WOLSELEY

Results for the year ended 31 July 2016 **This press release contains inside information**

A YEAR OF CONTINUED PROGRESS

£m	2016	2015	Change	Change (at constant exchange rates)	Like-for-like change[2]
Revenue	14,430	13,300	+8.5%	+4.2%	+2.4%
Trading profit [1]	917	857	+7.0%	+1.6%	
Profit before tax	727	508			
Impairment and exceptional items	96	264			
Headline earnings per share [1]	247.7p	230.2p	+7.6%		
Net debt	936	805			
Ordinary dividend per share	100p	90.75p	+10.2%		

Financial highlights

- Revenue 4.2% ahead of last year at constant exchange rates, including like-for-like growth of 2.4%.
- Commodity price deflation reduced revenue by 1.5%. Changes in foreign exchange rates increased revenue by £552 million, trading profit by £46 million and net debt by £149 million.
- Gross margin of 28.3%, 0.3% ahead of last year.
- Record trading profit of £917 million.
- Net debt of £936 million (2015: £805 million) after £538 million of dividends and share buybacks.
- Proposed final dividend of 66.72p, bringing the total for the year to 100p, 10.2% ahead of last year.

Operating highlights

- Ferguson revenue growth of 6.2% at constant exchange rates and market share gains in all major segments.
- Good US residential and commercial markets, whilst industrial remained weak. US revenue growth at constant exchange rates by end market was:
  - Residential +10%
  - Commercial +7%
  - Municipal +6%
  - Industrial (10%)
- Accelerated investment in e-commerce, now 14% of Group revenue at £2.1 billion.
- Invested £113 million in 16 bolt-on acquisitions with annualised revenue of £197 million. Since the year end a further £300 million has been either invested or approved.
- UK turnaround and repositioning strategy announced today. Expect the closure of around 80 branches, one distribution centre and up to 800 job losses. Restructuring charges of about £100 million, the cash element funded by working capital efficiencies and disposal proceeds. Impairment charge of £94 million incurred in the year.
- Review of Nordics operating strategy underway.

(1) Before exceptional items, the amortisation and impairment of acquired intangibles and with respect to headline earnings per share before non-recurring tax items.
(2) The increase or decrease in revenue excluding the effect of currency exchange, acquisitions and disposals, trading days and branch openings and closures.

WOLSELEY

Results for the year ended 31 July 2016

John Martin, Group Chief Executive, commented:

"Ferguson, our core US business which generates over 80 per cent of the Group's trading profit, performed well and achieved good growth in residential and commercial markets, partly offset by weakness in industrial markets. Commodity deflation, principally in the US, reduced the Group's growth rate by 1.5%. Ferguson continues to be the main priority for organic expansion and bolt-on acquisitions.

"Our review of UK operational strategy has identified opportunities to transform our customer propositions whilst simplifying our branch network and supporting logistics facilities to greatly improve service levels, drive availability and choice for customers and generate better returns for shareholders. Regrettably this will result in job losses which we will handle sensitively and minimise through redeployment and attrition as far as possible.

"Like-for-like revenue growth in the new financial year has been 1.5 per cent for the Group and 4.5 per cent in the US. Demand across our markets remains mixed, with some uncertainty in the economic outlook. We will remain vigilant in controlling our costs to protect profitability while investing in attractive opportunities for profitable growth. We are confident that Wolseley will make further progress in the year ahead."

For further information please contact

Wolseley plc

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There will be an analyst and investor presentation at 0830 (UK time) today at The London Stock Exchange, 10 Paternoster Square, London EC4M 7LS. A live video webcast and slide presentation of this event will be available on www.wolseley.com. We recommend you register at 0815 (UK time). Photographs are available at www.newscast.co.uk.

Group results

The Group delivered an improvement in overall results. Residential and commercial markets in the US, which account for the majority of revenue, held up well in volume terms, though industrial markets, which account for 12% of US revenue, were weaker and commodity price deflation was a significant headwind. The heating market in the UK weakened and consumer demand in the Nordics fell in the second half.

Revenue of £14,430 million (2015: £13,300 million) was 4.2% ahead at constant exchange rates and 2.4% ahead on a like-for-like basis. Price deflation, particularly in the US, reduced revenue by 1.5%. Improving gross margins remained a key focus and were 30 basis points ahead overall. This was achieved as a result of focusing on a better mix of higher value-add products and services and improving our purchasing terms. Operating expenses were 6% higher at constant exchange rates, including 2% from acquisitions.

Trading profit of £917 million (2015: £857 million) was a record for the Group, and 1.6% ahead of last year at constant exchange rates. The trading margin was consistent with last year at 6.4%. There was one fewer trading day than last year which reduced trading profit by about £6 million, there will be one more in the year ending 31 July 2017. Foreign exchange rate movements increased revenue by £552 million and trading profit by £46 million.

The normal amortisation charge in relation to the Group's acquired intangible assets was £53 million (2015: £56 million). A net £2 million exceptional charge (2015: £4 million) was incurred comprising an £8 million gain relating to the disposal and closure of businesses and a £10 million charge arising from restructuring in the UK. An impairment charge of £94 million was made in relation to goodwill and acquired intangible assets in the UK reflecting difficult market conditions.

Net finance charges of £40 million (2015: £26 million) were higher due to the issue of $800 million US Private Placement bonds in September 2015 at an average fixed interest rate of 3.7%. Profit before tax of £727 million (2015: £508 million) reflects the impairment and exceptional charges. The tax charge of £231 million is stated net of a £21 million credit on the amortisation and impairment of intangible assets. The underlying tax charge of £248 million represents an effective tax rate on ongoing trading profit less net finance costs of 28.3% (2015: 27.9%).

Headline earnings per share were 247.7 pence (2015: 230.2 pence) an increase of 7.6%, reflecting the growth in trading profit and accretion from last year's share buyback programme. Basic earnings per share from continuing and discontinued operations were 256.4 pence (2015: 82.1 pence).

Strategic priorities

We have recently established three priorities against which we will allocate resources across the organisation:

- **Generate best profitable growth in Ferguson**. Our US subsidiary generated over 80 per cent of the Group's trading profit in 2016 and we will focus on accelerating Ferguson's revenue growth on a sustainable basis while continuing to generate attractive returns for shareholders.
- **Execute UK turnaround and repositioning plan**. We have announced today the results of our review of operational strategy to transform the UK business with a well defined offering for customers and a leaner, more efficient operating model.
- **Review Nordics operational strategy and restore business to profitable growth**. We have initiated a review of operating strategy across the Nordics to ensure we have a successful strategy to deliver great service, gain market share and improve financial performance.

Our operating principles will be to focus on generating profitable growth and improving our operating models. We will continue to recruit, develop and retain the best people and build on the strong service culture in our businesses. We will allocate resources where they can generate the best returns for shareholders while dealing with any underperforming parts of the Group decisively and quickly. We will continue to maintain a strong, investment grade balance sheet.

Operating and financial review

Further details of the financial performance and market conditions in the Group's businesses, and the reconciliation to reported results, are set out below.

Regional analysis

£m	Revenue 2016	Revenue 2015	Change (at constant exchange rates)	Trading profit 2016	Trading profit 2015	Change (at constant exchange rates)
US	9,456	8,337	+6.2%	775	683	+6.3%
UK	1,996	1,987	+0.5%	74	90	(17.8%)
Nordics	1,881	1,863	+0.8%	60	72	(17.6%)
Canada and Central Europe	1,097	1,113	+0.3%	53	55	(0.2%)
Central costs				(45)	(43)	
Ongoing businesses	14,430	13,300	+4.2%	917	857	+1.6%
Closed, sold or held for sale	-	32		(1)	(3)	
Group	14,430	13,332		916	854	

Quarterly like-for-like revenue growth

	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
US	+7.1%	+4.5%	+4.0%	+5.0%	+3.1%
UK	+3.1%	(1.1%)	(2.9%)	(0.4%)	(2.1%)
Nordics	+6.4%	+5.5%	+2.4%	(2.6%)	(2.3%)
Canada and Central Europe	(5.0%)	(2.8%)	(1.7%)	-	+0.3%
Ongoing businesses	+5.4%	+3.2%	+2.3%	+2.8%	+1.5%

USA (81% of Group trading profit)

Ferguson, our US plumbing and heating business, grew revenue 4.1% on a like-for-like basis. Price deflation was 2.2% principally due to falling commodity prices. Acquisitions contributed 1.9% of additional revenue. Residential and commercial markets grew well, though industrial markets, which accounted for 12% of revenue, contracted throughout the year.

The revenue growth at constant exchange rates by customer end market was as follows:

	% of US revenue	Growth 2016 (change at constant exchange rates)
Residential	45%	+10%
Commercial	28%	+7%
Municipal	15%	+6%
Industrial	12%	(10%)

Despite deflationary headwinds Blended Branches, Waterworks, HVAC and Fire and Fabrication generated good growth and gained market share. Industrial revenues declined as activity levels remained weak, particularly in the major oil producing states.

Build.com, our B2C e-commerce business, continued to grow very strongly throughout the year. Online ordering is an essential channel for our customers, giving them even greater flexibility to do business with us at the time that is most convenient for them. We have continued to invest substantially in both B2B and B2C e-commerce to improve the customer experience. This included upgrading our technology platforms, improving the suite of apps available and adding services which help our customers manage their businesses more efficiently. E-commerce accounted for £1.8 billion (19%) of Ferguson's revenue.

We improved our gross margins again and continued to invest in our estate, technology and brand building, with operating expenses 8% higher than last year at constant exchange rates, including 2% from acquisitions. Exchange rate movements were favourable and increased trading profit by £47 million. Trading profit of £775 million (2015: £683 million) was 6.3% ahead of last year at constant exchange rates.

13 acquisitions were completed during the year and these are being integrated with our existing business units. In the final quarter we acquired Michigan Meter Technology Group, a Waterworks business, Michigan Pipe and Valve, a pipe valves and fittings distributor, and Bruce Rogers, a plumbing, heating and air-conditioning equipment distributor. The businesses acquired in the year had total annualised revenue of £183 million. Since the year end we have acquired Signature Hardware, a Kentucky based online private label kitchen and bathroom retailer, and Westfield Lighting, an Indianapolis based lighting company. These businesses had £92 million of annualised revenue and £19 million of annualised trading profit.

We opened a net 21 branches in the year with a further 26 arising from acquisitions. Associate numbers were 4% higher, of which 2% arose from acquisitions.

Ferguson maintained last year's record trading margin of 8.2%.

UK (8% of Group trading profit)

In the UK, like-for-like revenue declined 1.6% and acquisitions contributed 2.7% of additional revenue. Whilst new residential construction markets grew, Repair, Maintenance and Improvement markets, where we generate the majority of our trading profit, declined. Volume growth was weak.

Restructuring charges of £10 million were incurred in the year and have been classified as exceptional. Overall we closed 21 branches in the year and associate numbers were 4% lower. Trading profit of £74 million was £16 million below last year.

The UK heating market has been relatively flat and the competitive landscape has been very challenging for some time. We have just completed a review of operating strategy to return the business to profitable growth. There are good opportunities to improve our customer propositions and transform the way we serve our customers and we have started an investment programme to enhance the customer experience and to generate better returns for shareholders.

We expect to incur restructuring charges of about £100 million of which £70 million is cash and will be fully funded by working capital efficiencies and disposal proceeds. In addition we plan to invest an incremental £40 million over three years in refurbishment, technology and accelerating our investment in digital tools. The closure of around 80 branches and one distribution centre is expected to lead to up to 800 job losses, the impact of which we will minimise through redeployment and attrition as far as possible. The programme is subject to consultation which will commence shortly and is expected to take 90 days. Overall, the transformation will take two to three years and is expected to generate £25 million to £30 million of annualised cost savings when complete.

Nordics (6% of Group trading profit)

In the Nordics like-for-like revenue growth was 0.6%. Market conditions in Denmark weakened in the second half of the year and demand remained weak in Finland. Gross margins were lower in the second half mainly due to a higher mix of revenue from direct business from large contractors. Operating expenses increased by 3% at constant exchange rates.

Trading profit of £60 million was £12 million below last year. In light of the challenging market conditions and disappointing performance we are initiating a review of the operating strategy of the business to restore it to profitable growth.

Canada and Central Europe (5% of Group trading profit)

Like-for-like revenue fell by 1.1% and price inflation was 1.9% due to the impact of the strengthening of the US dollar on imports to Canada, partially offset by commodity price deflation in Central Europe. Gross margins were lower due to competitive conditions in Canada.

Operating expenses were well controlled. Overall, we closed a net 12 branches in the year and headcount was 1.6% lower. Exchange rate movements were unfavourable and reduced trading profit by £1 million. Reported trading profit of £53 million was £2 million behind last year.

Board and management changes

In August 2016 Ian Meakins retired from the Group after serving as Group Chief Executive since July 2009. He made an outstanding contribution to Wolseley, transforming the Group's businesses and generating great returns for our shareholders. We wish him well in his retirement and thank him for his distinguished service and leadership. Ian was succeeded by John Martin on 1 September 2016.

On 1 September 2016 David Keltner was appointed interim Chief Financial Officer. David has over 10 years' experience as CFO of Ferguson, our US business, and we are fortunate to have such a high calibre and experienced executive to step up. The selection process to appoint a permanent Chief Financial Officer is progressing well.

Kath Durrant was appointed as Group HR Director in January 2016. She has broad international experience in large multinational businesses and was previously Group HR Director at Rolls-Royce plc. In February 2016 Søren Olesen was appointed interim Chief Executive of the Nordics region. Søren is a strong leader with considerable operational experience gained principally in the building materials industry in Europe. In July 2016 Simon Oakland was appointed Chief Executive of Canada and Central Europe. Simon has been with Wolseley since 2013 and previously spent over 25 years in private equity. He has considerable international and operational experience.

Cashflow

The Group generated EBITDA of £1,056 million (2015: £971 million). Acquisitions resulted in a cash outflow of £113 million. Net interest and tax amounted to £232 million and dividends and share buyback payments were £538 million (2015: £472 million). Capital investment amounted to £218 million (2015: £231 million).

Net debt

The Group's reported net debt at 31 July 2016 was £936 million (31 July 2015: £805 million). Net debt would have been approximately £120 million higher before short term fluctuations in working capital at the year end. Changes in foreign exchange rates increased net debt by £149 million. The Group aims to operate within investment grade credit metrics and with a net debt/EBITDA ratio of 1x to 2x. The Group has a strong liquidity position and has £2.3 billion in credit facilities.

Pension obligations

Net pension liabilities under IAS 19 were £147 million (2015: £15 million), the increase arising primarily from lower corporate bond interest rates partly offset by improved equity markets. The Group has committed £25 million per year of additional funding to the UK defined benefit pension plan following the recent triennial valuation, consistent with the last valuation.

Shareholder returns

The Group aims to generate attractive and sustainable financial returns for shareholders. The Board will recommend a final dividend of 66.72 pence per share (2015: 60.5 pence per share) for payment on 1 December 2016 to shareholders on the register on 28 October 2016. This will bring the total dividend for the year to 100 pence per share (2015: 90.75 pence per share), which is a year-on-year increase of 10.2%. The Board is committed to a progressive dividend policy.

Our investment priorities remain focused on achieving organic growth, maintaining the ordinary dividend through the cycle and investing in bolt-on acquisitions that meet our stringent investment criteria. Any surplus cash after meeting these investment needs will be returned to shareholders. Given the high level of investment in acquisitions in the new financial year and taking into account a good pipeline of future opportunities the Board has deferred any decision on returning surplus cash for the time being.

Outlook

Like-for-like revenue growth in the new financial year has been 1.5 per cent for the Group and 4.5 per cent in the US. Demand across our markets remains mixed, with some uncertainty in the economic outlook. We will remain vigilant in controlling our costs to protect profitability while investing in attractive opportunities for profitable growth. We are confident that Wolseley will make further progress in the year ahead.

Notes to statement

1. About Wolseley

Wolseley plc is the world's largest specialist trade distributor of plumbing and heating products to professional contractors and a leading supplier of building materials, operating in North America, the UK and Continental Europe. Revenue for the year ended 31 July 2016 was £14,430 million and trading profit was £917 million. Wolseley has about 39,000 employees and is listed on the London Stock Exchange (LSE: WOS) and is in the FTSE 100 index of listed companies. For more information, please visit www.wolseley.com or follow us on Twitter https://twitter.com/wolseleyplc.

2. Financial calendar

	2016
Annual General Meeting	29 November
*Q1 IMS for the period ending 30 October 2016	6 December
	2017
H1 results for period ending 31 January 2017	28 March
*Q3 IMS for the period ending 30 April 2017	20 June
Full Year Results for year ended 31 July 2017	3 October

*Please note change of date.

3. Timetable for the final dividend

The timetable for payment of the final dividend of 66.72 pence per share is as follows:

Ex-dividend date:	27 October 2016
Record date:	28 October 2016
Payment date:	1 December 2016

A dividend reinvestment plan is in operation. Those shareholders who have not elected to participate in this plan, and who would like to participate with respect to the 2016 final dividend, may do so by contacting Equiniti on 0371 384 2934 (or if outside the UK +44 (0) 121 415 7173). The last day for election for the proposed final dividend is 10 November 2016 and any requests should be made in good time ahead of that date.

4. Legal disclaimer

Certain information included in this announcement is forward-looking and involves risks, assumptions and uncertainties that could cause actual results to differ materially from those expressed or implied by forward-looking statements. Forward-looking statements cover all matters which are not historical facts and include, without limitation, projections relating to results of operations and financial conditions and the Company's plans and objectives for future operations, including, without limitation, discussions of expected future revenues, financing plans, expected expenditures and divestments, risks associated with changes in economic conditions, the strength of the plumbing and heating and building materials market in North America and Europe, fluctuations in product prices and changes in exchange and interest rates. Forward-looking statements can be identified by the use of forward-looking terminology, including terms such as "believes", "estimates", "anticipates", "expects", "forecasts", "intends", "plans", "projects", "goal", "target", "aim", "may", "will", "would", "could" or "should" or, in each case, their negative or other variations or comparable terminology. Forward-looking statements are not guarantees of future performance. All forward-looking statements in this announcement are based upon information known to the Company on the date of this announcement. Accordingly, no assurance can be given that any particular expectation will be met and readers are cautioned not to place undue reliance on forward-looking statements, which speak only at their respective dates. Additionally, forward-looking statements regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. Other than in accordance with its legal or regulatory obligations (including under the UK Listing Rules, the Prospectus Rules, the Disclosure Rules and the Transparency Rules of the Financial Conduct Authority), the Company undertakes no obligation to update publicly or revise any forward-looking statement, whether as a result of new information, future events or otherwise. Nothing in this announcement shall exclude any liability under applicable laws that cannot be excluded in accordance with such laws.

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Group income statement

Year ended 31 July 2016

	Notes	2016 Before exceptional items £m	2016 Exceptional items (note 4) £m	2016 Total £m	2015 Before exceptional items £m	2015 Exceptional Items (note 4) £m	2015 Total £m
Revenue	2	**14,430**	**–**	**14,430**	13,332	–	13,332
Cost of sales		**(10,350)**	**(1)**	**(10,351)**	(9,604)	–	(9,604)
Gross profit		**4,080**	**(1)**	**4,079**	3,728	–	3,728
Operating costs:							
amortisation of acquired intangible assets		**(53)**	**–**	**(53)**	(56)	–	(56)
impairment of goodwill and acquired intangible assets		**(94)**	**–**	**(94)**	(238)	–	(238)
other		**(3,164)**	**(1)**	**(3,165)**	(2,874)	(4)	(2,878)
Operating costs	3	**(3,311)**	**(1)**	**(3,312)**	(3,168)	(4)	(3,172)
Operating profit	2,3	**769**	**(2)**	**767**	560	(4)	556
Finance income		**–**	**–**	**–**	1	–	1
Finance costs	5	**(40)**	**–**	**(40)**	(27)	(22)	(49)
Profit before tax		**729**	**(2)**	**727**	534	(26)	508
Tax	6	**(232)**	**1**	**(231)**	(184)	(3)	(187)
Profit from continuing operations		**497**	**(1)**	**496**	350	(29)	321
Profit/(loss) from discontinued operations	7	**2**	**152**	**154**	(1)	(107)	(108)
Profit for the year		**499**	**151**	**650**	349	(136)	213
Attributable to:							
Shareholders of the Company		**508**	**151**	**659**	349	(136)	213
Non-controlling interests		**(9)**	**–**	**(9)**	–	–	–
		499	**151**	**650**	349	(136)	213

	Notes	2016	2015
Earnings per share	10		
Continuing operations and discontinued operations			
Basic earnings per share		**256.4p**	82.1p
Diluted earnings per share		**254.8p**	81.9p
Continuing operations only			
Basic earnings per share		**195.6p**	123.8p
Diluted earnings per share		**194.4p**	123.4p

	Notes	2016	2015
Non-GAAP performance measures			
Trading profit from ongoing operations	2	**917**	857
Trading loss from non-ongoing operations	2	**(1)**	(3)
Trading profit from continuing operations	2,9	**916**	854
EBITDA before exceptional items	9	**1,056**	971
Profit before tax, exceptional items and the amortisation and impairment of acquired intangible assets	9	**876**	828
Headline earnings per share	10	**247.7p**	230.2p
Headline diluted earnings per share	10	**246.2p**	229.4p

Group statement of comprehensive income

Year ended 31 July 2016

	2016 £m	2015 £m
Profit for the year	**650**	213
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss:		
Exchange gain on translation of overseas operations[1]	**495**	10
Exchange loss on translation of borrowings and derivatives designated as hedges of overseas operations[1]	**(107)**	(46)
Cumulative currency translation differences on disposals[1]	**(125)**	26
Tax charge on items that may be reclassified to profit or loss[2]	**(7)**	–
Items that will not be reclassified subsequently to profit or loss:		
Actuarial loss on retirement benefit plans[2]	**(120)**	(61)
Tax credit on items that will not be reclassified to profit or loss[2]	**25**	15
Other comprehensive income/(expense) for the year	**161**	(56)
Total comprehensive income for the year	**811**	157
Total comprehensive income/(expense) attributable to:		
Continuing operations	**781**	276
Discontinued operations	**30**	(119)
Total comprehensive income for the year	**811**	157

1. Impacting the translation reserve
2. Impacting the profit and loss reserve account

Group statement of changes in equity

Year ended 31 July 2016

	Notes	Share capital £m	Share premium £m	Reserves: Translation reserve £m	Reserves: Treasury shares £m	Reserves: Own shares £m	Reserves: Profit and loss account £m	Non-controlling interest £m	Total equity £m
Shareholders' equity at 1 August 2014		29	41	127	–	(93)	2,782	–	2,886
Profit for the year		–	–	–	–	–	213	–	213
Other comprehensive expense		–	–	(10)	–	–	(46)	–	(56)
Total comprehensive income		–	–	(10)	–	–	167	–	157
New share capital subscribed		–	1	–	–	–	–	–	1
Purchase of own shares by Employee Benefit Trusts		–	–	–	–	(15)	–	–	(15)
Issue of own shares by Employee Benefit Trusts		–	–	–	–	45	(40)	–	5
Credit to equity for share-based payments		–	–	–	–	–	20	–	20
Tax relating to share-based payments		–	–	–	–	–	10	–	10
Purchase of Treasury shares		–	–	–	(250)	–	–	–	(250)
Disposal of Treasury shares		–	–	–	10	–	(2)	–	8
Dividends paid	8	–	–	–	–	–	(222)	–	(222)
Changes in non-controlling interest in subsidiaries		–	–	–	–	–	–	7	7
Shareholders' equity at 31 July 2015		29	42	117	(240)	(63)	2,715	7	2,607
Profit for the year		**–**	**–**	**–**	**–**	**–**	**659**	**(9)**	**650**
Other comprehensive income/(expense)		**–**	**–**	**263**	**–**	**–**	**(102)**	**–**	**161**
Total comprehensive income		**–**	**–**	**263**	**–**	**–**	**557**	**(9)**	**811**
Purchase of own shares by Employee Benefit Trusts		**–**	**–**	**–**	**–**	**(14)**	**–**	**–**	**(14)**
Issue of own shares by Employee Benefit Trusts		**–**	**–**	**–**	**–**	**20**	**(19)**	**–**	**1**
Credit to equity for share-based payments		**–**	**–**	**–**	**–**	**–**	**20**	**–**	**20**
Purchase of Treasury shares		**–**	**–**	**–**	**(300)**	**–**	**–**	**–**	**(300)**
Disposal of Treasury shares		**–**	**–**	**–**	**24**	**–**	**(10)**	**–**	**14**
Dividends paid	8	**–**	**–**	**–**	**–**	**–**	**(238)**	**–**	**(238)**
Shareholders' equity at 31 July 2016		**29**	**42**	**380**	**(516)**	**(57)**	**3,025**	**(2)**	**2,901**

Group balance sheet

As at 31 July 2016

	Notes	2016 £m	2015 £m
Assets			
Non-current assets			
Intangible assets: goodwill	11	**902**	816
Intangible assets: other	11	**202**	195
Property, plant and equipment	11	**1,434**	1,164
Financial assets		**23**	16
Retirement benefit assets		**–**	57
Deferred tax assets		**127**	115
Trade and other receivables		**212**	172
Derivative financial assets		**20**	24
		2,920	2,559
Current assets			
Inventories		**2,017**	1,688
Trade and other receivables		**2,207**	1,915
Current tax receivable		**–**	4
Derivative financial assets		**11**	10
Cash and cash equivalents		**940**	1,105
		5,175	4,722
Assets held for sale	13	**56**	201
Total assets		**8,151**	7,482
Liabilities			
Current liabilities			
Trade and other payables		**2,634**	2,281
Current tax payable		**101**	58
Bank loans and overdrafts		**701**	1,001
Obligations under finance leases		**4**	4
Derivative financial liabilities		**–**	1
Provisions	12	**88**	78
Retirement benefit obligations		**9**	8
		3,537	3,431
Non-current liabilities			
Trade and other payables		**163**	125
Bank loans		**1,175**	913
Obligations under finance leases		**27**	25
Deferred tax liabilities		**65**	53
Provisions	12	**133**	128
Retirement benefit obligations		**138**	64
		1,701	1,308
Liabilities held for sale	13	**12**	136
Total liabilities		**5,250**	4,875
Net assets		**2,901**	2,607
Equity			
Share capital		**29**	29
Share premium account		**42**	42
Reserves		**2,832**	2,529
Equity attributable to shareholders of the Company		**2,903**	2,600
Non-controlling interest		**(2)**	7
Total equity		**2,901**	2,607

Group cash flow statement

Year ended 31 July 2016

	Notes	2016 £m	2015 £m
Cash flows from operating activities			
Cash generated from operations	14	**1,019**	937
Interest received		**2**	2
Interest paid		**(41)**	(45)
Tax paid		**(193)**	(210)
Net cash generated from operating activities		**787**	684
Cash flows from investing activities			
Acquisition of businesses (net of cash acquired)	15	**(113)**	(105)
Disposals of businesses (net of cash disposed of)	16	**9**	35
Purchases of property, plant and equipment		**(187)**	(205)
Proceeds from sale of property, plant and equipment and assets held for sale		**56**	20
Purchases of intangible assets		**(31)**	(26)
Disposals of financial assets		**–**	31
Net cash used in investing activities		**(266)**	(250)
Cash flows from financing activities			
Proceeds from the issue of shares to shareholders		**–**	1
Purchase of own shares by Employee Benefit Trusts		**(14)**	(15)
Purchase of Treasury shares		**(300)**	(250)
Proceeds from the sale of shares by Employee Benefit Trusts		**1**	5
Proceeds from the sale of Treasury shares		**14**	8
Proceeds from borrowings and derivatives		**585**	533
Repayments of borrowings		**(591)**	(324)
Finance lease capital payments		**(4)**	(4)
Dividends paid to shareholders	8	**(238)**	(222)
Net cash used by financing activities		**(547)**	(268)
Net cash (used)/generated		**(26)**	166
Effects of exchange rate changes		**18**	(77)
Net (decrease)/increase in cash, cash equivalents and bank overdrafts		**(8)**	89
Cash, cash equivalents and bank overdrafts at the beginning of the year		**256**	167
Cash, cash equivalents and bank overdrafts at the end of the year		**248**	256

		2016 £m	2015 £m
Cash, cash equivalents and bank overdrafts at the end of the year in the Group balance sheet	17	**248**	257
Bank balances and overdrafts in liabilities held for sale		**–**	(1)
Cash, cash equivalents and bank overdrafts at the end of the year		**248**	256

Notes to the full year results announcement

Year ended 31 July 2016

1. Basis of preparation

The full year results announcement for the year ended 31 July 2016, which is an abridged statement of the full Annual Report, has been prepared in accordance with the International Financial Reporting Standards ("IFRS") as adopted by the European Union.

The full year results announcement has been prepared on a going concern basis. The Directors are confident that on the basis of current financial projections and facilities available, and after considering sensitivities, the Group has sufficient resources for its operational needs and will remain in compliance with the financial covenants in its bank facilities for the foreseeable future.

The Company is incorporated in Jersey under the Companies (Jersey) Law 1991 and is headquartered in Switzerland.

The financial information for the year ended 31 July 2016 does not constitute the statutory financial statements of the Group. The statutory financial statements for the year ended 31 July 2015 have been filed with the Jersey Registrar of Companies. The auditors have reported on those accounts and on the statutory financial statements for the year ended 31 July 2016 which will be filed with the Jersey Registrar of Companies following the Annual General Meeting. Both the audit reports were unqualified and did not contain any statements under Article 111(2) or Article 111(5) of the Companies (Jersey) Law 1991 or under section 498 of the Companies Act 2006.

Accounting developments and changes

The following standards have been published, but not yet applied:

- IFRS 9 "Financial Instruments" – applicable from year ending 31 July 2019;
- IFRS 15 "Revenue from Contracts with Customers" – applicable from year ending 31 July 2019; and
- IFRS 16 "Leases" – applicable from year ended 31 July 2020.

The Directors do not expect the adoption of IFRS 9 and IFRS 15 will have a material impact on the financial statements of the Group in future periods.

The adoption of IFRS 16 will have a significant impact on the Group's balance sheet and reported results because of the value of operating lease commitments the Group has. The application of IFRS 16 will not reflect any changes in the underlying economics of the business. Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed. As at the date of this report IFRS 9, IFRS 15 and IFRS 16 have not been endorsed by the EU.

No other issued standard or interpretation would have a material impact on the consolidated financial statements.

2. Segmental analysis

The Group's reportable segments are the operating businesses overseen by distinct divisional management teams responsible for their performance. All reportable segments derive their revenue from a single business activity, the distribution of plumbing and heating products and building materials.

The Group's business is not highly seasonal and the Group's customer base is highly diversified, with no individually significant customer.

Canada and Central Europe represent less than 10 per cent of the Group's operating profit and do not meet other quantitative thresholds and therefore do not represent a reportable segment. They have been reported on a combined basis and all comparatives have been restated for the purposes of consistency and comparability.

The changes in revenue and trading profit for continuing operations between the years ended 31 July 2015 and 31 July 2016 include changes in exchange rates, disposals, acquisitions and organic change.

Where businesses are disposed in the year, the difference between the revenue and trading profit in the current year up to the date of disposal and the revenue and trading profit in the equivalent portion of the prior year is included in organic change.

Revenue by reportable segment for continuing operations is as follows:

Analysis of change in revenue	2015 £m	Exchange £m	Disposals £m	Acquisitions £m	Organic change £m	2016 £m
USA	8,343	569	(6)	173	377	**9,456**
UK	1,987	–	–	53	(44)	**1,996**
Nordic	1,864	3	(1)	5	10	**1,881**
Canada and Central Europe	1,138	(20)	(25)	14	(10)	**1,097**
Group	13,332	552	(32)	245	333	**14,430**

Trading profit/(loss) (note 9) by reportable segment for continuing operations is as follows:

Analysis of change in trading profit/(loss) (note 9)	2015 £m	Exchange £m	Disposals £m	Acquisitions £m	Organic change £m	2016 £m
USA	681	47	2	3	42	**775**
UK	90	–	–	1	(17)	**74**
Nordic	71	–	–	–	(12)	**59**
Canada and Central Europe	55	(1)	–	2	(3)	**53**
Central and other costs	(43)	–	–	–	(2)	**(45)**
Group	854	46	2	6	8	**916**

2. Segmental analysis continued

The reconciliation between trading profit/(loss) (note 9) and operating profit/(loss) by reportable segment for continuing operations is as follows:

	2016				2015			
	Trading profit/(loss) £m	**Exceptional items £m**	**Amortisation and impairment of acquired intangible assets £m**	**Operating profit/(loss) £m**	Trading profit/(loss) £m	Exceptional items £m	Amortisation and impairment of acquired intangible assets £m	Operating profit/(loss) £m
USA	**775**	**2**	**(34)**	**743**	681	6	(27)	660
UK	**74**	**(9)**	**(106)**	**(41)**	90	2	(13)	79
Nordic	**59**	**2**	**(5)**	**56**	71	(2)	(249)	(180)
Canada and Central Europe	**53**	**–**	**(2)**	**51**	55	(9)	(5)	41
Central and other costs	**(45)**	**3**	**–**	**(42)**	(43)	(1)	–	(44)
Group	**916**	**(2)**	**(147)**	**767**	854	(4)	(294)	556
Finance income				**–**				1
Finance costs				**(40)**				(49)
Profit before tax				**727**				508

In 2015 and 2016, a number of Group businesses or groups of branches have been disposed of, closed or are classified as held for sale. The revenue and trading profit of the Group's segments excluding those businesses and branches ("ongoing segments") are analysed in the following table. This is non-GAAP information.

	Revenue		**Trading Profit**	
Ongoing segments	**2016 £m**	2015 £m	**2016 £m**	2015 £m
USA	**9,456**	8,337	**775**	683
UK	**1,996**	1,987	**74**	90
Nordic	**1,881**	1,863	**60**	72
Canada and Central Europe	**1,097**	1,113	**53**	55
Central and other costs	**–**	–	**(45)**	(43)
Total ongoing segments	**14,430**	13,300	**917**	857
Entities disposed of, closed or classified as held for sale	**–**	32	**(1)**	(3)
Continuing operations	**14,430**	13,332	**916**	854

Notes to the full year results announcement

Year ended 31 July 2016

2. Segmental analysis continued

Other information on assets and liabilities by segment is set out in the tables below:

Segment assets and liabilities	2016 Segment assets £m	2016 Segment liabilities £m	2016 Segment net assets/liabilities £m	2015 Segment assets £m	2015 Segment liabilities £m	2015 Segment net assets/liabilities £m
USA	**4,268**	**(1,645)**	**2,623**	3,451	(1,345)	2,106
UK	**856**	**(508)**	**348**	1,046	(510)	536
Nordic	**1,243**	**(620)**	**623**	1,032	(520)	512
Canada and Central Europe	**599**	**(265)**	**334**	478	(195)	283
Central and other costs	**18**	**(103)**	**(85)**	19	(86)	(67)
Discontinued	**69**	**(36)**	**33**	198	(164)	34
Total	**7,053**	**(3,177)**	**3,876**	6,224	(2,820)	3,404
Tax assets and liabilities	**127**	**(166)**	**(39)**	119	(111)	8
Net cash/(debt)	**971**	**(1,907)**	**(936)**	1,139	(1,944)	(805)
Group assets/(liabilities)	**8,151**	**(5,250)**	**2,901**	7,482	(4,875)	2,607

	2016 Additions to goodwill £m	2016 Additions to other acquired intangible assets £m	2016 Additions to non-acquired intangible assets £m	2016 Additions to property, plant and equipment £m	2015 Additions to goodwill £m	2015 Additions to other acquired intangible assets £m	2015 Additions to non-acquired intangible assets £m	2015 Additions to property, plant and equipment £m
USA	**34**	**25**	**17**	**123**	24	28	12	125
UK	**–**	**–**	**5**	**15**	29	14	6	24
Nordic	**–**	**–**	**6**	**33**	–	1	3	33
Canada and Central Europe	**6**	**3**	**2**	**18**	4	2	3	8
Central and other costs	**–**	**–**	**1**	**1**	–	–	2	1
Discontinued	**–**	**–**	**–**	**–**	–	–	–	16
Group	**40**	**28**	**31**	**190**	57	45	26	207

	2016 Impairment of goodwill and other acquired intangible assets £m	2016 Amortisation of other acquired intangible assets £m	2016 Amortisation of non-acquired intangible assets £m	2016 Depreciation and impairment of property, plant and equipment £m	2015 Impairment of goodwill and other acquired intangible assets £m	2015 Amortisation of other acquired intangible assets £m	2015 Amortisation of non-acquired intangible assets £m	2015 Depreciation and impairment of property, plant and equipment £m
USA	**–**	**34**	**7**	**72**	–	27	6	55
UK	**94**	**12**	**5**	**17**	–	13	4	16
Nordic	**–**	**5**	**1**	**25**	234	15	1	22
Canada and Central Europe	**–**	**2**	**1**	**9**	4	1	1	9
Central and other costs	**–**	**–**	**1**	**2**	–	–	1	2
Discontinued	**–**	**–**	**–**	**–**	–	–	–	4
Group	**94**	**53**	**15**	**125**	238	56	13	108

3. Operating costs

Amounts charged/(credited) in arriving at operating profit include:

	2016 £m	2015 £m
Depreciation of property, plant and equipment (note 11)	**123**	103
Impairment of property, plant and equipment (note 11)	**2**	1
(Gain)/loss on disposal and closure of businesses	**(8)**	5
Loss/(gain) on disposal of property, plant and equipment and assets held for sale	**1**	(3)
Staff costs	**2,026**	1,832
Amortisation of non-acquired intangible assets (note 11)	**15**	13
Amortisation of acquired intangible assets (note 11)	**53**	56
Impairment of goodwill and acquired intangible assets (note 11)	**94**	238
Operating lease rentals: land and buildings	**174**	160
Operating lease rentals: plant and machinery	**64**	54
Amounts included in costs of goods sold with respect to inventory	**10,223**	9,497
Trade receivables impairment	**14**	19

	Deloitte 2016 £m	PwC 2015 £m
During the year, the Group obtained the following services from the Company's auditor and its associates:		
Fees for the audit of the parent company and consolidated financial statements	**0.9**	0.9
Fees for the audit of the Company's subsidiaries pursuant to legislation	**2.0**	2.5
Total fees for audit related services	**2.9**	3.4
Other assurance services	**0.2**	0.1
Tax – compliance services	**–**	1.0
Tax – advisory services	**–**	0.2
Other non-audit services	**–**	0.4
Total fee for non-audit related services	**0.2**	1.7
Total fees payable to the auditors	**3.1**	5.1

4. Exceptional items

Exceptional items are those which are considered significant by virtue of their nature, size or incidence, and are presented separately in the income statement to enable a full understanding of the Group's financial performance. If provisions have been made for exceptional items in previous years, then any reversal of those provisions is shown as exceptional.

Exceptional items included in operating profit from continuing operations are analysed by purpose as follows:

	2016 £m	2015 £m
Gain/(loss) on disposal and closure of businesses	**8**	(5)
Other exceptional items	**(10)**	1
Total included in operating profit	**(2)**	(4)

For the year ended 31 July 2016, the gain on disposal principally relates to the release of provisions from prior year disposals in the USA, UK and Central Europe. Other exceptional items in the year represent restructuring costs incurred in the UK during phase 1 of the UK turnaround strategy. In September 2016, phase 2 of the

4. Exceptional items continued

strategy for the UK was approved and this is expected to reduce the number of operational locations and employees by at least 10 per cent and will continue into the next financial year.

The net cash outflow from exceptional items was £3 million (2015: £1 million).

Exceptional items relating to discontinued operations are detailed in note 7 and exceptional items relating to finance costs are detailed in note 5.

5. Finance costs

	2016 £m	2015 £m
Interest payable		
– Bank loans and overdrafts	**48**	39
– Unwind of fair value adjustment to senior unsecured loan notes	**(9)**	(12)
– Finance lease charges	**2**	2
Net interest income on defined benefit obligation	**–**	(2)
Valuation gains on financial instruments		
– Derivatives held at fair value through profit and loss	**(1)**	–
	40	27
Exceptional finance expense	**–**	22
Total finance costs	**40**	49

The £22 million exceptional finance expense in 2015 relates to the recycling of deferred foreign exchange translation losses in accordance with IAS 21 "The effects of changes in foreign exchange rates", following the liquidation of a number of dormant financing companies. Finance income from discontinued operations is detailed in note 7.

6. Tax

The tax charge for the year comprises:	**2016 £m**	2015 £m
Current year tax charge	**234**	215
Adjustments to tax charge in respect of prior years	**(7)**	(8)
Total current tax charge	**227**	207
Deferred tax charge/(credit): origination and reversal of temporary differences	**4**	(20)
Total tax charge	**231**	187

An exceptional tax credit of £1 million was recorded in relation to exceptional items in 2016 (2015: charge £3 million). The deferred tax charge of £4 million (2015: credit £20 million) includes a charge of £5 million (2015: credit £2 million) resulting from changes in tax rates.

Tax on items credited/(charged) to the statement of other comprehensive income:	**2016 £m**	2015 £m
Deferred tax credit on actuarial loss on retirement benefits	**25**	14
Current tax credit on actuarial loss on retirement benefits	**–**	1
Deferred tax charge on losses	**(7)**	–
Total tax on items credited to other comprehensive income	**18**	15

£1 million (2015: £nil) of the £18 million credit relates to changes in tax rates.

6. Tax continued

Tax on items credited/(charged) to equity:	**2016 £m**	2015 £m
Current tax credit on share-based payments	**6**	8
Deferred tax (charge)/credit on share-based payments	**(6)**	2
Total tax on items credited to equity	**–**	10

	2016		2015	
Tax reconciliation:	**£m**	**%**	**£m**	**%**
Weighted average tax rate	**243**	**33**	143	28
Prior year amounts	**(7)**	**(1)**	2	1
Non-taxable amortisation, impairment and exceptional items	**19**	**2**	31	6
Tax rate change	**5**	**1**	(2)	(1)
Other non-deductible and non-taxable items	**(29)**	**(3)**	13	3
Total tax charge/tax rate on profit before tax	**231**	**32**	187	37

The 5 per cent increase in the weighted average tax rate is primarily due to the increase in the share of profit generated in the USA.

7. Discontinued operations

As at 31 July 2015, the Group's remaining business and property assets in France ("the disposal group") were classified as discontinued in accordance with IFRS 5 "non-current assets held for sale and discontinued operations". On 7 March 2016, the remaining French building materials business was sold. The Group is in the process of selling its remaining property assets in France. The results from discontinued operations, which have been included in the Group income statement, are set out below.

			2016			2015
	Before exceptional items £m	**Exceptional items £m**	**Total £m**	Before exceptional items £m	Exceptional items £m	Total £m
Revenue	**255**	**–**	**255**	587	–	587
Cost of sales	**(179)**	**–**	**(179)**	(411)	–	(411)
Gross profit	**76**	**–**	**76**	176	–	176
Operating costs:						
gain/(loss) on disposal of businesses	**–**	**139**	**139**	–	(59)	(59)
impairment of net assets	**–**	**–**	**–**	–	(67)	(67)
other	**(76)**	**14**	**(62)**	(178)	3	(175)
Operating costs	**(76)**	**153**	**77**	(178)	(123)	(301)
Operating profit/(loss)	**–**	**153**	**153**	(2)	(123)	(125)
Finance income	**2**	**4**	**6**	1	16	17
Profit/(loss) before tax	**2**	**157**	**159**	(1)	(107)	(108)
Attributable tax expense	**–**	**(5)**	**(5)**	–	–	–
Profit/(loss) from discontinued operations	**2**	**152**	**154**	(1)	(107)	(108)
Basic earnings/(loss) per share	**0.8p**	**60.0p**	**60.8p**	(0.4p)	(41.3p)	(41.7p)
Diluted earnings/(loss) per share	**0.8p**	**59.6p**	**60.4p**	(0.4p)	(41.1p)	(41.5p)

A tax charge of £5 million (2015: £nil) was generated from discontinued operations in the current year. During the year, discontinued operations used £16 million (2015: generated £17 million) in respect of operating activities, generated £41 million (2015: £22 million) in respect of investing activities and generated £27 million (2015: £15 million) in respect of financing activities.

8. Dividends

	2016		2015	
	£m	**Pence per share**	£m	Pence per share
Amounts recognised as distributions to equity shareholders:				
Final dividend for the year ended 31 July 2014	**–**	**–**	144	55p
Interim dividend for the year ended 31 July 2015	**–**	**–**	78	30.25p
Final dividend for the year ended 31 July 2015	**154**	**60.50p**	–	–
Interim dividend for the year ended 31 July 2016	**84**	**33.28p**	–	–
Dividends paid	**238**		222	

Since the end of the financial year, the Directors have proposed a final ordinary dividend of £167 million (66.72 pence per share). The dividend is subject to approval by shareholders at the Annual General Meeting and is therefore not included in the balance sheet as a liability at 31 July 2016.

9. Non-GAAP performance measures

Trading profit is defined as operating profit before exceptional items and the amortisation and impairment of acquired intangible assets. It is a non-GAAP measure. The Group considers that trading profit, and other performance measures based on it, including EBITDA before exceptional items, present valuable additional information.

Continuing operations	2016 £m	2015 £m
Operating profit	**767**	556
Add back: amortisation and impairment of acquired intangible assets	**147**	294
Add back: exceptional items in operating profit	**2**	4
Trading profit	**916**	854
Depreciation, amortisation and impairment of property, plant and equipment and software excluding exceptional items in operating profit	**140**	117
EBITDA before exceptional items	**1,056**	971
Profit before tax	**727**	508
Add back: amortisation and impairment of acquired intangible assets	**147**	294
Add back: exceptional items in profit before tax	**2**	26
Profit before tax , exceptional items and the amortisation and impairment of acquired intangible assets	**876**	828
Tax expense	**(231)**	(187)
Deduct: tax credit on the amortisation and impairment of acquired intangible assets	**(21)**	(47)
(Deduct)/add back: tax (credit)/charge on exceptional items	**(1)**	3
Add back: non-recurring tax charge relating to changes in tax rates	**5**	–
Adjusted tax expense	**(248)**	(231)
Net profit from continuing operations	**496**	321
Add back: amortisation and impairment of acquired intangible assets net of tax	**126**	247
Add back: exceptional items net of tax	**1**	29
Add back: non-recurring tax charge relating to changes in tax rates	**5**	–
Headline profit after tax from continuing operations	**628**	597

Applying the adjusted tax expense of £248 million to the profit before tax, exceptional items and the amortisation and impairment of acquired intangible assets of £876 million gives an effective tax rate of 28.3 per cent (2015: 27.9 per cent).

10. Earnings per share

	2016			2015		
	Earnings £m	**Basic earnings per share Pence**	**Diluted earnings per share Pence**	Earnings £m	Basic earnings per share Pence	Diluted earnings per share Pence
Headline profit after tax from continuing operations	**628**	**247.7**	**246.2**	597	230.2	229.4
Exceptional items (net of tax)	**(1)**	**(0.4)**	**(0.4)**	(29)	(11.2)	(11.1)
Amortisation and impairment of acquired intangible assets (net of tax)	**(126)**	**(49.7)**	**(49.4)**	(247)	(95.2)	(94.9)
Non-recurring tax charge relating to changes in tax rates	**(5)**	**(2.0)**	**(2.0)**	–	–	–
Profit from continuing operations	**496**	**195.6**	**194.4**	321	123.8	123.4
Profit/(loss) from discontinued operations	**154**	**60.8**	**60.4**	(108)	(41.7)	(41.5)
Profit from continuing and discontinued operations	**650**	**256.4**	**254.8**	213	82.1	81.9

The weighted average number of ordinary shares in issue during the year, excluding those held by Employee Benefit Trusts and those held by the Company as Treasury shares, was 253.5 million (2015: 259.3 million). The impact of all potentially dilutive share options on earnings per share would be to increase the weighted average number of shares in issue to 255.1 million (2015: 260.2 million).

11. Intangible and tangible assets

	Goodwill £m	**Acquired intangible assets £m**	**Software £m**	**Property, plant and equipment £m**	**Total intangible and tangible assets £m**
Net book value at 1 August 2015	816	152	43	1,164	2,175
Additions	–	–	31	190	221
Acquisitions	40	28	–	11	79
Adjustment to fair value on prior year acquisitions	1	–	–	–	1
Disposals and transfers	–	–	(5)	(2)	(7)
Reclassified as held for sale	–	–	–	(2)	(2)
Depreciation and amortisation	–	(53)	(15)	(123)	(191)
Impairment	(86)	(8)	–	(2)	(96)
Exchange rate adjustment	131	24	5	198	358
Net book value at 31 July 2016	**902**	**143**	**59**	**1,434**	**2,538**

Goodwill and intangible assets acquired during the year have been allocated to the individual cash generating units or aggregated cash generating units (together “CGUs”) which are deemed to be the smallest identifiable group of assets generating independent cash inflows. CGUs have been aggregated in the disclosure below at a segmental level except for certain CGUs in the USA which are considered to be significant (more than 10 per cent of the current year goodwill balance). Impairment reviews were performed for each individual CGU during the year ended 31 July 2016.

11. Intangible and tangible assets continued

	2016				2015			
	Long-term growth rate %	**Post-tax discount rate %**	**Pre-tax discount rate %**	**Goodwill £m**	Long-term growth rate %	Post-tax discount rate %	Pre-tax discount rate %	Goodwill £m
Blended Branches				**314**				264
B2C				**89**				62
Waterworks				**127**				105
Rest of USA				**113**				81
USA	**2.2**	**8.2**	**13.4**	**643**	2.0	9.1	14.9	512
UK	**2.0**	**8.2**	**10.2**	**32**	2.0	8.8	11.0	118
Nordic	**2.2**	**7.5**	**9.7**	**91**	1.1	7.2	9.3	77
Canada	**2.0**	**8.0**	**10.8**	**88**	2.0	8.7	11.8	68
Central Europe	**1.0**	**6.6**	**8.4**	**48**	1.0	7.2	9.1	41
Total				**902**				816

The relevant inputs to the value in use calculations of each CGU were:

Cash flow forecasts for years one to three are derived from the most recent Board approved strategic plan. The forecast for year five represents an estimate of “mid-cycle” trading performance for the CGU based on historic analysis. Year four is calculated as the average of the final year of the strategic plan and year five’s mid-cycle estimate. The other inputs include risk-adjusted, pre-tax discount rate, calculated by reference to the weighted average cost of capital (“WACC”) of each country and the 30-year long-term growth rate by country, as published by the IMF in March 2016.

The strategic plan is developed based on analyses of sales, markets and costs at a regional level. Consideration is given to past events, knowledge of future contracts and the wider economy. It takes into account both current business and future initiatives.

Management has performed a sensitivity analysis across all CGUs which have goodwill and acquired intangible assets using the following key impairment review assumptions: compound average revenue growth rate, post-tax discount rate and long-term growth rate, keeping all other assumptions constant.

UK

The impairment review for the UK has resulted in an impairment charge in the year of £94 million. In allocating the impairment charge we have considered the impairment of all assets as well as goodwill. An impairment trigger arose for the UK businesses due to the continuing challenging market conditions and uncertainty over performance. Expectations of future profitability for the UK businesses were therefore significantly reduced, resulting in impairment charges for Plumb, Parts & Drain, Pipe & Climate, Infrastructure and Soak.com. The Soak.com business was acquired in February 2015 and has incurred losses despite generating good revenue growth. We do expect the business to generate future profits and it remains an important part of the Group’s European B2C strategy but due to the uncertainty of the timing of profitability an impairment charge has been made against the carrying value of its goodwill.

11. Intangible and tangible assets continued

The UK impairment charge has been incurred as follows:

CGU	Goodwill £m	Acquired intangible assets £m	Total £m	Impairment £m	Remaining balance £m	Post-tax discount rate %	Pre-tax discount rate %
Plumb, Parts & Drain	**7**	**–**	**7**	**(7)**	**–**	**8.2**	**10.2**
Pipe & Climate	**26**	**–**	**26**	**(26)**	**–**	**8.2**	**10.2**
Infrastructure	**29**	**8**	**37**	**(37)**	**–**	**8.2**	**10.2**
Soak.com	**24**	**–**	**24**	**(24)**	**–**	**8.2**	**10.2**
Total	**86**	**8**	**94**	**(94)**	**–**	**8.2**	**10.2**

12. Provisions

	Environmental and legal £m	Wolseley Insurance £m	Restructuring £m	Other provisions £m	Total £m
At 1 August 2014	85	41	55	66	247
Adjustment to fair value on prior year acquisitions	(2)	–	–	–	(2)
Utilised in the year	(12)	(13)	(22)	(6)	(53)
Amortisation of discount	(3)	–	–	–	(3)
Charge for the year	6	11	4	3	24
Acquisition of businesses	–	–	–	1	1
Disposal of businesses and reclassified as held for sale	(7)	–	(4)	2	(9)
Exchange rate adjustment	3	2	(1)	(3)	1
At 31 July 2015	70	41	32	63	206
Utilised in the year	**(7)**	**(12)**	**(12)**	**(4)**	**(35)**
Amortisation of discount	**3**	**–**	**–**	**–**	**3**
Charge for the year	**5**	**18**	**8**	**7**	**38**
Disposal of businesses and reclassified as held for sale	**(7)**	**–**	**(1)**	**(11)**	**(19)**
Exchange rate adjustment	**11**	**6**	**1**	**10**	**28**
At 31 July 2016	**75**	**53**	**28**	**65**	**221**

Provisions have been analysed between current and non-current as follows:

At 31 July 2016	Environmental and legal £m	Wolseley Insurance £m	Restructuring £m	Other provisions £m	Total £m
Current	**23**	**14**	**16**	**35**	**88**
Non-current	**52**	**39**	**12**	**30**	**133**
Total provisions	**75**	**53**	**28**	**65**	**221**

12. Provisions continued

The environmental and legal provision includes £61 million (2015: £49 million) for the estimated liability for asbestos litigation on a discounted basis using a long-term discount rate of 1.5 per cent (2015: 2.2 per cent). This amount has been actuarially determined as at 31 July 2016 based on advice from independent professional advisers. The Group has insurance that it currently believes is sufficient cover for the estimated liability and accordingly an equivalent insurance receivable has been recorded in other receivables. Based on current estimates, the amount of performing insurance cover significantly exceeds the expected level of future claims and no material profit or cash flow impact is therefore expected to arise in the foreseeable future. Due to the nature of these provisions, the timing of any settlements is uncertain.

Wolseley Insurance provisions represent an estimate, based on historical experience, of the ultimate cost of settling outstanding claims and claims incurred but not reported on certain risks retained by the Group (principally USA casualty and global property damage).

Restructuring provisions include provisions for staff redundancy costs and future lease rentals on closed branches. In determining the provision for onerous leases, the cash flows have been discounted on a pre-tax basis using appropriate government bond rates. The weighted average maturity of these obligations is approximately three years.

Other provisions include warranty costs relating to businesses disposed of, rental commitments on vacant properties and dilapidations on leased properties. The weighted average maturity of these obligations is approximately four years.

13. Assets and liabilities held for sale

	2016 £m	2015 £m
Properties awaiting disposal	**10**	28
Assets of disposal groups held for sale	**46**	173
Assets held for sale	**56**	201
Liabilities of disposal groups held for sale	**12**	136

During the previous year, the Group announced its decision to sell its remaining businesses in France. As at 31 July 2016, the sales process for the remaining French property assets was continuing and accordingly these properties are classified as held for sale.

The assets and liabilities of disposal groups held for sale consist of:

	2016 £m	2015 £m
Property, plant and equipment	**42**	54
Inventories	**–**	16
Trade and other receivables	**4**	93
Tax receivables	**–**	10
Bank balances and overdrafts	**–**	(1)
Finance leases	**–**	(12)
Trade and other payables	**(7)**	(105)
Provisions and retirement benefit obligations	**(1)**	(14)
Tax payables	**(4)**	(4)
	34	37

14. Reconciliation of profit to cash generated from operations

Profit for the year is reconciled to cash generated from operations as follows:

	2016 **£m**	2015 £m
Profit for the year	**650**	213
Net finance costs	**34**	31
Tax expense	**236**	187
(Gain)/loss on disposal and closure of businesses and revaluation of disposal groups	**(147)**	129
Depreciation and impairment of property, plant and equipment	**125**	108
Amortisation and impairment of non-acquired intangible assets	**15**	13
Amortisation and impairment of goodwill and acquired intangible assets	**147**	294
Profit on disposal of property, plant and equipment and assets held for sale	**(18)**	(3)
Increase in inventories	**(36)**	(113)
Increase in trade and other receivable assets	**(21)**	(54)
Increase in trade and other payables	**13**	159
Increase/(decrease) in provisions and other liabilities	**1**	(47)
Share-based payments	**20**	20
Cash generated from operations	**1,019**	937

Trading profit is reconciled to cash generated from operations as follows:

	2016 **£m**	2015 £m
Trading profit	**916**	854
Exceptional items in operating profit	**(2)**	(4)
(Gain)/loss on disposal and closure of businesses and revaluation of disposal groups	**(147)**	129
Operating profit/(loss) from discontinued operations (note 7)	**153**	(125)
Depreciation and impairment of property, plant and equipment	**125**	108
Amortisation and impairment of non-acquired intangible assets	**15**	13
Profit on disposal of property, plant and equipment and assets held for sale	**(18)**	(3)
Increase in inventories	**(36)**	(113)
Increase in trade and other receivable assets	**(21)**	(54)
Increase in trade and other payables	**13**	159
Increase/(decrease) in provisions and other liabilities	**1**	(47)
Share-based payments	**20**	20
Cash generated from operations	**1,019**	937

Notes to the full year results announcement

Year ended 31 July 2016

15. Acquisitions

The Group acquired the following 16 businesses in the year ended 31 July 2016. All these businesses are engaged in the distribution of plumbing and heating products and building materials. All transactions have been accounted for by the purchase method of accounting except for the 50 percent acquisition of BraByggare Sverige AB, which has been accounted for as a joint venture.

	Date of acquisition	Country of incorporation	Shares/ asset deal	% acquired
Central Pipe & Supply	August 2015	USA	Asset	100
Living Direct, Inc	October 2015	USA	Shares	100
Atlantic American Fire Equipment Co	October 2015	USA	Asset	100
Renwes Appliances, Inc	October 2015	USA	Asset	100
Action Fire Fab & Supply, Inc	November 2015	USA	Asset	100
Professional Cleaning Service and Supply Corporation	January 2016	USA	Asset	100
Medallion Pipe Supply Ltd	February 2016	Canada	Asset	100
Underground Specialities, Inc	March 2016	Canada	Asset	100
BraByggare Sverige AB	March 2016	Sweden	Shares	50
Andrews Lighting Gallery, Inc	April 2016	USA	Asset	100
The Bath & Beyond	April 2016	USA	Asset	100
Dealernet, LLC	April 2016	USA	Asset	100
Bruce-Rogers Company	May 2016	USA	Shares	100
Michigan Pipe & Valve-Flint, Inc	June 2016	USA	Asset	100
Michigan Pipe & Valve-Lansing, Inc	June 2016	USA	Asset	100
Michigan Meter Technology Group, Inc	July 2016	USA	Asset	100

The assets and liabilities acquired and the consideration for all acquisitions in the period are as follows:

	Book values acquired £m	Fair value adjustments £m	Provisional fair values acquired £m
Intangible assets			
– Customer relationships	–	16	16
– Trade names and brands	–	7	7
– Other	–	5	5
Property, plant and equipment	11	–	11
Inventories	30	(4)	26
Receivables	20	–	20
Cash, cash equivalents and bank overdrafts	2	–	2
Payables	(13)	–	(13)
Deferred tax	–	(2)	(2)
Total	50	22	72
Goodwill arising			40
Consideration			112

Satisfied by:	
Cash	94
Deferred consideration	18
Total consideration	112

15. Acquisitions continued

The fair value adjustments are provisional figures, being the best estimates currently available. Further adjustments may be necessary when additional information is available for some of the judgemental areas.

The goodwill arising on these acquisitions is attributable to the anticipated profitability of the new markets and product ranges to which the Group has gained access and additional profitability and operating efficiencies available in respect of existing markets.

The acquisitions contributed £110 million to revenue, £6 million to trading profit and £6 million to the Group's operating profit for the period between the date of acquisition and the balance sheet date. It is not practicable to disclose profit before and after tax, as the Group manages its borrowings as a portfolio and cannot attribute an effective borrowing rate to an individual acquisition.

If each acquisition had been completed on the first day of the financial year, Group revenue would have been £14,517 million and Group trading profit would have been £921 million. It is not practicable to disclose profit before tax or profit attributable to equity shareholders, as stated above. It is also not practicable to disclose operating profit as the Group cannot estimate the amount of intangible assets that would have been acquired at a date other than the acquisition date.

The net outflow of cash in respect of the purchase of businesses is as follows:

	2016 £m	2015 £m
Purchase consideration	**94**	100
Deferred and contingent consideration in respect of prior year acquisitions	**21**	8
Cash consideration	**115**	108
Cash acquired	**(2)**	(3)
Net cash outflow in respect of the purchase of businesses	**113**	105

16. Disposals

In the year ended 31 July 2016, the Group disposed of the following businesses:

Name	Country	Date of disposal	Shares/asset deal
Bois & Matériaux SAS	France	March 2016	Shares
Guimier SAS	France	March 2016	Shares
Wolseley France Logistique SAS	France	March 2016	Shares
Duomat SAS	France	March 2016	Shares
Helatukku Finland Oy	Finland	May 2016	Shares
AS Puukeskus	Estonia	July 2016	Shares

The Group recognised a total gain on current year disposals of £136 million. This primarily arose from the sale of the remaining French building materials business which is disclosed in note 7 as a discontinued exceptional gain on disposal.

	Continuing operations £m	**Discontinued operations £m**	**Group 2016 £m**
Consideration received	**4**	**10**	**14**
Net (assets)/liabilities disposed of	**(2)**	**4**	**2**
Disposal costs	**–**	**(5)**	**(5)**
Recycling of deferred foreign exchange gains	**–**	**125**	**125**
Gain on disposal	**2**	**134**	**136**

16. Disposals continued

Details of assets and liabilities disposed of are provided in the following table:

	Continuing operations £m	Discontinued operations £m	Group 2016 £m
Inventory	**2**	**–**	**2**
Receivables	**3**	**–**	**3**
Net liabilities held for sale	**–**	**(4)**	**(4)**
Payables	**(3)**	**–**	**(3)**
Total net assets/(liabilities) disposed of	**2**	**(4)**	**(2)**

The net inflow of cash in respect of the disposal of businesses is as follows:

	Continuing operations £m	Discontinued operations £m	Group 2016 £m
Cash consideration received for current year disposals (net of cash disposed of)	**4**	**–**	**4**
Cash consideration received for prior year disposals	**–**	**10**	**10**
Disposal costs paid	**–**	**(5)**	**(5)**
Net cash inflow	**4**	**5**	**9**

17. Reconciliation of opening to closing net debt

For the year ended 31 July 2016	At 1 August 2015 £m	Cash flows £m	Acquisitions and new finance leases £m	Disposal of businesses £m	Fair value and other adjustments £m	Held for sale movements £m	Exchange movement £m	At 31 July 2016 £m
Cash and cash equivalents	1,105							**940**
Bank overdrafts	(848)							**(692)**
	257	**(28)**	**2**	**–**	**–**	**(1)**	**18**	**248**
Derivative financial instruments	33	**(10)**	**–**	**–**	**1**	**–**	**7**	**31**
Bank loans	(1,066)	**16**	**–**	**27**	**9**	**–**	**(170)**	**(1,184)**
Obligations under finance leases	(29)	**4**	**(2)**	**–**	**–**	**–**	**(4)**	**(31)**
Net debt	(805)	**(18)**	**–**	**27**	**10**	**(1)**	**(149)**	**(936)**

17. Reconciliation of opening to closing net debt continued

For the year ended 31 July 2015	At 1 August 2014 £m	Cash flows £m	Acquisitions and new finance leases £m	Disposal of businesses £m	Fair value and other adjustments £m	Reclassified as held for sale £m	Exchange movement £m	At 31 July 2015 £m
Cash and cash equivalents	240							1,105
Bank overdrafts	(73)							(848)
	167	173	3	(10)	–	1	(77)	257
Derivative financial instruments	42	(12)	–	–	(1)	–	4	33
Bank loans	(877)	(197)	(13)	15	12	–	(6)	(1,066)
Obligations under finance leases	(43)	4	(3)	1	–	12	–	(29)
Net debt	(711)	(32)	(13)	6	11	13	(79)	(805)

18. Contingent liabilities

Group companies are, from time to time, subject to certain claims and litigation arising in the normal course of business in relation to, among other things, the products that we supply, contractual and commercial disputes and disputes with employees. Provision is made if, on the basis of current information and professional advice, liabilities are considered likely to arise. In the case of unfavourable outcomes, the Group may benefit from applicable insurance protection.

Warranties and indemnities in relation to business disposals

Over the past few years, the Group has disposed of a number of non-core businesses and various Group companies have provided certain standard warranties and indemnities to acquirers and other third parties. Provision is made where the Group considers that a liability is likely to crystallise, though it is possible that claims in respect of which no provision has been made could crystallise in the future. Group companies have also made contractual commitments for certain property and other obligations which could be called upon in an event of default. As at the date of this report, there are no significant outstanding claims in relation to business disposals.

Environmental liabilities

The operations of certain Group companies are subject to specific environmental regulations. From time to time, the Group conducts preliminary investigations through third parties to assess potential risks including potential soil or groundwater contamination of sites. Where an obligation to remediate contamination arises then this is provided for, though future liabilities could arise from sites for which no provision is made.

Outcome of claims and litigation

The outcome of claims and litigation to which Group companies are party cannot readily be foreseen as, in some cases, the facts are unclear, further time is needed to assess properly the merits of the case, or they are part of continuing legal proceedings. However, based on information currently available, the Directors consider that the cost to the Group of an unfavourable outcome arising from such litigation is not expected to have a material adverse effect on the financial position of the Group.

19. Exchange rates

The results of overseas subsidiaries have been translated into sterling using average rates of exchange. The year end rates of exchange have been used to convert balance sheet amounts. The principal currencies impacting the full year results announcement are as follows.

	2016	2015
US dollar translation rate		
Income statement	**1.46**	1.56
Balance sheet	**1.32**	1.56
Euro translation rate		
Income statement	**1.31**	1.33
Balance sheet	**1.18**	1.42
Canadian dollar translation rate		
Income statement	**1.94**	1.86
Balance sheet	**1.72**	2.04