

Corporate governance

Including the report of the audit committee

Compliance with the Combined Code

The Board is committed to the highest standards of corporate governance set out in the Combined Code on corporate governance published by the Financial Reporting Council ("FRC") in July 2003 (the "Code"). The Board has also applied the principles and provisions in the form set out in the revised draft Combined Code published by the FRC in June 2006 (the "Revised Code") in advance of its commencement date. The Board is accountable to the Company's shareholders for good governance and this report describes how the Board applied the principles of good governance set out in the Code and the Revised Code during the year under review.

The Board

As at 31 July 2006, the Board of Directors was made up of 12 members comprising the Chairman, six Executive Directors and five Non Executive Directors. The Non Executive Directors are considered by the Board to be independent of management and free of any relationship which could materially interfere with the exercise of their independent judgement. The Board considers that each of the Non Executive Directors brings his own senior level of experience, gained in their own fields of mainly international operations. Frank Roach was appointed to the Board with effect from 16 December 2005. Mr Roach was appointed as Chief Executive Officer of North America to succeed Mr Hornsby, who became Group Chief Executive on 1 August 2006 following Mr Banks' retirement on 31 July 2006. For the period from Mr Roach's appointment until Mr Banks' retirement, the provisions of the Code requiring a balance between executive and non executive directors were not met, albeit that this was a temporary position in advance of Mr Banks' retirement. At the date of this report, there are 11 members of the Board, comprising the Chairman, five Executive Directors and five Non Executive Directors. Accordingly, the Board considers that the Company once again satisfies the obligations under the Code.

Biographical details of the Directors currently in office are shown on pages 42 and 43. The Company's policy relating to the terms of appointment and the remuneration of both the Executive and Non Executive Directors is detailed in the Remuneration report on pages 62 to 70.

The Board meets regularly during the year as well as on an ad hoc basis, as required by time critical business needs. The Board has a formal schedule of matters reserved to it for its decision, which was reviewed in July 2005, although its primary role is to provide entrepreneurial leadership and to review the overall strategic development of the Group as a whole. Day-to-day operational decisions are delegated to the executive committee referred to on page 57. The Board met 11 times during the year and Director attendance for each meeting is shown in the table on page 57. The Board has established a procedure for Directors, if deemed necessary, to take independent professional advice at the Company's expense in the furtherance of their duties. This is in addition to the access that every Director has to the Company Secretary, who is charged with ensuring that Board procedures are followed and that good corporate governance and compliance is implemented within the Group. Together with the Group Chief Executive and the Company Secretary, the Chairman ensures that the Board is kept properly informed and is consulted on all issues reserved to it. Board papers

and other information are delivered at times to allow Directors to be properly briefed in advance of meetings. In accordance with the Company's Articles of Association, Directors are granted an indemnity from the Company to the extent permitted by law in respect of liabilities incurred as a result of their office. The indemnity would not provide any coverage to the extent that a Director is proved to have acted fraudulently or dishonestly. The Company has also arranged appropriate insurance coverage in respect of legal action against its Directors and officers. The differing roles of Chairman and Group Chief Executive are acknowledged and set out in writing. The Chairman has confirmed that he would not chair any other major company's Board.

The Chairman has addressed the developmental needs of the Board as a whole, with a view to developing its effectiveness as a team and assists in the development of individual skills, knowledge and expertise. During the year, the Board took forward the results of previous ongoing evaluation processes to assess its performance and that of its committees and to identify areas in which its effectiveness, policies and processes might be enhanced, utilising both a questionnaire (in relation to the performance of the Non Executive Directors) and discussions with all Board members.

Performance evaluations, including the skills brought to the Board and the contributions each Director made to it, were carried out for each member of the Board. Executive Directors' performance has been assessed by the Chairman and Mr Banks. Mr Banks' performance was evaluated by the Chairman and the Non Executive Directors. The Senior Non Executive Director led the review of the Chairman's performance in consultation with the Executive and Non Executive Directors. The Non Executive Directors' performance was reviewed by both Mr Banks and the Chairman, as well as by the Board as a whole, which considered the results of the questionnaires referred to above.

Meetings between the Non Executive Directors, both with and without the presence of the Chairman and the Group Chief Executive, are scheduled in the Board's annual timetable. The Board has also arranged to hold at least two Board meetings each year at divisional locations to help all Board members gain a deeper understanding of the business. This also provides senior managers from across the Group the opportunity to present to the Board as well as to meet the Directors on more informal occasions.

As part of their ongoing development, the Executive Directors are encouraged to take up an external non executive position on a non competitor board, for which they may retain payments received in respect of the appointment. In order to avoid any conflict of interest, all appointments are subject to the Board's approval. Generally outside appointments for Executive Directors are limited to one company board only, although Mr Banks, by exception, served on two outside boards. The Board is satisfied that these appointments did not conflict with his duties to the Company. The Board monitors the extent of Directors' other interests to ensure that the effectiveness of the Board is not compromised. Succession planning is considered to be a matter for the whole Board rather than for a committee. The Company's Articles of Association provide that one-third of the Directors retire by rotation each year and that each Director will seek re-election at the Annual General Meeting every three years. Additionally, new Directors are subject to election by shareholders at

the first opportunity after their appointment. It is Board policy that Non Executive Directors are normally appointed for an initial term of three years, which is then reviewed and extended for a further three-year period. It is also Board policy that Non Executive Directors should not generally serve on the Board for more than nine years and that, in cases where it is proposed to exceed this period, the Director concerned will retire annually and offer himself for re-election. Following their appointment, formal comprehensive and tailored induction is offered to all Non Executive Directors, supplemented by visits to key locations within the Group and meetings with members of the executive committee and other key senior executives. All of the Directors being proposed for re-election have been subject to a performance evaluation during the year ended 31 July 2006 and the Board is content that each has continued to be effective and has demonstrated his commitment to his respective role.

Although the Non Executive Directors are not asked, at present, to meet the shareholders of the Company, their attendance at presentations of the annual and interim results is encouraged. The Chairman ensures that the Board maintains an appropriate dialogue with shareholders. Gareth Davis is the Company's Senior Independent Non Executive Director.

The formal terms of reference for the main Board committees, approved by the Board and complying with the Code to assist in the discharge of its duties, are available from the Company Secretary and can also be found on the Company's website at www.wolseley.com. Membership of the various committees is shown on page 147. The Company Secretary acts as secretary to all Board committees.

Nominations committee

The nominations committee meets on an as needed basis and, at the date of this report, is comprised of Mr Whybrow (Chairman), Mr Davis, Mr Duff, Mr Hornsby and Mr Walker. Mr Banks stepped down as a member of this committee upon his retirement on 31 July 2006 and was succeeded by Mr Hornsby. Mr Whybrow would not chair the committee when it considers the appointment of a successor chairman. The committee reviews the structure, size and composition of the Board and its committees and makes recommendations with regard to any changes that are considered necessary, both in the identification and nomination of new Directors and the continuation of existing Directors in office. The committee retains external search consultants as appropriate. The committee also advises the Board on succession planning for executive board appointments although the Board itself is responsible for succession generally. The committee met once during the year and Director attendance for such meeting is shown in the table on page 57, although, as reported last year, a working party was established, which met on a number of occasions, to consider the issues arising out of Mr Banks' retirement.

Audit committee

The audit committee comprises Messrs Davis, Stein and Murray (who chairs the committee). The committee's membership is reviewed by the nominations committee and by Mr Murray at regular intervals. Members of the committee are appointed by the Board following recommendations by the nominations committee. The committee is normally comprised of three independent Non Executive Directors. Two members constitute a quorum.

Each member of the committee brings relevant financial experience from senior executive levels. The expertise and experience of the members of the committee are summarised on pages 42 and 43. The Board considers that each member of the committee is independent within the definition set out in the Code. Mr Stein is considered by the Board to have significant, recent and relevant financial experience, as he is currently Finance Director of GKN plc.

All members of the committee receive appropriate induction, which is in addition to the induction which all new Directors receive and includes an overview of the business, its financial dynamics and risks. Audit committee members are expected to have an understanding of the following areas: the principles of, contents of and developments in, financial reporting, including the applicable accounting standards and statements of recommended practice; key aspects of the Company's approach, including corporate policies; company financing; systems of internal control; and matters that require the use of judgement in the presentation of accounts and key figures as well as the role of internal and external auditors. Members of the committee undertake ongoing training as required.

The committee meets regularly throughout the year and its agenda is linked to events in the Company's financial calendar. The agenda is mostly cyclical such that the committee Chairman approves the agenda on behalf of all members of the committee; each member of the committee may require reports on matters of interest in addition to the regular items. Members' attendance at the meetings held during the year is set out in the table on page 57.

The committee invites the Chairman, the Group Chief Executive, the Group Finance Director, the Director of Financial Reporting and Strategic Planning, the Group Financial Controller and the Head of Internal Audit together with senior representatives of the external auditors to attend each meeting although it reserves part of each meeting for discussions without the invitees being present. Other senior management are invited to present such reports as are required for the committee to discharge its duties.

The Chairman of the audit committee attends the Annual General Meeting to respond to any shareholder questions that might be raised on the committee's activities. The remuneration of the members of the committee is set out on page 63 and the policy with regard to the remuneration of Non Executive Directors is set out on page 70.

The committee is required to assist the Board to fulfil its responsibilities related to external financial reporting and associated announcements. During the year, the committee reviewed the proposed introduction of a statutory operating and financial review and its subsequent replacement by a business review; the progress made towards financial reporting under International Financial Reporting Standards ("IFRS"); the interim and annual financial statements and the restatement of the 2005 preliminary statement under IFRS; the interim and preliminary announcements made to the London and New York Stock Exchanges and the Form 20-F, which is filed with the Securities and Exchange Commission in the USA, having received the appropriate information on the accounting principles, policies and practices adopted in the preparation of the accounts; changes proposed to those principles, policies and practices; significant accounting issues; operation of the Company's whistleblowing policy; litigation and contingent liabilities and tax matters, including contingencies against tax liabilities together with compliance with statutory tax obligations.

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The committee is also responsible for the development, implementation and monitoring of the Company's policy on external audit. The committee reserves oversight responsibility for monitoring the independence, objectivity and compliance with ethical and regulatory requirements. The committee recommends the appointment and reappointment of the Company's external auditors. The committee reviews the scope, results (including schedules of unadjusted errors and representation letters) and cost-effectiveness of the audit as well as the auditors' remuneration and performance. The committee also ensures that key partners within the external auditors are rotated from time to time in accordance with both UK and US rules. In line with this policy, there was a rotation of the engagement partner for the year ended 31 July 2006. The Committee also monitors the extent of non-audit work which the external auditors can perform, to ensure that the provision of those non-audit services that can be undertaken by the external auditors falls within the agreed policy and does not impair their objectivity or independence. Under the policy, the external auditors cannot be engaged to perform any of the following services:

- Bookkeeping services related to accounting records or financial statements;
- Financial information systems' design and implementation;
- Appraisal or valuation services, fairness opinions and contributions in kind reports;
- Actuarial services;
- Internal audit outsourcing services;
- Management functions including human resources;
- Broker or dealer, investment advisor or investment banking services; or
- Legal and other services unrelated to the audit.

The policy requires pre-confirmation by the committee of any non-audit work subject to de minimis levels. The external auditors provide audit related services such as regulatory and statutory reporting as well as formalities relating to shareholder or other circulars. The external auditors report to the committee any material departures from Group accounting policies and procedures that they identify during the course of their audit work. Within the constraints of applicable US and UK rules, the external auditors undertake due diligence reviews and provide assistance on tax matters given their in-depth knowledge of the Group's business. The provision of non-audit services within such constraints and the agreed policy is assessed on a case-by-case basis so that the best-placed advisor is retained. During the year the committee reviewed the effectiveness of the external auditors and considered whether the agreed plan had been fulfilled and the reasons for any variation from the plan. The committee also considered the external auditors' robustness and the degree to which the external auditors were able to assess key accounting and audit judgements and the context of the management letter.

The committee reviews annually a formal letter provided by the external auditors confirming their independence and objectivity within the context of applicable regulatory requirements and professional standards.

The committee also reviewed the terms, areas of responsibility and scope of the audit as set out in the external auditors' engagement letter; the overall work plan for the forthcoming year, together with the associated fee proposal; any major issues which arose during the course of the audit and their resolution; key accounting and audit judgements; the level of errors identified during the audit; and the recommendations made to management by the auditors and management's response.

The total fees paid to PricewaterhouseCoopers LLP in the year ended 31 July 2006 were £9.6 million (2005: £7.2 million) of which £4.2 million (2005: £3.4 million) related to non-audit work. Further disclosure of the non-audit fees paid during the year ended 31 July 2006 can be found in note 3 on page 86.

The committee also reviews the effectiveness of the Group's internal audit function and its relationship with the external auditors, including internal audit plans and performance. Throughout the year, the committee reviewed the internal audit function's plans and its achievements against plans. The committee considered the results of the audits undertaken by the internal audit function and considered the adequacy of management's response to matters raised, including the time taken to resolve any such matters.

The committee also reviews, where practicable, all proposed announcements to be made by the Company to the extent that they contain material financial information. It also reviews disclosures made by the Group Chief Executive and Group Finance Director during the certification process for the Form 20-F concerning the design and operation of internal controls or material weaknesses in the controls, including any fraud involving management or other employees involved in the Group's financial controls. The committee monitors and reviews the effectiveness of the Group's internal control systems, accounting policies and practices, standards of risk management and risk management procedures and compliance controls as well as the Company's statements on internal controls before they are agreed by the Board for each year's annual report. The committee has also monitored the Company's response to the requirements of the US Sarbanes-Oxley Act as they apply to foreign private issuers with particular focus on the progress made in evaluating internal controls as required by Section 404 of that Act. The Board retains overall responsibility for internal control and the identification and management of business risk. During the year, the committee also reviewed the processes which have been embedded throughout the Group to implement compliance with IFRS reporting requirements.

The Company's whistleblowing policy (which is an extension of the Groupwide Code of Ethics) sets out arrangements for the Company Secretary to receive, in confidence, complaints on accounting, risk issues, internal controls, auditing issues and related matters which would, as appropriate, be reported to the committee. A copy of the Code of Ethics is available on the Company's website at www.wolseley.com.

Each year the committee critically reviews its own performance and considers where improvements can be made. The committee's terms of reference, which had been approved in October 2004, were reviewed during the year.

Remuneration committee

The committee comprises Messrs Davis, Walker and Duff (who chairs the committee), all of whom are independent within the definition set out in the Code. Mr Duff succeeded Mr Walker as chairman of the committee on 1 November 2005. The committee met five times during the year and Director attendance for each meeting is shown in the table below. The committee is responsible for making recommendations on remuneration to the Board. The Board's Remuneration report is set out on pages 62 to 70. During the year as part of its evaluation process the committee reviewed its terms of reference, which had been approved in July 2004. It was agreed that no amendments were required. Copies of these terms of reference are available from the Company Secretary or on the Company's website at www.wolseley.com.

The Chairman of the remuneration committee attends the Annual General Meeting to respond to any shareholder questions that might be raised on the committee's activities.

Meetings attendance

The following table shows the attendance of Directors at meetings of the Board, audit, remuneration and nominations committees during the year:

	Board meetings		Audit committee meetings		Remuneration committee meetings		Nominations committee meetings	
	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend
C A Banks	10	11	–	–	–	–	–	1
G Davis	8	11	4	4	5	5	1	1
A J Duff	11	11	–	–	5*	5	1	1
F N Hord	8	11	–	–	–	–	–	–
C A S Hornsby	11	11	–	–	–	–	–	–
R H Marchbank	11	11	–	–	–	–	–	–
J I K Murray	10	11	4*	4	–	–	–	–
F W Roach†	6	6	–	–	–	–	–	–
N M Stein	10	11	4	4	–	–	–	–
R M Walker	10	11	–	–	5	5	–	1
S P Webster	10	11	–	–	–	–	–	–
J W Whybrow	11*	11	–	–	–	–	1*	1

*Chairman

This table shows only those meetings which each Director attended as a member rather than as an invitee.

†Appointed as a Director on 16 December 2005.

Internal audit

The internal audit function is involved in the assessment of the quality of risk management and internal control and helps to promote and further develop effective risk management within the businesses. Certain internal audit assignments (such as those requiring specialist expertise) continue to be outsourced by the Head of Internal Audit to KPMG LLP as required. A policy has been established regarding the recruitment of staff from both KPMG LLP and PricewaterhouseCoopers LLP. The audit committee reviews internal audit reports and considers the effectiveness of the function.

Internal control

In a highly decentralised Group, where local management has considerable autonomy to run and develop their businesses, a well designed system of internal control is necessary to safeguard shareholders' investment and the Company's assets. The Directors

Treasury committee

The committee comprises the Group Chief Executive, the Group Treasurer and the Group Finance Director, who acts as its Chairman. Mr Banks stepped down as a member of this committee upon his retirement on 31 July 2006 and was succeeded by Mr Hornsby. The committee's role is to consider treasury policy, tax matters and certain transactions on behalf of the Group within a framework delegated by the Board.

Executive committee

The Executive Directors of the Company together with Mr Barden, who has been responsible for Wolseley UK Limited since 1 August 2003, and Mr White, the Group Company Secretary & Counsel, meet at least eight times each year, often on the day before formal Board meetings. The committee addresses operational business issues and shares best practice, thereby allowing the Directors more time at Board meetings to focus on strategy.

acknowledge that they have overall responsibility for the Group's systems of internal control and for reviewing their effectiveness. In accordance with the guidance set out in the Turnbull Report "Internal Control: Guidance for Directors on the Combined Code", an ongoing process had been established for identifying, managing and evaluating the risks faced by the Group. This process has been in place for the full financial year and up to the date on which the financial statements were approved.

The systems are designed to manage rather than eliminate the risk of failure to achieve the Group's objectives, safeguard the Group's assets against material loss, fairly report the Group's performance and position and to ensure compliance with relevant legislation, regulation and best practice including that related to social, environmental and ethical matters. The systems provide reasonable, not absolute, assurance against material misstatement or loss. Such systems are regularly reviewed by the Board to deal with changing circumstances.

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A summary of the key financial risks inherent in the Group's business is given on pages 39 to 41. Risk assessment and evaluation is an integral part of the annual planning cycle. Each business documents the strategic objectives and the effectiveness of the Group's systems of internal control. As part of this review, each business area and function has been required to identify and document each significant risk, together with the mitigating actions implemented to manage, monitor and report to management on the effectiveness of these controls. Senior managers are also required to sign bi-annual confirmations of compliance with key procedures and to report any breakdowns in, or exceptions to, these procedures. Summarised results have been presented to senior management (including to the executive committee) and to the audit committee. These processes have been in place throughout the financial year ended 31 July 2006 and have continued to the date of this Report. The Board has reviewed the effectiveness of the Group's system of internal control for the year under review and a summary of the principal control structures and processes in place across the Group is set out below.

Control structures

Whilst the Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness, it has delegated responsibility for the internal control and risk management programme to the Group Finance Director. The detailed review of internal control and risk management has been delegated to the audit committee. The management of each Group company is responsible for internal control and risk management within its own business and for ensuring compliance with the Group's policies and procedures. Each Group company has appointed a risk director whose primary role in such capacity is to ensure compliance by local management with the Group's risk management and internal control programme. Both the internal and external auditors have reviewed the overall approach adopted by the Group towards its risk management activities so as to reinforce these internal control requirements.

Control processes

The Board reviews its strategic plans and objectives on an annual basis and approves Group company budgets and strategies in light of these. Control is exercised at both Group and subsidiary board level through monthly monitoring of performance by comparison to budgets, forecasts and cash targets and by regular visits to Group companies by the Group Chief Executive and Group Finance Director. Group companies approve and submit risk reports to the audit committee on a bi-annual basis, summarising the key risks facing their businesses and the controls in place to manage those risks. These reports, together with reports on internal control and departures, if any, from established Group procedures prepared by the internal and external auditors, are reviewed by the Group Finance Director and the audit committee. Group companies also submit annual risk and internal control representation letters to the Group Finance Director on internal control and risk management issues, with comments on the control environment within their operations. The Group Finance Director summarises these submissions for the audit committee and the Chairman of the audit committee reports to the Board on any matters which have arisen from the committee's review of the way in

which the risk management and internal control processes have been applied. Group companies are also required to support the disclosures and attestations that the Group Chief Executive and Group Finance Director are required to give under the Sarbanes-Oxley Act.

The Board has formal procedures in place for the approval of investment and acquisition projects, with designated levels of authority, supported by post investment review processes for selected acquisitions and major capital expenditure. The Board considers social, environmental and ethical matters in relation to the Group's businesses and assesses these when reviewing the risks faced by the Group. The Board is conscious of the effect such matters may have on the short and long-term value of the Company. The external auditors of the Company and the Head of Internal Audit attend audit committee meetings and receive its papers. The report of the audit committee is set out on pages 55 to 56 and the audit committee members regularly meet the Head of Internal Audit and the external auditors without the presence of executive management.

As noted on page 52, the Company has entered into a level II American Depositary Receipt programme with the Bank of New York and has securities registered with the US Securities and Exchange Commission ("the Commission"). As a result, the Company is required to comply with applicable US regulations including the Sarbanes-Oxley Act, insofar as it applies to foreign private issuers. In accordance with the Commission's recommendations, the Company has established a disclosure committee comprising the Group Chief Executive, Group Finance Director, Group Financial Controller and the Group Company Secretary and Counsel.

The Group Chief Executive and Group Finance Director will also provide the certificates required by the Sarbanes-Oxley Act when the Form 20-F for 2006 is filed. There were no changes to the Company's internal control over financial reporting that occurred during the year ended 31 July 2006 that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting. During the year, work necessary to achieve compliance with the requirements of Section 404 of the Sarbanes-Oxley Act related to internal controls has continued.

Compliance statement

The Company applied all of the principles set out in section 1 of the Code and the Revised Code for the period under review and has, throughout the year, complied with the detailed provisions set out therein, save that, during the period from 16 December 2005 to 31 July 2006 there was an imbalance between Executive and Non Executive Directors on the Board and following the introduction of a new Directors' bonus scheme in 2000, the pensionable salary of one Executive Director includes his bonus capped at a fixed amount.

The Company's auditors, PricewaterhouseCoopers LLP, are required to review whether the above statement reflects the Company's compliance with the nine provisions of the Code specified for its review by the Listing Rules of the UK Listing Authority and to report if it does not reflect such compliance. No such report has been made.

New York Stock Exchange corporate governance requirements

Whilst the Company is not required to comply with the measures set by the board of the New York Stock Exchange, Inc. to strengthen corporate accountability as it is a private foreign issuer, it does comply in all material respects with those standards. Those standards state that companies should have a nominating/corporate governance committee composed entirely of independent Directors with written terms of reference, which develops and recommends to the board a set of corporate governance principles for the Company. Details of the Company's nominations committee are set out on page 55. The nominations committee does not develop corporate governance principles for the Board to approve. The Board itself approves the Group's overall system of internal controls, governance and authority limits. A majority of the members of the nominations committee are independent Non Executive Directors and all such Directors sit on the Board. The Company's practice, in accordance with the UK Companies Act and the Code in relation to the appointment and termination of the external auditors, is that a recommendation is made by the audit committee to the Board, which will then make a recommendation to shareholders in general meeting. This differs from the procedure in the USA, where the external auditors are accountable to the audit committee, which has the authority to appoint or dismiss the external auditors without reference to shareholders.

The US Sarbanes-Oxley Act, the Securities and Exchange Commission and the New York Stock Exchange introduced rules in July 2005 requiring the Company to comply with certain provisions relating to the audit committee. These include a requirement related to the independence of audit committee members and procedures for the treatment of complaints regarding accounting or auditing matters. The Company is fully compliant with these requirements.

Communications with shareholders

The Company places considerable importance on communication with its shareholders, including its employee shareholders. The Group Chief Executive and Group Finance Director are closely involved in investor relations and a senior executive has day-to-day responsibility for such matters. The views of our major shareholders are reported to the Board by the Group Finance Director and by the Chairman and discussed at its meetings. The Annual Report and Accounts are available to all shareholders either in paper form or electronically and can be accessed via the Company's website or via Shareview, an Internet service offered by the Company's registrars, Lloyds TSB Registrars, detailed on page 148.

There is regular dialogue with institutional shareholders and this has been extended to include private shareholders through the Annual General Meeting and meetings with shareholder representatives. Contact with institutional shareholders (and with financial analysts, brokers and the media) is controlled by written guidelines to ensure the protection of share price sensitive information that has not already been made generally available to the Company's shareholders. Contact is also maintained, when appropriate, with shareholders to discuss overall remuneration plans and policies. The Group's preliminary and interim results, as well as all announcements issued to the London and New York Stock Exchanges, are published on the Company's website, www.wolseley.com. The Company issues regular trading updates to the market and these, together with copies of presentations to analysts and interviews with the Group Chief Executive and Group Finance Director, are also posted on the Company's website. The Notice of the Annual General Meeting is circulated to all shareholders at least 20 working days before such meeting and it is Company policy not to combine resolutions to be proposed at general meetings. All shareholders are invited to the Company's Annual General Meeting at which they have the opportunity to put questions to the Board and it is standard practice to have the chairmen of the audit, nominations and remuneration committees available to answer questions. The proxy votes for and against each resolution, as well as abstentions (which may be recorded on the proxy form accompanying the Notice of Meeting), are counted before the Annual General Meeting and the results will be made available at the meeting after shareholders have voted on each resolution on a show of hands. The results are also announced to the London and New York Stock Exchanges and are published on the Company's website shortly after the meeting.

Donations

The Company's Corporate social responsibility report is set out on pages 44 to 51. The Group's charitable donations in 2006 totalled £2,445,000 (2005: £2,020,711).

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)) 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 donations and incur expenditure of not more than £125,000 in total until the Company's next Annual General Meeting, which they might otherwise be prohibited from making or incurring under the terms of the Act and which would not amount to "donations" in the ordinary sense of the word. The authority sought by Resolution 13 in the Notice of Meeting will last until the Company's next Annual General Meeting.

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Awards under employee share schemes

Options were granted under the Employee Share Purchase Plan in March 2006 to 8,151 US-based employees (2005: 9,036) and 442 Canadian-based employees (2005: 941) in respect of a maximum of 817,439 ordinary shares (2005: 2,780,555) exercisable at 1236 pence per share. Options were granted under the UK Employees Savings Related Share Option Scheme in April 2006 to 2,649 employees (2005: 2,246) in respect of a maximum of 621,422 ordinary shares (2005: 582,757) exercisable at 1164 pence per share. Options were granted under the Irish Sharesave Scheme in April 2006 to 229 employees (2005: 145) in respect of a maximum of 86,100 ordinary shares (2005: 70,878) exercisable at 1164 pence per share. In November 2005 options were granted under the Wolseley Share Option Plan 2003 over 4,473,070 ordinary shares (2005: 4,081,340) to senior employees of the Group at an option price of 1185 pence per share. A further award of 111,820 options were granted under the 2003 Plan in January 2006 at an option price of 1281 pence per share. These schemes are described in more detail on pages 64 to 68. Details of the total options outstanding at 31 July 2006 are set out in note 29 to the financial statements. Details of the cash awards under the 2001 Long Term Performance Related Incentive Scheme for Mr Banks and the cash and share awards under the Wolseley plc 2002 Long Term Incentive Scheme are set out on page 64.

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 internal website, 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 are 25 members comprising 14 employee representatives nominated from among employees from each European company with the balance being Company appointees.

Permanent UK employees are usually 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 recently acquired 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 usually offered membership of their employing companies' pension arrangements.

Employees are offered a range of benefits depending on the 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 highly decentralised basis. This provides the maximum 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.

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 Group Company Secretary at the Company's registered office. At 31 July 2006 the Company had no trade creditors (2005: nil). The amount of trade creditors for the Group as at 31 July 2006 was equivalent to 52 days (2005: 55 days) of trade purchases.

Shareholder services

Shareview is a service offered by our registrars, Lloyds TSB Registrars, which allows shareholders on-line access to a range of shareholder information. Shareview provides access to details of shareholdings in the Company and practical help on transferring shares or updating personal details. It also allows shareholders to choose to receive shareholder communications electronically, rather than by post. To register, shareholders simply need to log on to www.shareview.co.uk with their shareholder reference number, which is shown on the form of proxy sent to all shareholders with this Report. First time users will need to enter certain information and choose a Personal Identification Number before they are able to access their shareholding details.

Shareview dealing is also available to UK-based shareholders. This is a simple and convenient telephone and Internet share purchase and sale service offered by the Registrars. For telephone purchases and sales call 0870 850 0852 between 8.30am and 4.30pm, Monday to Friday. For Internet purchases and sales, log on to www.shareview.co.uk/dealing. A postal dealing service is also available from Lloyds TSB Registrars and a form, together with terms and conditions, can be obtained by calling 0870 242 4244.

CREST

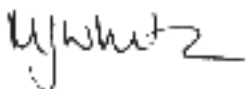
The Company's ordinary shares are in CREST, the settlement system for stocks and shares.

Auditors

PricewaterhouseCoopers LLP are willing to continue as auditors of the Company and Resolution 8 in the Notice of Meeting concerning their reappointment and Resolution 9 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.

Annual General Meeting resolutions

The resolutions to be proposed at the Annual General Meeting to be held on 29 November 2006, together with explanatory notes, appear in the Notice of Annual General Meeting on pages 149 to 152 and which is also available on our website at www.wolseley.com.



On behalf of the Board

Mark J White

Group Company Secretary and Counsel
Wolseley plc, Registered No. 29846
Theale, Reading
25 September 2006

Directors' responsibility statement

The Directors are required by UK company law and International Financial Reporting Standards ("IFRS") as adopted by the European Union to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss for that period.

The Directors consider that, in preparing the accounts, appropriate accounting policies have been used and applied consistently, supported by reasonable and prudent judgements and estimates; they have been prepared in accordance with IFRS as adopted by the European Union and on the going concern basis. Applicable UK accounting standards have also been applied.

The Directors are also responsible for maintaining adequate accounting records which disclose with reasonable accuracy the financial position of the Company and the Group, which enable them to ensure that the financial statements comply with the UK Companies Act 1985 and Article 4 of the International Auditing Standards Regulation.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the [wolseley.com](http://www.wolseley.com) website. The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the UK governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and the Group and to prevent and detect fraud or other irregularities. The Directors, having prepared the financial statements, have permitted the auditors to take whatever steps and undertake whatever inspections they consider to be appropriate for the purpose of enabling them to give their audit opinion.