> *"Trading margin of the ongoing business increased to 6.4 per cent, equalling the peak margin achieved in 2007."*

John Martin
Chief Financial Officer

In summary

- Like-for-like revenue growth of 7.1 per cent
- Gross margin expansion of 0.1 per cent
- Capital investment of £231 million
- Financial statements See pages 103 to 157

Performance of the ongoing business

	Ongoing[1] 2015 £m	Ongoing[1] 2014 £m	Growth %	Like-for-like growth %
Revenue	**13,300**	11,952	+11.3%	+7.1%
Gross profit	**3,721**	3,337	+11.5%	–
Operating expenses	**(2,864)**	(2,585)	+10.8%	–
Trading profit	**857**	752	+14.0%	–
Gross margin	**28.0%**	27.9%	+0.1%	–
Trading margin	**6.4%**	6.3%	+0.1%	–

1 The "ongoing business" excludes businesses that have been sold, closed or are held for sale.

The Group's ongoing business grew well with like-for-like revenue growth of 7.1 per cent led by a strong performance from Ferguson in the USA with like-for-like growth of 9.6 per cent. Ferguson grew strongly and gained market share across all regions, with Blended Branches, Waterworks and our B2C e-commerce businesses performing particularly well. Our operations in the UK and the Nordic region generated good like-for-like growth of 3.6 per cent and 5.5 per cent respectively, although revenue declined in Canada and Central Europe due to challenging market conditions.

We continued to focus on growing gross margins which improved by 0.1 per cent to 28.0 per cent despite falling commodity prices. Gross margin gains were driven by improving the mix of higher value-added products and services and improving our purchasing terms with suppliers.

During the year, we maintained our discipline on operating expenses whilst continuing to invest in developing more efficient ways of executing our business. The Group's trading margin increased from 6.3 per cent to 6.4 per cent, equivalent to the peak margin achieved in 2007. This was driven by Ferguson which achieved another record trading margin of 8.2 per cent.

Trading profit growth was 11.4 per cent at constant currency and after including £17 million from favourable foreign exchange rate movements was 14.0 per cent.

Statutory results

The financial statements have been prepared under IFRS and the Group's accounting policies are set out on pages 108 to 111. The 2013/14 income statement has been restated for the classification of the Group's French businesses as discontinued operations under IFRS 5.

	2015 £m	Restated 2014 £m
Revenue	**13,332**	12,271
Operating profit	**556**	705
Net finance costs	**(48)**	(29)
Profit before tax	**508**	676
Taxation	**(187)**	(194)
Profit from continuing operations	**321**	482
(Loss)/profit from discontinued operations	**(108)**	22
Profit for the year	**213**	504

Reconciliation between ongoing trading profit and statutory operating profit

Management presents trading profit, headline profit and headline earnings per share excluding exceptional items to provide additional useful information on underlying trends to shareholders. For more information refer to note 9 on page 119.

Ongoing trading profit is reconciled to total reported operating profit as shown in the table below:

	2015 £m	Restated 2014 £m
Ongoing trading profit	**857**	752
Losses from non-ongoing businesses	**(3)**	–
Trading profit	**854**	752
Amortisation	**(56)**	(46)
Impairment of acquired intangibles	**(238)**	–
Exceptional items	**(4)**	(1)
Total reported operating profit	**556**	705

Losses from non-ongoing business

A number of small businesses in the USA, Canada and the Nordic region were sold during the year and these generated revenue of £32 million and trading losses of £3 million.

Amortisation and impairment of acquired intangibles

Amortisation of £56 million (2013/14: £46 million) represents the normal charge relating to the Group's intangible assets. The Group reviews the carrying value of its goodwill and acquired intangibles annually and when there is an indicator of impairment. During the year, we impaired £234 million of the goodwill and intangibles relating to our Nordic businesses as a result of challenging market conditions. Following our annual impairment review we also impaired £4 million of goodwill in Canada, which reflects the difficult trading conditions in the oil and gas industry. See note 12 on pages 121 and 122 for further details. Goodwill, with a carrying value of £816 million, remains on the balance sheet and is clearly supported by our estimates of value in use.

Exceptional items

A net £4 million exceptional charge to operating profit (2013/14: £1 million) arose from gains and losses on the disposal and closure of businesses and other items.

Net finance costs include an exceptional charge of £22 million which relates to the recycling of foreign exchange differences previously recorded in reserves.

The tax charge on exceptional items amounts to £3 million (2013/14: £3 million).

Net finance costs

Net finance costs before exceptional items amount to £26 million compared with a prior year charge of £29 million, the reduction being principally due to net interest income on defined benefit pension schemes.

Discontinued operations

The French businesses have been classified as discontinued operations and the 2013/14 comparatives have been restated accordingly. During the year, the Group sold its Wood Solutions business in France which generated an exceptional loss on disposal of £59 million. The Group is in the process of selling its remaining French business and the associated assets have been written down to reflect the expected recoverable amount, resulting in an exceptional impairment charge of £67 million. In addition, the Group realised an exceptional gain of £16 million on redemption of a bond received in connection with an earlier disposal. Overall, discontinued operations generated revenue of £587 million, a trading loss of £2 million and an operating loss after exceptional items of £108 million (see note 7 on page 118).

Taxation

The Group incurred a tax charge on profit before discontinued operations of £187 million. Tax before exceptional items and the amortisation and impairment of acquired intangibles amounted to £231 million which represents an effective rate of 27.9 per cent (2013/14: 28.4 per cent).

There are no significant special tax incentives available to the Group that impact the tax charge such as research and development tax credits or patent box. Several factors are key to understanding the level of tax paid in each country in each year.

The Group has made substantial capital investments in assets over many years including in its various technology programmes, branch network and distribution centres. These investments are amortised in accordance with the laws relating to capital allowances in each country, including Part 2 CAA 2001 in the UK. As at 31 July 2015, capital allowances of £370 million are available to offset against future profits in the UK.

Group companies sometimes generate losses. Where they can be relieved or carried forward to be relieved in future periods, the Group does so in accordance with the relevant law. In the UK, section 457 CTA 2009 governs the utilisation of trading losses and as at 31 July 2015, the UK has losses of £246 million available to offset against future profits. Certain losses, particularly those related to impairments, cannot be relieved against taxable profits. Over time, this has had a substantial impact on the Group's overall tax charge as a proportion of pre-tax profits which has averaged 42.4 per cent over the last 10 years.

The Group's operations are international with 76 per cent of the Group's ongoing trading profit generated in the USA, 14 per cent in other overseas territories and 10 per cent generated in the UK, before central costs. Wolseley plc is incorporated in Jersey and is tax resident in Switzerland. The Group conducts its tax affairs in accordance with the law and arranges its tax affairs in line with its commercial activities. As such, it follows the terms of double taxation treaties and relevant OECD guidelines in dealing with issues such as transfer pricing and the establishment of a taxable presence, and the Group does not maintain an active tax presence in any country in which it does not trade. Other than intra-group financing and the recharging of shared-service administrative costs, the Group has no significant transfer pricing arrangements. The volume of trade between each of the Group's businesses is not material and no material charges are levied for intangible assets such as intellectual property. As far as possible, the Group simplifies its legal and commercial structure in order to reduce risk and minimise ongoing costs, including fees to advisers. The simplification of the Group's corporate structure continued throughout the year with the relevant costs charged to trading profit.

Earnings per share

Headline earnings per share based on trading profit increased by 18.1 per cent from 195.0 pence to 230.2 pence. Basic earnings per share from continuing operations were 123.8 pence and diluted earnings per share were 123.4 pence. Total basic earnings per share, including discontinued operations, were 82.1 pence and diluted earnings per share were 81.9 pence.

Foreign exchange rates impact

The Group reports its results in sterling though the most important trading currency is the US dollar which represents 63 per cent of the Group's ongoing revenue. 5 per cent of revenue is denominated in euros and 5 per cent in Canadian dollars. The main currency exposure arises on the translation of overseas earnings into sterling. The Group does not hedge this exposure as these hedges have only temporary effect. The Group's policy is to broadly match the currencies in which its debt is denominated to the currencies in which its trading profit is generated. The exchange rates used for the consolidated income statement and balance sheet are set out below:

	2015	2014	Movement
Average rates:			
US dollar	**1.56**	1.64	5.1%
Canadian dollar	**1.86**	1.76	(5.4%)
Euro	**1.33**	1.21	(9.0%)
Closing rates:			
US dollar	**1.56**	1.69	8.3%
Canadian dollar	**2.04**	1.84	(9.9%)
Euro	**1.42**	1.26	(11.3%)

The strengthening of the US dollar against sterling in the year was partially offset by a weakening of the euro and Canadian dollar. These movements led to net increases in revenue and trading profit in the ongoing business of £127 million and £17 million respectively compared with 2013/14, as shown in the table below.

	Ongoing Revenue	Ongoing Trading profit
US dollar	372	29
Canadian dollar	(39)	(2)
Euro and others	(206)	(10)
Total	**127**	**17**

Cash flow

The Group has continued to generate strong cash flows with cash generated from operations of £937 million (2013/14: £678 million).

	2015 £m	2014 £m
Cash generated from operations	**937**	678
Interest and tax	**(253)**	(226)
Acquisitions and capital expenditure	**(336)**	(395)
Disposals	**86**	71
Dividends	**(222)**	(489)
Net purchase of shares by EBT	**(10)**	(21)
Net purchase of Treasury shares	**(242)**	–
Foreign exchange and other items	**(54)**	82
Movement in net debt	**(94)**	(300)

Acquisitions and capital expenditure

Acquisitions are an important part of our growth model and during the year we invested £105 million on 18 bolt-on acquisitions in the USA, Canada, UK and the Nordic region.

Our strategy of investing in the development of our business models is underlined by capital expenditure of £231 million (2013/14: £201 million) relating to strategic projects to support our future growth such as new distribution centres and distribution hubs and investment in technology, process and network infrastructure.

As at 31 July 2015, the Group had total operating lease commitments of £861 million (2013/14: £788 million). Management continues to believe there is substantial capacity for revenue growth utilising the existing branch infrastructure and will remain cautious when considering new lease commitments for the foreseeable future. Additional information can be found in note 34 on page 144.

Returns to shareholders

The Group is highly cash generative and the Board has established clear priorities for the utilisation of cash. In order of priority these are:

(i) To fund profitable growth opportunities that meet the Group's investment criteria;

(ii) To fund ordinary dividends which should grow over the cycle consistent with the Group's long-term growth rate;

(iii) To fund bolt-on acquisitions where they meet the Group's investment criteria; and

(iv) To return surplus cash to shareholders in the most appropriate way.

The Group paid an interim dividend of 30.25 pence per share (2013/14: 27.50 pence per share) amounting to £78 million. A final dividend of 60.5 pence per share (2013/14: 55.0 pence per share), equivalent to £156 million is proposed.

On 30 September 2014, the Group announced its intention to initiate a share buyback programme for up to £250 million. During the year to 31 July 2015, the Group purchased 7.4 million shares under the programme at a total cost of £250 million and an average cost per share of 3,375 pence. The shares purchased under the Group's buyback programme have been retained in issue as Treasury shares.

Due to continued strong cash generation, the Board has proposed a further share buyback programme for up to £300 million.

Impact of foreign exchange movement on net debt

The principal reason for the movement arising from foreign exchange is the retranslation of foreign currency borrowings into sterling. As at 31 July 2014, £724 million of the Group's net debt was held in US dollars and the US dollar appreciated by 8.3 per cent during the year.

Net debt

Net debt increased by £94 million to £805 million at 31 July 2015. The level of net debt at any point in time is affected by the working capital cycle and at 31 July 2015 net debt would have been approximately £130 million higher after taking into account short-term timing differences. Adjusting for these, net debt would be 1.0x EBITDA.

Pensions

The UK defined benefit pension plan was closed for future accrual at 31 December 2013 and we have maintained our funding contributions in accordance with the agreed funding plan. At 31 July 2015, the Group's net pension liability of £15 million (2013/14: asset of £7 million) comprises assets of £1,477 million (2013/14: £1,384 million) and liabilities of £1,492 million (2013/14: £1,377 million). IAS 19 (Revised) "Employee Benefits" requires the Group to make assumptions including, but not limited to, rates of inflation, discount rates and current and future life expectancy. The value of the liabilities and assets could change materially if different assumptions were used. To help understand the impact of changes in these assumptions we have included key sensitivities as part of our pensions disclosure in note 1 on page 111.

Other financial matters

Supplier rebates

In response to the press notice in December 2014 from the Financial Reporting Council (FRC) which called for clarity in the reporting of certain supplier arrangements, we have provided enhanced disclosures within this financial report and within the notes to the consolidated financial statements on the matter of supplier rebates.

Supplier rebates, typically in the form of a volume-based reduction to a supplier's list price are commonly used by suppliers in our industry. Wolseley has agreements with a number of its suppliers covering volume-based rebates, marketing support and other discounts receivable in connection with the purchase of goods for resale from those suppliers. These discounts, collectively known as "supplier rebates", are recognised in the income statement when all conditions have been met and when the goods have been sold. For inventory in the Group's balance sheet at the end of the period, the associated rebate is deducted from the gross cost of inventory and this deduction is credited to the income statement when the goods have been sold.

The majority of supplier rebates are linked to individual unit sales and are calculated using a mechanical process with no judgement involved. A small proportion (less than 10 per cent) of rebates are subject to stepped targets where the net rebate percentage increases as volumes purchased reach certain levels and some judgement is required to estimate the rebate value recognised within Wolseley's financial year. This judgement is exercised consistently and prudently with historically insignificant true-ups at the end of the calendar year.

Contributions towards marketing activities represent a much smaller proportion of supplier rebates and are recognised within the income statement when all the performance conditions have been fulfilled.

The following amounts are included in the balance sheet at the year-end in relation to supplier rebates:

	2015 £m	2014 £m
Trade receivables	**144**	163
Inventory	**(181)**	(166)
Trade payables	**23**	16
Net balance sheet position	**(14)**	13

Capital structure

The Group's sources of funding currently comprise operating cash flow and access to substantial committed bank facilities from a range of banks and other financial institutions. The Group maintains a capital structure appropriate for current and prospective trading and aims to operate with investment grade credit metrics and maximum net debt of 1 to 2 times EBITDA.

Liquidity

The Group maintains sufficient borrowing facilities to finance all investment and capital expenditure included in its strategic plan with an additional margin for contingencies. The Group aims to have a range of borrowings from different financial institutions to ensure continuity of financing. As at 31 July 2015, the Group had total committed facilities of £1,715 million (2013/14: £2,197 million). Of the Group's committed facilities at 31 July, £680 million (2013/14: £1,360 million) was undrawn and £1,086 million of the total facilities mature after more than five years.

On 1 September 2015, the Group issued £512 million of US Private Placement bonds in three tranches: £160 million expiring in September 2022, £256 million expiring in September 2025 and £96 million expiring in September 2027.

Refinancing

During the year, the Group entered into a new £800 million revolving credit facility which matures in 2020. The Group also cancelled four existing revolving credit facilities amounting to £1,201 million.

Interest rates

The Group's private placement bonds, with an outstanding par value of £453 million, have a hedged average fixed interest rate of 2.7 per cent.

Financial risk management

The Group is exposed to risks arising from the international nature of its operations and the financial instruments which fund them. These instruments include cash, liquid investments and borrowings, and also items such as trade receivables and trade payables which arise directly from operations. The Group also enters into selective derivative transactions – principally interest rate swaps and forward foreign currency contracts – to reduce uncertainty about the amount of future committed or forecast cash flows. The policies to manage these risks have been applied consistently throughout the year. It is Group policy not to undertake trading in financial instruments or speculative transactions.

Other financial risks

The nature of the Group's business exposes it to risks which are partly financial in nature. Counterparty risk is the risk that banks and other financial institutions which are contractually committed to make payments to the Group may fail to do so. Commodity risk is the risk that the Group may have purchased commodities which subsequently fall in value.

The Group manages counterparty risk by setting credit and settlement limits for a panel of approved counterparties, which are approved by the Treasury Committee and monitored regularly. The Group manages convertibility risk by limiting its exposure to assets which, in the judgement of the Board, may become "illiquid" for any length of time. The management of credit and commodity risk is considered to be the responsibility of operational management and, in respect of these risks, the Group does not prescribe a uniform approach across the Group.

The Group's principal risks (including strategic, operational, legal and other risks) are shown on pages 44 to 51.

Going concern

The Group's principal objective when managing cash and debt is to safeguard the Group's ability to continue as a going concern for the foreseeable future. The Group retains sufficient resources to remain in compliance with the financial covenant of its bank facilities with substantial headroom.

The Directors consider it appropriate to continue to adopt the going concern basis in preparing the financial statements.

John Martin
Chief Financial Officer