

# Remuneration report

For the year ended 31 July 2008

## Introduction

This report, approved by the Board, has been prepared in accordance with the requirements of the Companies Act 1985 (the 'Act'), as amended by the Directors' Remuneration Report Regulations 2002, and the Listing Rules of the Financial Services Authority. Furthermore, the Board has applied the principles of good governance relating to Directors' Remuneration contained within the Combined Code.

The Act requires the auditors to report to the Company's shareholders on the audited information within this report and to state whether, in their opinion, those parts of the report have been prepared in accordance with the Act. The auditors' opinion is set out on page 107 and those aspects of the report which have been subject to audit are clearly marked.

## Remuneration Committee

The Board sets the Company's remuneration policy. The Remuneration Committee makes recommendations to the Board, within its agreed terms of reference (available on the Company's website, [www.wolseley.com](http://www.wolseley.com)) on the Company's framework of executive remuneration and its cost, which takes into account all factors which it deems necessary. It also determines, with agreement of the Board, specific remuneration packages for each of the Executive Directors, the Chairman, the Company Secretary and members of the Executive Committee. The Chairman and the Executive Directors of the Board determine the remuneration of the Non Executive Directors. The committee is also responsible for the Company's share incentive schemes for employees. The current members of the committee, as detailed on page 46, consist of three Non Executive Directors and the Chairman (as permitted by the Code), all of whom are independent within the definition set out in the Code, and the Company Secretary acts as its secretary. The Group Chief Executive and the Group HR Director are normally invited to attend the meetings of the committee to respond to specific questions raised by members of the committee. This specifically excludes such matters concerning the details of and any discussions relating to their own remuneration. The committee has access to detailed external research on market data and trends from experienced independent consultants. Since 2003, the committee has sought external advice from Hewitt New Bridge Street (formerly known as New Bridge Street Consultants LLP). Hewitt New Bridge Street provides no other services to the Company.

The committee met four times during the year, at which all committee members were in attendance. At these meetings, amongst other items, the committee considered:

- determination of bonus performance criteria and a review of performance prior to payment;
- operation and award levels under the long term incentive plan and executive share option scheme;
- awards in relation to all employee share plans; and
- consideration and review of remuneration policy, for both Executive Directors and Executive Committee members.

The Remuneration report has been received and adopted by shareholders at each of the Annual General Meetings held since 2003 and shareholders will again be invited to receive and adopt this report at the Annual General Meeting to be held on 18 November 2008.

## Policy on Directors' remuneration

### Non Executive Directors

The remuneration of Non Executive Directors is made up of a basic fee and an additional fee where a Non Executive Director acts as chairman of either the Audit or Remuneration Committees and for the Director nominated as Senior Independent Director. Fees are reviewed from time to time by the Chairman and the Executive Directors of the Board. The Non Executive Directors have letters of engagement rather than service contracts and do not participate in any incentive plan, nor is any pension payable in respect of their services as Non Executive Directors. The Board's policy is that Non Executive Directors are normally appointed for an initial term of three years, which is then reviewed and extended for a further three-year period. Appointments may be terminated upon six months' notice. There are no provisions for compensation in the event of termination. The terms and conditions of appointment of the Non Executive Directors are available for inspection at the Company's registered office during normal business hours and at the Annual General Meeting.

### Executive Directors

The Company's policy continues to be to provide remuneration packages that fairly reward Executive Directors for the contribution they make to the business, having regard to the size and complexity of the Group's operations and the need to attract, retain and motivate executives of the highest quality. Remuneration packages comprise salary, performance bonuses, share options, long-term incentive awards, benefits in kind and retirement benefit provisions. The Company takes fully into account all of these individual elements in adopting a total approach to remuneration. The Company's policy is that each of the packages should incorporate components linking individual and company performance, short- and long-term returns as well as absolute and relative financial performance. None of the variable elements of remuneration are pensionable. These packages are designed to be broadly comparable with those offered by other similar international businesses and reflect competitive practices in the countries and markets in which the Executive Directors operate.

The committee believes that the choice of performance measures for the incentive plans continues to be suitable and provides an appropriate mix and balance. The measures are earnings per share ('EPS') for executive options and total shareholder return ('TSR') for long term incentive awards. The targets are felt to be demanding for the next three years and align executives' interests with those of shareholders over this period.