK Limited for the year ended 31 July 2012 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet, the accounting policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

### **Respective responsibilities of directors and auditors**

As explained more fully in the Statement of Directors' responsibilities set out on page 6 the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### **Scope of the audit of the financial statements**

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

In addition, we read all the financial and non-financial information in the Directors' report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 July 2012 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

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

## **Wolseley UK Limited**

### **Independent auditors' report to the members of Wolseley UK Limited (continued)**

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

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



Randal Casson (Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Leeds

12 December 2012

# Wolseley UK Limited

## Profit and loss account for the year ended 31 July 2012

	Note	2012 Before exceptional items £'000	2012 Exceptional items (note 4) £'000	2012 Total after exceptional items £'000	2011 Before exceptional items £ 000	2011 Exceptional items (note 4) £ 000	2011 Total after exceptional items £ 000
<b>Turnover</b>							
Continuing operations		1,610,905	-	1,610,905	1,583,938	-	1,583,938
Discontinued operations		91,417	-	91,417	322,730	-	322,730
	1	1,702,322	-	1,702,322	1,906,668	-	1,906,668
Change in stocks of finished goods and in work in progress		(52,747)	-	(52,747)	33,205	-	33,205
Other operating income		27,599	-	27,599	27,441	-	27,441
Purchase of raw materials and consumables		(1,222,152)	474	(1,221,678)	(1,461,442)	(474)	(1,461,916)
Staff costs	2	(197,065)	(1,546)	(198,611)	(225,523)	690	(224,833)
Goodwill amortisation and impairment	9	(2,374)	-	(2,374)	(8,767)	(6,283)	(15,050)
Tangible fixed assets depreciation and impairment	11	(11,137)	-	(11,137)	(15,701)	-	(15,701)
Investment impairments	12	-	(221,438)	(221,438)	-	(47,068)	(47,068)
Other operating charges		(167,998)	(791)	(168,789)	(197,473)	2,722	(194,751)
<b>Operating (loss)/profit</b>	3						
Continuing operations		75,575	(223,301)	(147,726)	69,483	(46,963)	22,520
Discontinued operations		873	-	873	(11,075)	(3,450)	(14,525)
		76,448	(223,301)	(146,853)	58,408	(50,413)	7,995
(Loss)/profit on sale of tangible fixed assets	11	(30)	(10)	(40)	5,903	266	6,169
Profit on disposal of discontinued operations	5	-	13,372	13,372	-	-	-
Loss on disposal of investments	12	-	(34,533)	(34,533)	-	-	-
Income from shares in group undertakings	6	711	-	711	52,969	-	52,969
<b>(Loss)/profit on ordinary activities before interest (cfwd)</b>		77,129	(244,472)	(167,343)	117,280	(50,147)	67,133

# Wolseley UK Limited

## Profit and loss account for the year ended 31 July 2012 (continued)

	Note	2012 Before exceptional items £'000	2012 Exceptional items (note 4) £'000	2012 Total after exceptional items £'000	2011 Before exceptional items £ 000	2011 Exceptional items (note 4) £ 000	2011 Total after exceptional items £ 000
(Loss)/profit on ordinary activities before interest (b fwd)		77,129	(244,472)	(167,343)	117,280	(50,147)	67,133
Interest receivable and similar income	7	10,895	-	10,895	12,702	-	12,702
Interest payable and similar charges	7	(53,965)	-	(53,965)	(67 648)	-	(67 648)
Other finance costs	23	(6,500)	-	(6,500)	(10,200)	-	(10,200)
(Loss)/profit on ordinary activities before tax		27,559	(244,472)	(216,913)	52,134	(50,147)	1 987
Tax on (loss)/profit on ordinary activities	8	(4,018)	797	(3,221)	6 054	(16,157)	(10,103)
(Loss)/profit for the financial year		23,541	(243,675)	(220,134)	58,188	(66 304)	(8 116)

There is no material difference between the results as described in the profit and loss account above and the results on an unmodified historical cost basis. The accounting policies and notes on pages 12 to 41 form part of these financial statements.

## Statement of total recognised gains and losses for the year ended 31 July 2012

	Note	2012 £'000	2011 £ 000
Loss for the financial year	19	(220,134)	(8,116)
Actuarial (loss)/gain recognised on pension scheme	23	(42,095)	12,947
Movement on deferred tax relating to pension liability	14	(12,466)	(8,328)
Movement on current tax relating to pension liability	19	18,957	-
Currency translation differences	19	(23,665)	10,782
Total recognised (loss)/gain for the year		(279,403)	7,285

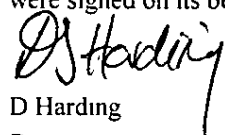
# Wolseley UK Limited

## Balance sheet as at 31 July 2012

Registered number 00636445

	Note	2012 £'000	2011 £'000
<b>Fixed assets</b>			
Intangible assets goodwill	9	19,776	69,515
Intangible assets other	10	8,694	6,175
Tangible assets	11	98,546	141,450
Investments	12	1,540,531	2,012,585
		<b>1,667,547</b>	<b>2,229,725</b>
<b>Current assets</b>			
Stocks	13	205,670	258,417
Debtors amounts falling due within one year	14	562,354	749,381
Debtors amounts falling due after more than one year	14	43,250	20,485
Cash at bank and in hand		273,671	40,837
		<b>1,084,945</b>	<b>1,069,120</b>
<b>Creditors: amounts falling due within one year</b>	15	<b>(432,440)</b>	<b>(1,039,359)</b>
<b>Net current assets</b>		<b>652,505</b>	<b>29,761</b>
<b>Total assets less current liabilities</b>		<b>2,320,052</b>	<b>2,259,486</b>
<b>Creditors: amounts falling due after more than one year</b>	15	<b>(1,364,531)</b>	<b>(996,577)</b>
<b>Provisions for liabilities</b>	16	<b>(48,915)</b>	<b>(50,465)</b>
<b>Net assets excluding pension deficit</b>		<b>906,606</b>	<b>1,212,444</b>
Pension deficit	23	(164,778)	(191,213)
<b>Net assets including pension deficit</b>		<b>741,828</b>	<b>1,021,231</b>
<b>Capital and reserves</b>			
Called up share capital	17	24,531	24,531
Share premium account	18	245,108	845,108
Revaluation reserve	19	381	428
Foreign currency retranslation reserve	19	15,266	38,931
Profit and loss account	19	456,542	112,233
<b>Total shareholders' funds</b>	20	<b>741,828</b>	<b>1,021,231</b>

The financial statements on pages 9 to 41 were approved by the board of Directors on 12 December 2012 and were signed on its behalf by



D Harding  
Director

# **Wolseley UK Limited**

## **Accounting policies for the year ended 31 July 2012**

### **Basis of accounting**

The financial statements are prepared on the going concern basis, under the historic cost convention, as modified by the inclusion of certain properties at a valuation, and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. A summary of the principal accounting policies, which are applied consistently, is set out below.

### **Exceptional items**

Exceptional items are those material items which, by virtue of their size or incidence, are presented separately in the profit and loss account to enable a full understanding of the Company's financial performance. Transactions which may give rise to exceptional items include restructurings of business activities, gains or losses on the disposal of businesses and the impairment of investments.

### **Turnover**

Turnover is the amount derived from the provision of goods and services falling within the Company's ordinary activities, estimated and actual sales returns, trade and early settlement discounts, value added tax and similar sales taxes.

Revenue from the provision of goods is recognised when the risks and rewards of ownership of goods have been transferred to the customer. The risks and rewards of ownership of goods are deemed to have been transferred when the goods are shipped to, or are picked up by, the customer.

Revenue from services, including rental income, is recognised when the service provided to the customer has been completed.

### **Other operating income**

Other operating income includes settlement discounts receivable on inventory purchases from suppliers, income from group undertakings for the provision of services to them, and income from other parties for the provision of transitional services relating to the disposals of subsidiary undertakings and discontinued operations.

### **Supplier rebates**

The Company enters into arrangements with certain suppliers for stock purchase rebates. These purchase rebates are accrued as earned and are recorded initially as a reduction in stock with a subsequent reduction in cost of sales when the related product is sold.

### **Impairment of fixed assets**

In accordance with FRS 11, "Impairment of Fixed Assets and Goodwill", fixed assets are subject to review for impairment. Any impairment is recognised in the profit and loss account or revaluation reserve as appropriate in the year in which it occurs.

### **Intangible assets: goodwill**

Goodwill arising on acquisitions represents the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired and is capitalised and amortised over its estimated useful life. Following publication of FRS 10, "Goodwill and Intangible Assets", a revised policy for goodwill was adopted with effect from 1 August 1998.

Goodwill arising from acquisitions completed on or after that date is capitalised and amortised on a straight-line basis over a period of not more than 20 years. Goodwill arising on acquisitions prior to 1 August 1998 has not been restated on the balance sheet.

# Wolseley UK Limited

## Accounting policies for the year ended 31 July 2012 (continued)

### Intangible assets: goodwill (continued)

All goodwill has been allocated to income generating units ("IGUs"). These are independent sources of income streams, and represent the lowest level within the Company at which associated goodwill is monitored for management purposes, typically business unit level. The Company tests annually for impairment or more frequently if there are indications that goodwill might be impaired. If testing at the IGU level indicates impairment then this is allocated across the statutory entities on which the goodwill initially arose.

The recoverable amount of the IGUs is determined from value in use calculations. These calculations use cash flow projections based on five year financial forecasts approved by management. The key assumptions for these forecasts are those regarding revenue growth, net margin and level of working capital to support trading, which management estimates based on past experience and expectations of future changes in the market. To prepare value in use calculations, the cash flow forecasts are extrapolated after the five year period at an estimated average long-term nominal growth rate of 2.5% for each market (2011: 2.5%), and discounted back to present value. The discount rate assumptions use an estimate of the weighted average cost of capital, based on the five year historic volatility of the Group's shares and on benchmark interest rates, adjusted for the risk attributable to individual IGUs. For the year ended 31 July 2012 the post tax discount rate used was 8.3% (2011: 8.3%).

The net assets of businesses acquired are incorporated in the Company at their fair value. Fair value adjustments relate principally to adjustments necessary to bring the accounting policies of the acquired businesses into line with those of the Company, but may also include other adjustments necessary to restate assets and liabilities at their fair values at the date of acquisition.

### Intangible assets: other

Computer software that is not integral to an item of property, plant and equipment is recognised separately as an intangible asset and is carried at cost less accumulated amortisation and accumulated impairment losses. Costs include software licences and consultancy costs attributable to the development, design and implementation of the computer software and internal costs directly attributable to the development, design and implementation of the computer software. Costs in respect of training and data conversion are expensed as incurred. Amortisation is calculated using the straight-line method so as to charge the cost of the computer software to the profit and loss account statement over its estimated useful life (three to five years).

### Tangible fixed assets and depreciation

Tangible fixed assets are stated at historic purchase cost less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is provided on all tangible fixed assets (except freehold land) on a straight-line basis to write off the cost or valuation of those assets, less their residual values, over their estimated useful lives. The principal rates of depreciation are as follows:

Land and buildings	2% - life of lease
Plant and machinery	10 - 15%
Fixtures, fittings, tools and equipment	15 - 33 1/3%
Motor vehicles	25%

The Company has adopted the transitional arrangements of FRS 15, "Tangible Fixed Assets" and therefore the carrying amount of fixed assets reflects previous revaluations, which have not been restated to depreciated historical cost.

### Fixed assets investments

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

# Wolseley UK Limited

## Accounting policies for the year ended 31 July 2012 (continued)

### Fixed assets investments (continued)

An impairment loss is recognised for the amount by which the investment's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an investment's net assets and value in use.

### Leased assets

Costs in respect of operating leases are charged on a straight-line basis over the period of the lease.

### Properties awaiting disposal

Properties awaiting disposal are transferred to current assets at the lower of net written down value and estimated net realisable value. Depreciation is not applied to properties awaiting disposal, but the carrying value is reviewed annually and written down through the profit and loss account to current estimated net realisable value if lower than the carrying amount.

### Stock

Stock is valued at the lower of cost and net realisable value, due allowance being made for obsolete or slow moving items. Goods purchased for resale are stated at cost on a first in, first out basis.

### Trade debtors

Trade debtors are recognised initially at fair value and measured subsequently at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade debtors is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

### Cash at bank and in hand

Cash includes cash in hand, deposits held at call with banks and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet to the extent that there is no right of offset and no practice of net settlement with cash balances.

### Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. The operating results of overseas branches are translated into sterling using average rates of exchange ruling during the relevant period. Assets and liabilities of overseas branches operations are translated at the exchange rate ruling at the balance sheet date and accounted for under the net investment method.

All currency translation differences are taken to the profit and loss account with the exception of differences on foreign currency borrowings to the extent that they are used to finance or provide a hedge against foreign currency equity investments. Exchange differences arising on the borrowings are recognised in reserves to the extent that they are covered by exchange differences arising on the equity investments.

Balances denominated in foreign currency at the balance sheet date were translated at the following rate:

1 GBP = 1.2742 EUR (2011: 1 GBP = 1.1407 EUR)

### Derivatives and financial instruments

Derivative financial instruments, in particular, currency swaps and forwards, are used to hedge the risk of changes in exchange rates on foreign currency equity investments. There is no trading activity in derivative financial instruments.

Foreign currency gains and losses arising on settlement of foreign currency swaps and forwards are recognised in reserves to the extent that they are covered by exchange differences arising on the equity investments hedged.



# **Wolseley UK Limited**

## **Accounting policies for the year ended 31 July 2012 (continued)**

### **Deferred tax**

Provision is made for deferred tax in so far as a liability or asset arises as a result of transactions that have occurred by the balance sheet date and give rise to an obligation to pay more tax in the future, or a right to pay less tax in the future. A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward losses and from which the future reversal of underlying timing differences can be deducted. Deferred tax assets and liabilities recognised have not been discounted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Provision is made for UK or foreign taxation arising on the distribution to the UK of retained profits of overseas subsidiary undertakings where dividends have been recognised as receivable.

### **Provisions**

Provisions are recognised when the Company has a present obligation as a result of a past event, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

Provision is made against the estimated costs to be incurred under leasehold property dilapidation claims anticipated in respect of properties within ten years of the end of the lease period. Within the dilapidations provision, a decommissioning provision for distribution centres is recognised, being the present value of management's best estimate of the expenditure required to settle the present obligation at that balance sheet date. The discount rate used to determine the present value reflects market assessments of the time value of money.

Provision is made for restructuring costs based on management's estimation of the outflow of resources required to settle the obligation.

Environmental liabilities include known and potential legal claims and environmental liabilities.

A warranty provision for goods sold by the Company under its own brand label is made based upon historic data of returns from customers.

### **Share-based payments**

Share-based incentives are provided to employees under the Group's executive share option, long-term incentive, employee share purchase and ordinary share plan schemes. The Company recognises a compensation cost in respect of these schemes that is based on the fair value of the awards, measured using Black-Scholes, Binomial and Monte Carlo valuation methodologies. For equity-settled schemes, the fair value is determined at the date of grant (including the impact of any non-vesting conditions such as a requirement for employees to save) and is not subsequently remeasured unless the conditions on which the award was granted are modified. For cash-settled schemes, the fair value is determined at the date of grant and is re-measured at each balance sheet date until the liability is settled.

# **Wolseley UK Limited**

## **Accounting policies for the year ended 31 July 2012 (continued)**

### **Share-based payments (continued)**

The fair value at the date of grant of options awarded during the year has been estimated by the binomial methodology for all schemes except the long term incentive scheme, for which a Monte Carlo simulation was used. The fair value of the shares granted under the Ordinary Share Plan and Restricted Share Plan was calculated as the market price of the shares at the date of grant reduced by the present value of dividends expected to be paid over the vesting period.

Generally, the compensation cost is recognised on a straight-line basis over the vesting period. Adjustments are made to reflect expected and actual forfeitures during the vesting period due to the failure to satisfy service conditions or non-market performance conditions.

### **Pensions**

The Company participates in the Wolseley Group Retirement Benefits Plan ('the Plan'), a defined benefit pension arrangement that provides benefits to employees within the Group. The assets of the Plan are held separately from the Company's assets.

Scheme assets are measured using market value. Pension scheme liabilities are measured using the projected unit actuarial method and are discounted at the current rate of return on a high quality corporate bond rate of equivalent terms and currency to the liability.

A credit representing the expected return on the assets of the Plan during the year is included within other finance income. This is based on the market value of the assets of the Plan at the start of the financial year. Other finance income includes an interest expense charge representing the expected increase in the liabilities of the scheme during the year. This arises from the liabilities of the Plan being one year closer to payment.

Differences between actual and expected returns on assets during the year are recognised in the statement of total recognised gains and losses in the year, together with differences arising from changes in assumptions.

The difference between the market value of assets and the present value of accrued pension liabilities is shown as an asset or liability in the balance sheet, net of deferred tax.

During the year ended 31 July 2009, the Plan was closed to new members and a defined contribution scheme was established. The assets of the defined contribution scheme are held separately from those of the Company in an independently administered fund. The pension cost charge disclosed in note 2 represents contributions payable by the Company to the fund.

### **Share capital**

The Company only has one class of issued shares, ordinary shares, which are classified as equity.

### **Cash flow statement**

Wolseley plc, the Company's ultimate parent company (note 27), has included a cash flow statement in its group financial statements for the year ended 31 July 2012. Under FRS 1, "Cash Flow Statements (Revised 1996)" no cash flow statement is therefore required in the financial statements of this company.

### **Group financial statements**

As permitted by Section 401 of the Companies Act 2006, consolidated financial statements have not been prepared because the Company itself is a wholly owned subsidiary of its ultimate parent company Wolseley plc (note 27) and its results are included in the consolidated financial statements of that company.

# Wolseley UK Limited

## Notes to the financial statements for the year ended 31 July 2012

### 1 Turnover

Turnover originates primarily from the UK and relates entirely to the principal activities. Turnover and operating profit derived from overseas is not material to the results as a whole.

### 2 Staff costs

	2012 £'000	2011 £'000
<b>Staff costs (including directors)</b>		
Wages and salaries	157,784	184,935
Social security costs	13,722	15,542
Pension costs – defined benefit schemes*	18,028	20,467
Pension costs – defined contribution schemes	1,683	1,079
Share-based payments granted to directors and employees (note 24)	3,158	1,567
Redundancy costs	4,236	1,243
	<b>198,611</b>	<b>224,833</b>

Exceptional staff costs of £1,546,000 charge (2011 £690,000 credit) relating to internal restructuring are included above and are broken down as follows, wages and salaries £244,000 charge (2011 £8,000 credit), social security costs £47,000 charge (2011 £nil), redundancy costs £3,032,000 charge (2011 £82,000 credit) and pension costs £1,777,000 credit (2011 £600,000 credit), which include £2,000,000 credit (2011 £600,000 credit) relating to pension curtailment gain.

\*Pension costs of defined benefit schemes shown above are the costs to the Company. In addition pension costs of £1,172,000 (2011 £1,133,000) were met by other group companies. The total pension cost for the Plan was £19,200,000 (2011 £21,600,000) (note 23).

	2012 Number	2011 Number
<b>Average monthly number of employees and directors</b>		
Distribution	5,728	6,943
Administration	563	577
	<b>6,291</b>	<b>7,520</b>

# Wolseley UK Limited

## Notes to the financial statements for the year ended 31 July 2012 (continued)

### 2 Staff costs (continued)

	2012 £'000	2011 £'000
Directors' remuneration (excluding pension contributions) comprises		
Emoluments	1,795	1,242
Compensation for loss of office	293	-
	<b>2,088</b>	<b>1,242</b>

Emoluments (excluding pension contributions) of the highest paid director

Aggregate emoluments	539	509
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Accrued pension at end of year	14	12
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	2012 Number	2011 Number
Number of directors accruing benefits under defined benefit pension scheme	3	3

All of the Directors of the Company are members of a defined benefit scheme as referred to in note 23

No Directors exercised any share options during the year ended 31 July 2012 or 31 July 2011

The Company did not pay any amounts to a money purchase scheme from which a Director would receive retirement benefits

The emoluments of D Harding and K Jones were paid by the fellow Group company Wolseley (Group Services) Limited, which recharges the Company for their services and so these costs are included above. The emoluments of M Neville were paid by the Company and from 1 August 2011, were recharged to the subsidiary Bathstore com Limited prior to its disposal (see note 12)

The compensation for loss of office paid to a former director of £293,000 was paid by the Company and the cost included within loss on disposal of investments in the profit and loss account

All of the Directors were also Directors of a number of fellow subsidiaries during this and the preceding financial years. It is not possible to make an accurate apportionment of their emoluments in respect of each of the subsidiaries and so the above details include all emoluments in respect of their services with none recharged to the subsidiaries except as noted above

# Wolseley UK Limited

## Notes to the financial statements for the year ended 31 July 2012 (continued)

### 3 Operating profit before exceptional items

	2012 £'000	2011 £'000
Operating profit is stated after charging/(crediting)		
Operating lease rentals		
- Plant and machinery	6,198	5,230
- Other	32,342	31,579
Rent receivable	(821)	(199)
Services provided by the Company's auditors		
Fees payable for the audit of financial statements pursuant to legislation	330	350
Fees payable for services relating to taxation	188	200

### 4 Exceptional items

	2012 £'000	2011 £'000
Exceptional items are analysed as follows		
Stock impairment (credit)/charge	(474)	474
Staff costs (note 2)	1,546	(690)
Goodwill impairment (note 9)	-	6,283
Impairment of investments (note 12)	221,438	47,068
Profit on disposal of discontinued operations (note 5)	(13,372)	-
Loss on disposal of investments (note 12)	34,533	-
Other operating charges		
- Property costs including provisions for future lease rentals on closed branches	(423)	(4,617)
- Write back/(off) balances relating to strike off of subsidiary undertakings	134	(2,114)
- Professional fees incurred relating to consultancy and legal costs	778	3,878
- Other	302	131
Loss/(profit) on disposal of fixed assets - asset write downs (note 11)	10	(266)
	<b>244,472</b>	<b>50,147</b>

Included in the items above are charges of £1,077,000 (2011 £4,458,000 credit) relating to the charge of amounts to the restructuring provision (note 16)

The tax charge for the year includes a tax credit of £797,000 (2011 £16,157,000 charge) relating to exceptional items

# Wolseley UK Limited

## Notes to the financial statements for the year ended 31 July 2012 (continued)

### 4 Exceptional items (continued)

All of the following exceptional items relate to costs incurred as part of the Build, Encon and Bathstore disposals

	2012 £'000	2011 £ 000
Staff costs (note 2)	(2,000)	-
Impairment of investments (note 12)	-	46,335
Profit on disposal of discontinued operations (note 5)	(13,372)	-
Loss on disposal of investments (note 12)	34,533	-
Other operating charges		
- Professional fees incurred relating to consultancy and legal costs	-	3,878
	19,161	50,213

### 5 Profit on disposal of discontinued operations

On 4 November 2011, the trade and assets of Build Center, a trading division of Wolseley UK Limited were sold to Jewson Limited resulting in a profit of £13,372,000. This included a write-off of goodwill totalling £47,365,000 (note 9)

### 6 Income from shares in group undertakings

	2012 £'000	2011 £'000
Income from shares in group undertakings	711	52,969

The income from shares in group undertakings represents dividends paid by B Participations SAS of £711,000 (2011 £24,123,000). In 2011, there was also income from Encon Limited of £16,876,000 and Nevill Long Limited of £11,970,000

# Wolseley UK Limited

## Notes to the financial statements for the year ended 31 July 2012 (continued)

### 7 Interest

#### Interest receivable and similar income

	2012 £'000	2011 £'000
Interest on cash deposits	1,607	981
Interest receivable from group undertakings	-	11,221
Other interest receivable	9,288	500
	10,895	12,702

In 2012, other interest receivable included the exchange differences arising on the retranslation of foreign currency loans from parent and group undertakings of £9,288,000 (2011 £nil)

#### Interest payable and similar charges

	2012 £'000	2011 £'000
Interest on bank loans and overdrafts	11,523	18,772
Interest payable to group undertakings	41,356	38,030
Valuation losses on financial instruments	12	945
Discount charge on receivables funding arrangements	-	2,199
Other interest payable	1,074	7,702
	53,965	67,648

Other interest payable includes the unwinding of discounts (note 16) on long term provisions of £1,082,000 (2011 £2,612,000), and the exchange differences arising on the retranslation of foreign currency loans from parent and group undertakings of £nil (2011 £5,038,000)

The receivables funding arrangement ceased on 27 May 2011

# Wolseley UK Limited

## Notes to the financial statements for the year ended 31 July 2012 (continued)

### 8 Tax on (loss)/profit on ordinary activities

The tax charge for the financial year comprises	2012 £'000	2011 £ 000
<b>Current tax</b>		
UK corporation tax on loss/(profit) for the financial year	13,435	(8,507)
Adjustment in respect of the prior years	6,078	(5,839)
<b>Total current tax charge</b>	<b>19,513</b>	<b>(14,346)</b>
<b>Deferred tax</b>		
Current year	(11,714)	17,517
Adjustment in respect of the prior years	(4,570)	(142)
Movement on deferred tax relating to pension liability	(8)	7,074
<b>Total deferred tax (note 14)</b>	<b>(16,292)</b>	<b>24,449</b>
<b>Tax on loss/(profit) on ordinary activities</b>	<b>3,221</b>	<b>10,103</b>

The tax charge for the financial year is lower (2011 lower) than the standard rate of corporation tax in the UK of 25% (2011 27%). The differences are explained below

<b>Tax reconciliation</b>	2012 %	2011 %
Standard UK corporation tax rate	25	27
Non-deductible and non-taxable items	(31)	498
Deferred tax origination and reversal of timing differences	-	(621)
Foreign income covered by UK dividend exemption	-	(332)
Adjustment in respect of the prior years	(3)	(294)
<b>Effective current tax rate on loss/profit on ordinary activities before tax</b>	<b>(9)</b>	<b>(722)</b>

Included in non-deductible and non-taxable items are exceptional permanent disallowable items which contribute 28% (2011 775%) of the 31% (2011 498%) shown above. These exceptional permanent disallowable items include impairment of investments and loss on disposal of investments (2011 impairment of goodwill and investments and professional fees relating to transactions completed post year end).

During the year, there was a change in the UK main corporation tax rate that was substantively enacted on 3 July 2012, to 24% which became effective from 1 April 2012, and to 23% that will be effective from 1 April 2013. A further reduction to the UK corporation tax rate was announced in the March 2012 Budget, reducing the rate to 22% from 1 April 2014. The change had not been substantively enacted at the balance sheet date and, therefore, has not been recognised in these financial statements.



## Wolseley UK Limited

### Notes to the financial statements for the year ended 31 July 2012 (continued)

#### 9 Intangible fixed assets: goodwill

	£'000
<b>Cost</b>	
At 1 August 2011	185,017
Disposals	(124,877)
<b>At 31 July 2012</b>	<b>60,140</b>
<b>Accumulated amortisation and impairment</b>	
At 1 August 2011	115,502
Charge for the year	2,374
Disposals	(77,512)
<b>At 31 July 2012</b>	<b>40,364</b>
<b>Net book value</b>	
<b>At 31 July 2012</b>	<b>19,776</b>
At 31 July 2011	69,515

On acquisitions to date a life of 20 years has been determined to reflect the estimated useful economic life and goodwill is being amortised on a straight-line basis over this period

The disposal of goodwill of £47,365,000 relates to the transfer of the trade and assets of Build Center to Jewson Limited (see note 5) and includes goodwill which previously arose on the transfer of trade and assets of Firstbase Timber Limited £1,360,000, Brooks Manson £1,023,000, Thomson Brothers Limited £4,917,000, Hall & Co Limited £28,685,000, Gunn Bros (Builders Merchants) Limited £719,000, Atkinsons £6,539,000, RK Timber £1,019,000, Bromsgrove Hire £1,000, Ivybridge Building Supplies Limited £498,000, K&R Building Supplies Limited £1,030,000 and R J Hosking Limited £1,574,000

Impairment tests were performed for all IGUs during the year ended 31 July 2012. These impairment reviews have resulted in no impairment charge this year (2011 £6,283,000)

## Wolseley UK Limited

### Notes to the financial statements for the year ended 31 July 2012 (continued)

#### 10 Intangible fixed assets: other

	Software costs
	£'000
<b>Cost</b>	
At 1 August 2011	9,583
Additions	3,822
Disposals	(2,873)
<b>At 31 July 2012</b>	<b>10,532</b>
<b>Accumulated amortisation</b>	
At 1 August 2011	3,408
Charge for the year	1,303
Disposals	(2,873)
<b>At 31 July 2012</b>	<b>1,838</b>
<b>Net book value</b>	
<b>At 31 July 2012</b>	<b>8,694</b>
At 31 July 2011	6,175

The amortisation charge for the year of £1,303,000 (2011: £nil) is included within 'Other operating charges' on the face of the profit and loss account.

# Wolseley UK Limited

## Notes to the financial statements for the year ended 31 July 2012 (continued)

### 11 Tangible fixed assets

	Land and buildings £'000	Plant and machinery £'000	Fixtures, fittings, tools and equipment £'000	Motor vehicles £'000	Total £'000
<b>Cost or valuation</b>					
At 1 August 2011	178,606	48,776	102,104	20,456	349,942
Additions	3,036	1,514	6,471	817	11,838
Disposals	(4,504)	(6,028)	(2,908)	(4,082)	(17,522)
Disposal of discontinued operations	(56,718)	(8,414)	(13,941)	(9,432)	(88,505)
Reclassifications	65	(56)	(9)	-	-
Transfer to property awaiting disposal	(4,539)	-	-	-	(4,539)
Transfer from group companies	30	7	46	-	83
<b>At 31 July 2012</b>	<b>115,976</b>	<b>35,799</b>	<b>91,763</b>	<b>7,759</b>	<b>251,297</b>
<b>Accumulated depreciation and impairment</b>					
At 1 August 2011	74,022	40,680	73,919	19,871	208,492
Depreciation charge for year	3,142	1,951	5,818	226	11,137
Disposals	(3,865)	(5,565)	(2,628)	(4,000)	(16,058)
Disposal of discontinued operations	(22,598)	(7,711)	(9,931)	(9,137)	(49,377)
Reclassifications	117	(81)	(31)	(5)	-
Transfer to property awaiting disposal	(1,502)	-	-	-	(1,502)
Transfer from group companies	17	-	42	-	59
<b>At 31 July 2012</b>	<b>49,333</b>	<b>29,274</b>	<b>67,189</b>	<b>6,955</b>	<b>152,751</b>
<b>Net book value</b>					
<b>At 31 July 2012</b>	<b>66,643</b>	<b>6,525</b>	<b>24,574</b>	<b>804</b>	<b>98,546</b>
At 31 July 2011	104,584	8,096	28,185	585	141,450

# Wolseley UK Limited

## Notes to the financial statements for the year ended 31 July 2012 (continued)

### 11 Tangible fixed assets (continued)

Land and buildings cost or valuation

	2012 £'000	2011 £'000
Property valuation completed in 1974	532	573
Cost	115,444	178,033
	115,976	178,606

The loss on sale of tangible fixed assets of £40,000 (2011 £6,169,000 gain) on the face of the profit and loss account comprises of a profit on disposal of fixed assets £47,000 (2011 £810,000 profit) and loss on disposal of properties £87,000 (2011 £5,359,000 profit)

Included within the profit on disposal are exceptional items of £10,000 charge (2011 £266,000 credit) relating to the disposal of closed branches

Cost or valuation of land and buildings comprises

	2012 £'000	2011 £'000
Freehold	71,252	119,929
Long leasehold	5,714	10,978
Short leasehold	39,010	47,699
	115,976	178,606

Freehold land, which is included above and amounts to £15,842,000 (2011 £31,544,000), is not depreciated

#### Historical cost

If certain land and buildings had not been revalued, the aggregate amount of land and buildings at 31 July would have been

	2012 £'000	2011 £'000
Historical cost	115,568	178,172
Accumulated depreciation based on cost	(49,140)	(73,811)
Net book value	66,428	104,361

#### Future capital expenditure authorised by the Directors

There is no future capital expenditure authorised by the directors that is contracted but not provided in the financial statements (2011 £nil)

# Wolseley UK Limited

## Notes to the financial statements for the year ended 31 July 2012 (continued)

### 12 Fixed assets investments: Interest in subsidiary undertakings

	£'000
<b>Cost</b>	
At 1 August 2011	2,145,817
Exchange loss on translation	(185,578)
Disposals	(175,124)
<b>At 31 July 2012</b>	<b>1,785,115</b>
<b>Provision</b>	
At 1 August 2011	133,232
Exceptional impairment charge	221,438
Disposals	(110,086)
<b>At 31 July 2012</b>	<b>244,584</b>
<b>Net book value</b>	
<b>At 31 July 2012</b>	<b>1,540,531</b>
At 31 July 2011	2,012,585

The exchange loss on translation of £185,578,000 (2011 £89,772,000 gain) arose from the retranslation at the balance sheet date of investments in subsidiary undertakings denominated in foreign currencies

On 27 October 2011, the subsidiary undertaking Encon Limited was disposed of, and in addition to the cost of disposing of the business the investment value of £33,640,000 was written off to the profit and loss account. A profit on disposal of £41,000 is recognised in the profit and loss account.

On 11 May 2012, the subsidiary undertaking Bathstore.com Limited was disposed of, and in addition to the cost of disposing of the business the investment value of £31,398,000 was written off to the profit and loss account. A loss on disposal of £34,574,000 is recognised in the profit and loss account.

As announced in July 2012 the Group is currently reviewing the future strategic options for the business in France. Market conditions have been more challenging than expected in France and the outlook has become increasingly uncertain. As a result, the expectations of profitability have been reduced, resulting in an exceptional impairment charge of the investments held of £221,000,000.

Further impairments have been recognised in respect of Lygon Limited and Hall & Co Limited of £274,000 and £164,000 respectively, following a review of the carrying value of the investments.

The Directors believe that the carrying values of all investments are supported by their underlying net assets.

# Wolseley UK Limited

## Notes to the financial statements for the year ended 31 July 2012 (continued)

### 12 Fixed assets investments (continued)

Principal subsidiary undertakings	Country of incorporation or registration	Proportion of ordinary shares held	Activity
B Participations SAS	France	100%	Investment holding company
Wolseley France SAS	France	100%	Investment holding company
Pinault Bois et Matériaux SAS	France	100%	Building materials company
William Wilson Holdings Limited	England	100%	Plumbing, heating and electrical supplier

### 13 Stocks

	2012 £'000	2011 £'000
Goods purchased for resale	205,670	258,417

In the opinion of the Directors there is no material difference between the value of stock as disclosed in the balance sheet and their replacement cost at the balance sheet date

### 14 Debtors

	2012 £'000	2011 £'000
<b>Amounts falling due within one year</b>		
Trade debtors	256,252	312,497
Amounts owed by ultimate parent undertaking	228,860	336,821
Amounts owed by group undertakings	16,459	18,942
Corporation tax	7,948	8,986
Other debtors	4,094	9,902
Prepayments and accrued income	48,741	62,233
	<b>562,354</b>	<b>749,381</b>

# Wolseley UK Limited

## Notes to the financial statements for the year ended 31 July 2012 (continued)

### 14 Debtors (continued)

	2012 £'000	2011 £'000
<b>Amounts falling due after more than one year</b>		
Other debtors	15,837	11,406
Deferred tax asset	27,413	9,079
	<b>43,250</b>	<b>20,485</b>

The amount owed by the parent undertaking of £228,860,000 (2011 £336,821,000) consists of a debtor balance of £413,715,000 (2011 £535,242,000) that attracts interest at a rate of one year LIBOR + 0.5%, a creditor balance of £196,244,000 (2011 £196,244,000) that attracts interest at a rate of one year LIBOR +3.5%, and the remaining balance of £11,389,000 (2011 £2,177,000 creditor) that attracts no interest. All of these balances are unsecured.

The amount owed by the group undertakings consists of £16,459,000 (2011 £18,942,000) of trading balances with no interest charged, repayment due within the normal terms of business and unsecured.

On 3 June 2010 the Company entered into an agreement whereby a third party assumed responsibility for the management of a number of vacant property leases. Provision for all these onerous leases are included within the restructuring provision in note 16. The contract involved a series of annual payments to the third party. Advanced payments of £7,750,000 were made in the year ended 31 July 2012 (2011 £14,426,000). The advanced payments made but not yet due are included in other debtors due within one year £1,739,000 (2011 £5,474,000) and after more than one year £2,980,000 (2011 £10,099,000). There are no other remaining instalments due to be paid. In 2011, the remaining instalments were included in other creditors due within one year of £6,500,000 and after more than one year of £7,544,000.

Included within other debtors are elements of deferred consideration in relation to the disposals of Encon Limited and Bathstore.com Limited.

# Wolseley UK Limited

## Notes to the financial statements for the year ended 31 July 2012 (continued)

### 14 Debtors (continued)

The elements of deferred tax are as follows	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
Accelerated capital allowances	24,370	20,439
Other timing differences	3,043	(11,360)
<b>Deferred tax asset</b>	<b>27,413</b>	<b>9,079</b>
The movements in the deferred tax balance were as follows		
Asset at beginning of year	9,079	26,490
Amount credited/(charged) to the profit and loss account	18,334	(17,411)
<b>Asset at end of year</b>	<b>27,413</b>	<b>9,079</b>
<b>Deferred tax reconciliation</b>	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
Asset at beginning of year	9,079	26,490
Deferred tax asset included within net pension deficit at beginning of year	63,739	79,105
<b>Total asset</b>	<b>72,818</b>	<b>105,595</b>
Amount credited/(charged) to the profit and loss account (note 8)	16,292	(24,449)
Amount taken directly to reserves (note 19)	(12,466)	(8,328)
<b>Total asset at end of year</b>	<b>76,644</b>	<b>72,818</b>
Consisting of		
Asset at end of year	27,413	9,079
Deferred tax asset included within net pension deficit at end of year	49,231	63,739
<b>Total asset at end of year</b>	<b>76,644</b>	<b>72,818</b>

No provision has been made for deferred tax gains recognised on revaluing property to its market value or on the sale of properties where potentially taxable gains have been rolled over into replacement assets. Such tax would become payable only if the property were sold without it being possible to claim rollover relief. The total amount unprovided for is £6.5 million (2011: £9.4 million). At present, it is not envisaged that any tax will become payable in the foreseeable future. Also, a deferred tax asset on capital losses has not been provided as it is not expected that these amounts will reverse in the foreseeable future.



# Wolseley UK Limited

## Notes to the financial statements for the year ended 31 July 2012 (continued)

### 15 Creditors

	2012 £'000	2011 £'000
<b>Amounts falling due within one year</b>		
Bank overdrafts	-	540,223
Trade creditors	307,818	396,678
Amounts owed to group undertakings	44,277	35,087
Other taxation and social security	13,973	15,266
Other creditors	47,538	29,160
Accruals and deferred income	18,834	22,945
	<b>432,440</b>	<b>1,039,359</b>

The Company operates within a notional cash pool within the Group, deposits receive interest at 0.75% plus a rate set by the bank and overdrafts are charged at 1.75% plus a rate set by the bank

Amounts owed to group undertakings includes amounts totalling £308,000 (2011: £303,000) which are repayable on demand and are subject to interest at a rate of six months GBP LIBOR + 0.5%, and amounts totalling £5,926,000 (2011: £nil) which are repayable on demand and are subject to interest at a rate of six months GBP LIBOR + 3.5%. The remainder of the amounts owed to group undertakings are repayable on demand and are interest free

	2012 £'000	2011 £'000
<b>Amounts falling due after more than one year</b>		
Loan from parent undertaking	-	100,767
Loan from group undertaking	1,363,969	887,751
Other creditors	562	8,059
	<b>1,364,531</b>	<b>996,577</b>

# Wolseley UK Limited

## Notes to the financial statements for the year ended 31 July 2012 (continued)

### 15 Creditors (continued)

In 2011, there was a loan from the parent of €114,945,000, equivalent to £100,767,000, which was repayable on 1 August 2013 and was subject to interest at a rate of one year EUR LIBOR + 3.5%. This loan was repaid early and no balance remained at 31 July 2012.

The loan from group undertaking includes eight loan amounts totalling £322,108,000 all repayable in full on 30 January 2021, subject to interest rates ranging from six months GBP LIBOR + 3.0% to six months GBP LIBOR + 0.5%, a loan amount of £7,582,000 repayable in full on 31 July 2014, subject to an interest rate of 12 months GBP LIBOR + 0.5%, a loan amount of £941,767,000 repayable 1 August 2013, subject to an interest rate of 6 month GBP LIBOR + 3.5%, and a loan amount of £36,442,000 repayable 1 August 2014 subject to an interest rate of 6 month GBP LIBOR + 3.5%.

The loan from group undertaking in 2011 included ten loan amounts totalling £345,903,000 all repayable in full on 30 January 2021, subject to interest rates ranging from six months GBP LIBOR + 3.0% to six months GBP LIBOR + 0.5%, a loan amount of £5,926,000 repayable in full on 31 July 2013, subject to an interest rate of six months GBP LIBOR + 3.5%, a loan amount of £7,582,000 repayable in full on 31 July 2014, subject to an interest rate of 12 months GBP LIBOR + 0.5%, a loan amount of £438,327,000 repayable 1 August 2013, subject to an interest rate of 6 month GBP LIBOR + 3.5%, and a loan amount of £34,750,000 repayable 1 August 2014 subject to an interest rate of 6 month GBP LIBOR + 3.5%.

The maturity of creditors falling due after more than one year can be analysed as follows:

	2012 £'000	2011 £'000
Due between one and two years	949,911	10,441
Due between two and five years	36,442	584,970
Due in more than five years	378,178	401,166
	<b>1,364,531</b>	<b>996,577</b>

No security has been given for the amounts due in more than five years, which are not payable in instalments.

# Wolseley UK Limited

## Notes to the financial statements for the year ended 31 July 2012 (continued)

### 16 Provisions for liabilities

	1 August 2011 £'000	Charged/ (released) £'000	Utilised £'000	Transferred £'000	Unwinding of discount £'000	Exchange £'000	31 July 2012 £'000
Restructuring	26,027	1,077	(11,932)	602	1,010	(9)	16,775
Property dilapidations	20,621	(1,089)	(962)	(235)	72	(12)	18,395
Environmental	3,690	708	(117)	(1,629)	-	-	2,652
Warranty	127	10,966	-	-	-	-	11,093
	50,465	11,662	(13,011)	(1,262)	1,082	(21)	48,915

#### Restructuring

The remaining restructuring provision is predominately provision for future onerous lease rentals on closed branches and is expected to unwind over the next five years. The majority of the onerous lease provision relates directly to the specific leases which form the agreement between the Company and the third party as set out in note 14. In determining the provision for onerous leases the cash flows have been discounted using a risk free rate.

The net charge to the profit and loss account of £1,077,000 comprises of net property cost charges of £62,000 and staff cost charges of £1,015,000, all of which are exceptional.

#### Property dilapidations

The dilapidations provision includes provision against the estimated costs to be incurred under leasehold property dilapidation claims anticipated in respect of properties within ten years of the end of the lease period and decommissioning costs associated with the distribution centres. The decommissioning provision has been stated on a discounted basis using discount rates depending on the expiry date of the lease and is expected to unwind over the next five years.

#### Environmental

Included within this provision is an amount of £1,992,000 (2011 £2,913,000) relating to asbestos litigation. This amount has been actuarially determined as at 31 July 2012 based on advice from professional advisers. Some insurance is in place for asbestos related litigation and accordingly an insurance receivable of £1,332,000 (2011 £1,107,000) has been recorded in other debtors due after more than one year in note 14. The provision is expected to unwind over the next thirty years.

#### Warranty

The opening warranty provision is an amount to cover any costs should a customer return any of the goods sold by the Company under its own brand label that had a fault and is expected to unwind over the next year. Charges in the year include £11,000,000 relating to provisions set up as part of the accounting for the disposals of the investment in Bathstore.com Limited and the transfer of trade and assets of Build Center. The charge is included within loss on disposal of investments (see note 12) and profit on disposal of discontinued operations (see note 5) respectively.

# Wolseley UK Limited

## Notes to the financial statements for the year ended 31 July 2012 (continued)

### 17 Called up share capital

	2012 £'000	2011 £'000
<b>Allotted and fully paid</b>		
24,530,792 (2011 24,530,792) ordinary shares of £1 each	24,531	24,531

### 18 Share premium account

	£'000
At 1 August 2011	845,108
Capital reduction	(600,000)
<b>At 31 July 2012</b>	<b>245,108</b>

On 26 July 2012, by Special Resolution and in accordance with section 641 of the Companies Act 2006, the amount standing to the credit of the share premium account of the Company was reduced by £600,000,000 with the reserves created on such reduction being allocated to a distributable reserve, the profit and loss account (see note 19)

### 19 Reserves

	Revaluation reserve £'000	Foreign currency retranslation reserve £'000	Profit and loss account £'000
At 1 August 2011	428	38,931	112,233
Loss for the financial year	-	-	(220,134)
Actuarial loss on pension scheme (note 23)	-	-	(42,095)
Movement on deferred tax relating to pension scheme (note 14)	-	-	(12,466)
Movement on corporation tax relating to pension scheme	-	-	18,957
Capital reduction (note 18)	-	-	600,000
Exchange gain for the financial year	-	(23,665)	-
Revaluation reserve movement	(47)	-	47
<b>At 31 July 2012</b>	<b>381</b>	<b>15,266</b>	<b>456,542</b>

£31,341,000 (2011 £31,341,000) of cumulative goodwill has been eliminated against reserves

# Wolseley UK Limited

## Notes to the financial statements for the year ended 31 July 2012 (continued)

### 20 Reconciliation of movements in shareholders' funds

	2012 £'000	2011 £'000
Loss for the financial year	(220,134)	(8,116)
Exchange (loss)/gain for the financial year	(23,665)	10,782
Actuarial (loss)/gain on pension scheme (note 23)	(42,095)	12,947
Movement on deferred tax relating to pension scheme (note 14)	(12,466)	(8,328)
Movement on current tax relating to pension scheme	18,957	-
Net (deduction from)/addition to shareholders' funds	(279,403)	7,285
Opening shareholders' funds	1,021,231	1,013,946
Closing shareholders' funds	741,828	1,021,231

### 21 Contingent liabilities

The Company, together with certain other group companies, has given the banks authority to transfer at any time any sum outstanding to the credit of the Company against or towards satisfaction of the liability to those banks of these other group companies. No security has been provided by the Company under these arrangements.

### 22 Obligations under leases

The Company has entered into non-cancellable operating leases for which the annual commitments are as follows:

	Land and buildings		Other	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Expiring				
Within one year	2,915	1,553	977	620
Between one and five years	13,212	15,222	7,201	8,609
After five years	6,628	9,718	861	912
	22,755	26,493	9,039	10,141

# Wolseley UK Limited

## Notes to the financial statements for the year ended 31 July 2012 (continued)

### 23 Pension costs

The Company participates in the Wolseley Group Retirement Benefits Plan (‘the Plan’) which provides benefits based on final or the average of the last five years of pensionable salaries. The assets are held in separate trustee administered funds. The scheme’s retirement benefits are funded by a salary sacrifice arrangement from employees with the balance being paid by Group companies. Employees’ salary sacrifice is either 5% or 8% of earnings depending on the level of benefits accruing. The Company contribution rate is calculated on the Projected Unit Method and agreed with an independent consulting actuary. During the year ended 31 July 2009, this scheme was closed to new members and a defined contribution plan was established.

The total pension cost for the Plan was £19,200,000 (2011: £21,600,000).

The Company paid 94.5% (2011: 94.9%) of the contributions to the Plan. The total figures for the Plan are shown below and the pension liability included in the Company’s financial statements is the liability for the whole of the Plan.

The Company expects to contribute £44 million (2011: £104 million) to the UK defined benefit scheme in the year ending 31 July 2013.

#### Financial Assumptions

The financial assumptions used to calculate scheme liabilities under FRS 17, “Retirement Benefits” are

	2012	2011
Valuation method	Projected Unit	Projected Unit
Discount rate	4.6%	5.4%
Inflation rate	2.9%	3.7%
Increase to deferred benefits during deferment	1.9%	2.7%
Increases to pensions in payment	2.8%	3.6%
Salary increases	3.9%	4.7%

The life expectancy assumptions used to estimate the defined benefit obligation are

	2012	2011
Current pensioners (at age 65) – male	22.0	22.0
Current pensioners (at age 65) – female	24.0	24.0
Future pensioners (at age 65) – male	25.0	25.0
Future pensioners (at age 65) – female	27.0	26.0

# Wolseley UK Limited

## Notes to the financial statements for the year ended 31 July 2012 (continued)

### 23 Pension costs (continued)

The assets in the scheme and the expected rates of return were

	Long-term rate of return expected at 31 July 2012	Value at 31 July 2012 £'000	Long-term rate of return expected at 31 July 2011	Value at 31 July 2011 £'000
Equities	6.1%	497,796	7.3%	459,798
Bonds	3.0%	191,927	4.4%	166,053
Other	2.8%	42,984	4.1%	36,725
Total market value of assets	5.1%	732,707	6.4%	662,576
Present value of scheme liabilities		(946,716)		(917,528)
Deficit in the scheme		(214,009)		(254,952)
Related deferred tax asset		49,231		63,739
Net pension liability		(164,778)		(191,213)

The Company had an amount of £nil owing to the Plan as at 31 July 2012 (2011: £nil)

#### Reconciliation of fair value of scheme assets

	2012 £'000	2011 £'000
At the beginning of the year	662,576	564,591
Expected return on plan assets	42,900	35,800
Actuarial gain/(loss)	(43,858)	34,769
Employers' contributions	100,538	54,426
Participants' contributions	255	316
Benefits paid	(29,704)	(27,326)
At the end of the year	732,707	662,576

# Wolseley UK Limited

## Notes to the financial statements for the year ended 31 July 2012 (continued)

### 23 Pension costs (continued)

	2012 £'000	2011 £'000
Actual return on plan assets	(958)	70,569

The expected long-term rates of return for equities are long-term assumptions and were set after taking actuarial advice. The expected equity returns can be considered as a risk free rate of return (determined by reference to government bond rates in the countries in which the plans are based), plus a risk premium to reflect the additional risks associated with equities. The expected return implies a premium of 3.9% per year as at 31 July 2012 (2011: 3.1%) over the expected return from government bonds.

#### Reconciliation of present value of scheme liabilities

	2012 £'000	2011 £'000
At the beginning of the year	(917,528)	(855,316)
Current service cost	(21,200)	(22,200)
Curtailment gain	10,200	800
Interest cost	(49,400)	(46,000)
Participants' contributions	(255)	(316)
Benefits paid	29,704	27,326
Actuarial gain/(loss)	1,763	(21,822)
<b>At the end of the year</b>	<b>(946,716)</b>	<b>(917,528)</b>

The sensitivities regarding the principal assumption used to measure the scheme liabilities are

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Increase by 0.5%	Decrease by 10.4%
Discount rate	Decrease by 0.5%	Increase by 11.7%



# Wolseley UK Limited

## Notes to the financial statements for the year ended 31 July 2012 (continued)

### 23 Pension costs (continued)

#### Analysis of total expense recognised in the profit and loss account

	2012 £'000	2011 £ 000
Current service cost	21,200	22,200
Curtailment gain	(2,000)	(600)
Charged to operating profit*	19,200	21,600
Interest on pension liabilities	49,400	46,000
Expected return on scheme assets	(42,900)	(35,800)
Charged to other finance expense	6,500	10,200
Total expense	25,700	31,800

\* Pension costs of £1,172,000 (2011 £1,133,000) were met by other group companies. The total pension cost for the Plan was £19,200,000 (2011 £21,600,000), the pension cost for the company was £18,028,000 (note 2) (2011 £20,467,000)

#### Analysis of amount recognised in statement of total recognised gains and losses ("STRGL")

	2012 £'000	2011 £'000
Actual return less expected return on pension scheme assets	(43,858)	34,769
Changes in assumptions underlying the present value of the scheme liabilities	1,763	(21,822)
Actuarial (loss)/gain recognised in the STRGL	(42,095)	12,947

History of experience gains and losses	2012 £'000	2011 £'000	2010 £'000	2009 £'000	2008 £'000
Fair value of plan assets	732,707	662,576	564,591	489,860	521,314
Present value of defined benefit obligation	(946,716)	(917,528)	(855,316)	(702,464)	(660,241)
Deficit in the plan	(214,009)	(254,952)	(290,725)	(212,604)	(138,927)
Experience adjustments	2012 £'000	2011 £'000	2010 £'000	2009 £'000	2008 £'000
Experience adjustments to scheme assets	(43,858)	34,769	36,605	(100,210)	39,494
% of scheme assets	(6.0)%	5.2%	6.5%	(20.5)%	(7.6)%

# **Wolseley UK Limited**

## **Notes to the financial statements for the year ended 31 July 2012 (continued)**

### **24 Share-based payments**

The Company participates in the Group's four discretionary share option plans (collectively, the "Executive Option Schemes") and in the Group's all employee sharesave plans for UK employees. The Company also participates in the Group's Long Term Incentive Scheme ("LTIS") for senior executives and the Wolseley Group Ordinary Share Plan 2011.

Further detailed information relating to share-based payments is provided in notes 27 and 37 of the Group's Annual Report.

### **25 Derivative financial instruments**

At the balance sheet date the Company had entered into certain short-term currency swaps amounting to assets of £490.1 million (2011: £526.7 million) and liabilities of €624.4 million, equivalent to £501.4 million (2011: €602.8 million, equivalent to £528.4 million), which were designated as effective hedges of net investments in overseas operations. The fair value of these currency swaps has been estimated as the cost of closing out the contracts using the closing exchange rate at the balance sheet date and is £11.3 million (2011: £1.7 million).

The Company entered into these derivatives to hedge against its investment in its French subsidiary and a foreign currency bank overdraft.

The net amount of exchange gains and losses on foreign currency borrowings, less deposits totalled £52.9 million gain (2011: £28.2 million loss) all of which is offset in reserves under the offset procedure. No charge or credit was made to the profit and loss account in relation to hedged foreign investments (2011: £nil).

### **26 Related party transactions**

The Company has taken advantage of the exemption under paragraph 3(c) from the provisions of FRS 8, "Related Party Disclosures" from disclosure of transactions with group undertakings on the grounds that it is a wholly owned subsidiary of a group headed by Wolseley plc (note 27), whose financial statements are publicly available.

### **27 Ultimate parent company**

The Company's immediate parent company is Wolseley UK Holdings Limited, a company registered in England. The ultimate parent company and controlling party at 31 July 2012 was Wolseley plc, which is registered in Jersey and was the smallest and largest parent undertaking to consolidate these financial statements as at 31 July 2012. Copies of the Group financial statements may be obtained from The Company Secretary, Wolseley Limited, Parkview 1220, Arlington Business Park, Theale, Reading, RG7 4GA.

## **Wolseley UK Limited**

### **Notes to the financial statements for the year ended 31 July 2012 (continued)**

#### **28 Post balance sheet events**

On 2 November 2012, a subsidiary of Wolseley UK Limited, Wolseley Utilities Limited (formerly Aghoco 1124 Limited), completed the acquisition of the stock, motor vehicle and IT assets of 22 sites from Burdens Limited. On acquisition, approximately 600 branch and support staff also transferred to the Company. Negotiations are ongoing to purchase the properties associated with these sites. Legal ownership and operational responsibility was transferred to the subsidiary, and a filing with the UK's Office of Fair Trading is pending to clear the purchase.

On 20 September 2012, B Participations SAS, a subsidiary of Wolseley UK Limited, effected a decrease of equity (by reducing the nominal value of its shares) and a share premium repayment resulting in a total amount due to the Company of €1,434,907,000 which has reduced the cost of the investment held in B Participations SAS.