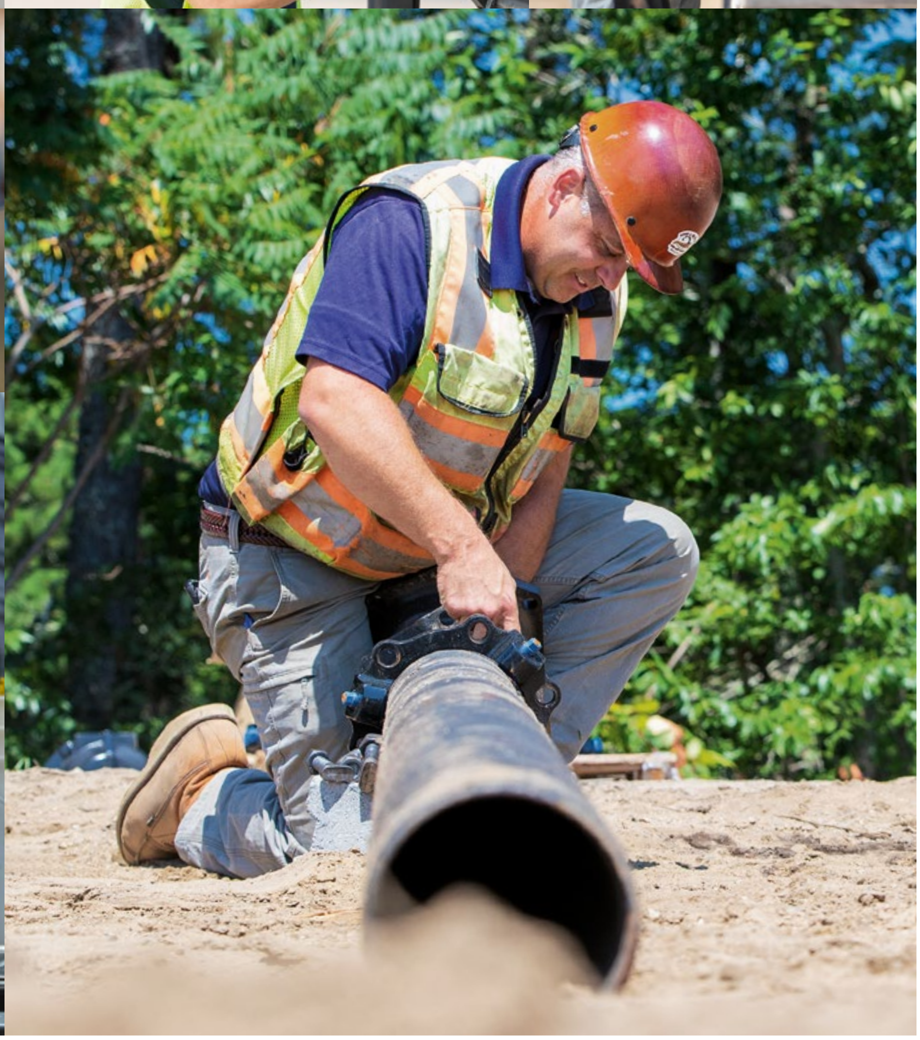
Ferguson plc
Annual Report and Accounts 2018

FERGUSON

More to Ferguson



Welcome to Ferguson plc

The world's leading specialist distributor of plumbing and heating products

Financial highlights

Statutory financial results

$20,752m
Revenue
+7.6% (2016/17: $19,284m)

$1,267m
Profit for the year attributable to shareholders
+37.7% (2016/17: $920m)

515.7c
Basic earnings per share
+40.9% (2016/17: 366.1c)

Alternative performance measures

$1,507m
Ongoing trading profit[1]
+15.3% (2016/17: $1,307m)

444.4c
Headline earnings per share[1]
+21.4% (2016/17: 366.1c)

Gareth Davis
Chairman
(see page 13)

John Martin
Group Chief Executive
(see page 16)

Mike Powell
Group Chief Financial Officer
(see page 30)

1. This is reported on an ongoing basis and is an Alternative Performance Measure ("APM"), see note 2 on pages 107 to 109 for further information.
2. IFC – Inside front cover.

There's more to Ferguson

Our business model is simple. We source, distribute and sell specialist plumbing and heating products. We provide customers with the right range of products at competitive prices with great availability and multiple order and delivery options. These are the basics of our business.

We also do a lot more. Our customers return to us day after day for our expertise and relentless focus on service. We listen to our customers' challenges and help them deliver a wide variety of projects from small residential repair jobs to major new construction work. We support them when they are bidding for work and help them manage their projects. Customers trust in our people, processes, advice and commitment to help make their businesses thrive.

Ferguson's enduring commitment to service is the foundation for long-term partnerships with our customers. Read more over the following pages.

Examples of how we support our customers:

After sales support
- Credit
- No hassle returns
- Warranty support
- Project-based billing

Pick-up options
- 24/7 secure access to branches
- Scheduled forward delivery dates
- One hour call/check and collect service

Delivery options
- Call off options (order book)
- Multiple delivery locations
- Same day delivery
- Specialist delivery e.g. crane trucks

Product information
- Technical data and rich content

Branch services
- Product advice
- Emergency out of hours support

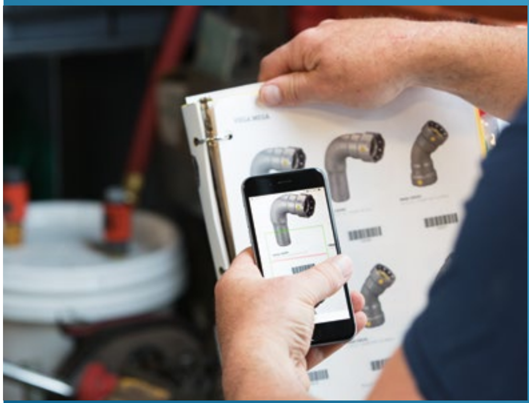
Bidding and tendering
- Project-specific tendering
- Take-off software
- Value engineering (using expert product knowledge to enhance customer bids)

Customised solutions
- Valve actuation
- Fabrication
- Commercial water heaters
- Pre-assembled kits

Showroom consultancy
- Bespoke catalogue/order service
- Appliance installation services
- Project management
- Design services

Sales channels
- Inside sales
- E-commerce
- Electronic Data Interchange
- Outside field sales support
- Call centres

Sourcing
- Own brand choices
- Exclusive distribution
- Sourcing of non-stock items



More time

Residential trade:

Using technology to help Kevin Cohen Plumbing deliver better customer service

Residential and commercial plumber Kevin Cohen was in search of a more efficient way of replenishing his fleet of trucks with the products his technicians needed. Sara Ferschweiler, e-commerce specialist for Oregon, was able to identify his needs during a sales call and discussed a solution utilising a customised product book with a barcode scanner for each of his 16 trucks. Sara created a book for each truck which contained about 950 products, images and technical details, including barcodes, to make it as efficient as possible for the team to replenish their inventory.

Today, each technician scans the material required throughout the day which goes through an approval process before being sent to Ferguson where the order is fulfilled. Since implementing the new solution in May 2018, Kevin Cohen Plumbing has submitted half of all its product orders through Ferguson.com.

23%

Percentage of US revenue generated from e-commerce.

Image:
Kevin Cohen, owner of Kevin Cohen Plumbing, using a scannable inventory book.

Location:
Eugene, Oregon

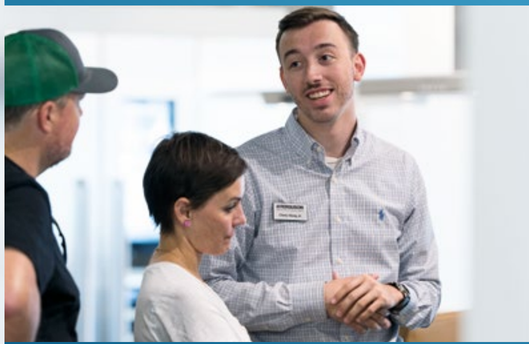
> **"This book gives us the ability to order quality parts and supplies much more quickly, allowing us to provide the highest level of service our customers expect. We're proud to have you as partners with Kevin Cohen Plumbing."**
>
> **Kevin Cohen**
> Owner, Kevin Cohen Plumbing

Image:
Candace White, owner of the White House Collection and Jacob Wilson, Ferguson showroom consultant, discuss a current customer project.

Location:
Portland, Oregon

“The service they provide is world class and I have a fantastic relationship with them that I really value. They continually go out of their way to make my life easier.”

Candace White
Owner, The White House Collection



870

showroom consultants who work closely with the client and their architect/contractor providing advice and project management support.

More advice

Residential showroom:

Providing a total solution for The White House Collection remodelling projects

Candace White, who owns The White House Collection, a custom home design company, relies on Ferguson showroom consultant Jacob Wilson to advise her customers on product specifications for all their remodelling requirements. Often working from architectural drawings, Jacob discusses available options with Candace and her customers, keeping in mind style, product design and customer budget.

Candace brings the majority of her customers to Ferguson's large Portland showroom and has been working with us for over five years. Here, customers can see and touch a wide range of alternatives in-situ from our kitchen, bathroom and lighting range so they can better visualise their projects. Jacob produces a customised colour catalogue for each customer with photographs, prices and product specifications to help finalise the designs. Once product selection is agreed Jacob then ensures all aspects of the project are delivered, staying in touch with the various tradespeople to co-ordinate deliveries, ensuring specialist installation is done properly and resolving problems quickly if they arise.

$1.9bn

US revenue generated through showrooms including: consultation, design, project management, sizing, sourcing, stock holding, two person white-glove delivery and installation.

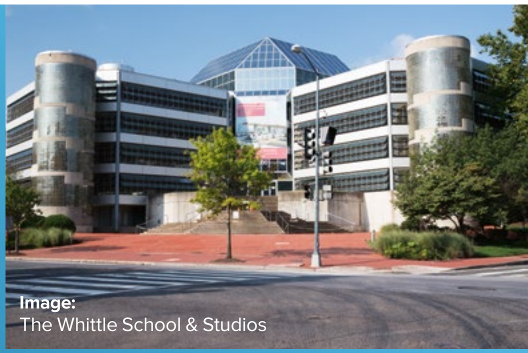


Image:
The Whittle School & Studios

More wins

Commercial:

Supporting Shapiro & Duncan and Superior Mechanical to win a vital bid

Shapiro & Duncan and Superior Mechanical came to Ferguson for help on a high-end plumbing fixtures project for a large commercial school. The Whittle School & Studios in Washington DC is a large and ambitious project which will eventually provide educational, recreational and residential space for over 2,500 students on a 14 acre site.

The school wanted to create a campus reflecting their belief that "everything in a school is a lesson". The joint bid therefore required more than standard, "builder grade" plumbing fixtures and the contractors needed help choosing high specification products and devising a delivery schedule based on the demanding construction timeline. Originally over budget, the Ferguson team came up with various solutions to achieve the look the school required. To achieve this, and to stay within the budget, the team changed the product mix adding in our own brand products from the "Mirabelle" range which were chosen as they are visually striking, highly durable and cost effective. Our support enabled Shapiro & Duncan and Superior Mechanical to win the bid in a highly competitive process.

$8.0bn

48% of US revenue is generated from bidding and tendering work.

2,000

US outside sales associates support customers in bidding and tendering, project management and advice to make their businesses more successful.

Image:
Ferguson outside sales associate Dustin Johnson (right) with Michael Canter, fabrication manager, Shapiro & Duncan (left).

Location:
Washington, DC

> **"Ferguson helped us identify the areas where we could improve our bid. Understanding our needs and having in-depth product knowledge meant we could make a competitive, and ultimately, winning bid."**
>
> **Michael Canter**
> Fabrication manager, Shapiro & Duncan Mechanical Contractors

More resources

Industrial:

Helping HollyFrontier* minimise down-time for site turnarounds

Our Industrial business is one of the largest suppliers of quality products and technical solutions to the industrial market in the USA. We supply pipes, valves and fittings (PVF) and maintenance, repair and operations (MRO) products to a broad range of industries including industrial manufacturing, oil and gas, chemical, power, pulp and paper and mining. In addition to the daily MRO requirements of our customer HollyFrontier Tulsa Refining LLC, a petroleum refinery based in Tulsa, Oklahoma, the plant performs "turnarounds" periodically. During this time, a portion of the plant shuts down between 30 and 60 days for maintenance and upgrades. Our teams will be on-site during each turnaround stocked with most commonly used PVF and related material.

Supplying and supporting plant turnarounds differs from traditional service. In the oil industry, refinery downtime can cost up to $200,000 an hour, so it is critical to our customers to limit that downtime as much as possible. For HollyFrontier turnarounds, Ferguson associates will be on-site 24/7 for 45-to-60 days to support the turnarounds. For example, the upcoming Tulsa plant turnaround in the Winter requires us to manage three staging areas with three jobsite trailers each, plus staged material to dispense to the various trades during the turnaround.

*HollyFrontier Tulsa Refining LLC, Petroleum Refining and Lubricants

$1.7bn
of non-stock items were supplied to customers during 2017/18.

50%
e-commerce penetration within our Industrial business (the majority of which is electronic data interchange, an automated inventory replenishment system).

Image:
Scott Baber, turnaround superintendent, HollyFrontier* (right) and Philip Martin, area sales manager, Ferguson (left) at the HollyFrontier* oil refinery.

Location:
Tulsa, Oklahoma

“The on-site support Ferguson provided was vital to the success of our turnaround. With a 24/7 operation, their sales team’s ability to secure material at any time of day or night was valuable. They sourced those items, placed orders and made sure they were at the right place at the right time.”

Scott Baber
Turnaround superintendent, HollyFrontier*

Image:
Mark Heilala, a Robert B. Our Co. associate on a customer jobsite.

Location:
Harwich, Massachusetts

“Ferguson really went above and beyond to help fix this potential disaster. We needed the right parts as soon as possible and we don’t believe any other supplier could have done what they did. We couldn’t have done it without them!”

Robert B. Our III
Co-owner, Robert B. Our Co.

2,882

medium and heavy trucks in the US. Some orders require specialist delivery vehicles to deliver large, heavy, cumbersome products for example, stake trucks.

More support

Waterworks:

Providing emergency support for Robert B. Our Co.

When a sewer-main pipe broke in the middle of a snow storm that caused three million gallons of raw sewage to be dumped into Nantucket Harbor, an area of outstanding natural beauty, our Waterworks business was instrumental in the emergency response. Our customer, Robert B. Our Co., the site and utility construction company hired to make the emergency repair, contacted us to help devise a plan.

The primary way to get to the island of Nantucket, 30 miles off the coast of Cape Cod, Massachusetts, is by ferry. When our team was ready to send the materials to cover the break, ferries travelling to Nantucket had been cancelled due to the deep freeze. The team drafted the Otis Air National Guard and used a Blackhawk Helicopter to fly members of the construction company and materials to the island. During the weekend, our associates worked tirelessly to gather the required repair parts from our inventory, manufacturers and local Water Departments, exhausting all resources they had available. It took another three days before an ice breaking barge could clear the way so the ferry could run and the remaining products were shipped over and the pipe fixed.

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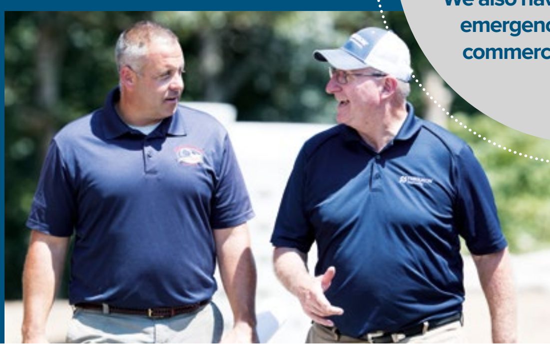
branches across the US can respond 24/7 to emergency situations like these. We also have a 24/7 hotline for emergency replacement of commercial water heaters.



Highlights

A year of significant progress

In 2017/18, Ferguson delivered good revenue and trading profit growth supporting our commitment to improve shareholder returns.

Statutory financial results

$20,752m
Revenue
+7.6% (2016/17: $19,284m)

515.7c
Basic earnings per share
+40.9% (2016/17: $366.1c)

$1,267m
Profit for the year attributable to shareholders
+37.7% (2016/17: $920m)

189.3c
Ordinary dividend per share
+21% (2016/17: 156.4c)

Alternative Performance Measures

$20,752m
Ongoing revenue[1]
+10.1% (2016/17: $18,845m)

$1,507m
Ongoing trading profit[1]
+15.3% (2016/17: $1,307m)

29.2%
Ongoing gross margin[1]
+0.3% (2016/17: 28.9%)

444.4c
Headline EPS[1]
+21.4% (2016/17: 366.1c)

1. The Group uses Alternative Performance Measures ("APMs"), which are not defined or specified under International Financial Reporting Standards ("IFRS"), to provide additional helpful information. These measures are not considered to be a substitute for IFRS measures and are consistent with how business performance is planned, reported and assessed internally by management and the Board.
For further information on APMs, including a description of our policy, purpose, definitions and reconciliations to equivalent IFRS statutory measures see note 2 on pages 107 and 109.

"I would like to thank all of Ferguson's 35,000 associates who worked so hard to deliver this year's performance."

Gareth Davis
Chairman

Chairman's statement

Ferguson delivered a good operating performance in the year and has also made significant progress in the rapid execution of our strategic priorities. In addition, we have returned $1.6 billion of surplus capital to shareholders and completed $415 million of bolt-on acquisitions while maintaining the flexibility of a strong balance sheet.

Good progress

I'm delighted to report that Ferguson had an outstanding year in 2017/18 with good organic revenue growth in the USA and Canada in good end markets. Executing our consistent strategy has resulted in a successful year with the Group generating a strong trading performance.

I would like to thank John, our Chief Executive, his Executive Committee and all of Ferguson's 35,000 associates who worked so hard to deliver this year's performance. The commitment of our associates and their dedication to serving our customers every day is the main reason the Company is performing so well.

Shareholder returns

The Board is committed to maximising long-term shareholder value. Our investment priorities remain firmly focused on achieving organic growth, funding 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.

In 2017/18, Ferguson completed two capital returns. First, we announced a $675 million share buy back programme in October 2017 which was completed in June 2018 at an average price of £54.48. In addition, following the disposal of the Stark Group, the Nordics building materials business, in March 2018, shareholders subsequently approved a special dividend of $4 per share, equivalent to about $1 billion, which was paid on 29 June 2018. The accompanying share consolidation of 18 new ordinary shares for 19 existing ordinary shares was completed on 11 June 2018.

Given the Group's track record of excellent cash generation and the continued strength of the balance sheet the Board considers it an appropriate time for an upwards re-basing of the ordinary dividend.

The Board is recommending that last year's total dividend of 156.4 cents per share is re-based by 10 per cent with a further 10 per cent growth rate applied, representing the normal increase for the year. This brings the total dividend for the year to 189.3 cents per share (2016/17: 156.4 cents per share) representing a year-on-year increase of 21 per cent. Subject to shareholder approval, a final dividend of 131.9 cents per share (2016/17: 73.33 pence per share) will be paid on 5 December 2018 to shareholders on the register on 26 October 2018. The dividend is covered 2.3 times by headline earnings per share. Going forward, the Board will continue to operate a progressive dividend policy with growth in dividends per share in line with the long-term earnings growth rate of the Company. In short, we want to maintain an attractive, growing and sustainable dividend. Our balance sheet remains strong and we continue to target net debt of one to two times adjusted EBITDA.

Board changes

In May 2018, John Daly stepped down as a Non Executive Director following more than four years' service. John's resignation from the Board was a result of his increased business commitments elsewhere, most notably the listing of Vivo Energy plc on the London Stock Exchange where he is Chairman. Pilar López also stepped down as a Non Executive Director in July 2018 following her appointment to the Board of Inditex SA. I would like to thank both John and Pilar sincerely for their contributions to the Board. You can find out more about our approach to succession planning at the Board in the Nominations Committee section on pages 60 to 61.

Governance

The Company remains UK-listed and meets the requirements of the regulations published by the UK Government concerning narrative and directors' remuneration reporting. We continue to meet these disclosure requirements, monitor developments and adopt best practice in corporate governance.

We describe how we have applied the UK Corporate Governance Code's main principles in the Governance section of this report on pages 50 to 96. The Board places great emphasis on providing clear and transparent reporting and believes this Annual Report is fair, balanced and understandable.

Looking ahead

Ferguson has made excellent progress this year on many fronts. The Board is confident that the Company has the right strategy, leadership and culture to deliver on its full potential. Our consistent strong performance, together with continued rapid execution of our strategy ensures the Board continues to look at the future with confidence.

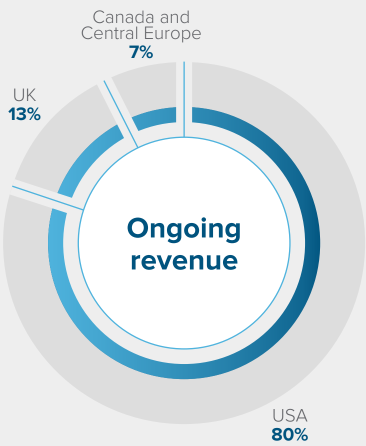
Gareth Davis

Gareth Davis
Chairman

The shape of our business today

Ferguson plc is the world's leading specialist distributor of plumbing and heating products. Our business serves customers throughout North America and the United Kingdom predominantly serving the repair, maintenance and improvement ("RMI") and new construction markets.

Group



USA

$16,670m
Ongoing revenue[1]
(2016/17: $14,977m)

8.4%
Ongoing trading margin[1]
(2016/17: 8.0%)

26,501
Associates

1,448
Branches

UK

$2,568m
Ongoing revenue[1]
(2016/17: $2,548m)

2.8%
Ongoing trading margin[1]
(2016/17: 3.8%)

5,617
Associates

567
Branches

Canada and Central Europe

$1,514m
Ongoing revenue[1]
(2016/17: $1,320m)

5.5%
Ongoing trading margin[1]
(2016/17: 4.3%)

3,167
Associates

265
Branches

Key Brands

FERGUSON | WOLSELEY | WOLSELEY

1. Ongoing revenue and ongoing trading margin are APM's, see note 2 and note 3 on pages 107 to 112 for further information.

Our business in the USA

1	Blended Branches	58%
2	Waterworks standalone	16%
3	B2C e-commerce	9%
4	Heating Ventilation and Air Conditioning (“HVAC”) standalone	7%
5	Other (Industrial standalone, Fire and Fabrication and Facilities Supply standalone)	10%

1	Residential	~50%
2	Commercial	~35%
3	Civil/Infrastructure	~7%
4	Industrial	~8%

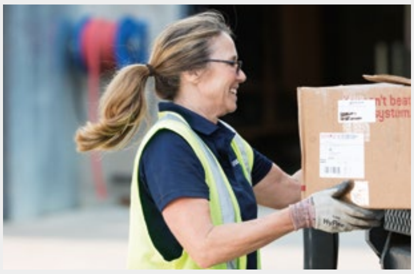
We operate seven business units in the USA providing a broad range of plumbing and heating products and solutions delivered through specialist sales associates, counter service, showroom consultants and e-commerce.

Blended Branches

Provides plumbing and sanitary products as well as heating solutions to trade customers through a combination of branch counters, inside and outside sales associates, e-commerce and a national network of showrooms. Blended Branches mainly serves the residential and commercial sectors for Repairs, Maintenance and Improvement (“RMI”) and new construction. In certain markets where it is more efficient and effective we will serve our customers through a Blended Branches location rather than standalone HVAC, Waterworks, Industrial or Facilities Supply business. See page 36 for further detail of Blended Branches split of revenue.

Waterworks standalone

Distributes Pipes, Valves and Fittings (“PVF”), hydrants, meters and related water management products alongside related services including water line tapping and pipe fusion.



HVAC standalone

Distributes heating, ventilation, air conditioning and refrigeration equipment, parts and supplies to specialist contractors in the residential and commercial markets for repair and replacement.

Industrial standalone

Supplies PVF and industrial maintenance, repair and operations (“MRO”) specialising in delivering automation, instrumentation, engineered products and turn-key solutions. Also provides supply chain management solutions.

Fire and Fabrication

Fabricates and supplies fire protection products, fire protection systems and bespoke fabrication services to commercial contractors for new construction projects.

Facilities Supply standalone

Provides products, services and solutions to enable reliable maintenance of commercial facilities across multiple RMI markets including multi-family properties, government agencies, hospitality, education and healthcare.

B2C e-commerce

Sells home improvement products directly to consumers and trade customers via a network of online stores, the primary brand is Build.com. The business uses the same distribution network as the trade businesses.

Our key priorities

1
Generate
the best profitable growth in the USA

2
Execute
the UK restructuring and repositioning programme

3
Capitalise
on the significant growth opportunity in Canada

4
Accelerate
innovation across the Group

To achieve our key priorities we must drive profitable growth across our regions through three areas of focus:

Fulfilling customer wants

Engaged associates
Well trained, highly engaged associates deliver excellent customer service. A relentless focus in this area drives customer loyalty.

Excellent service ethic
Our aim is to provide the best customer service in the industry, consistently across branches and regions.

Strong sales culture
We will continue to drive a strong sales culture. When our associates are proud and confident about our services and have the best tools, knowledge and data to support them, we will achieve the strongest results. They engage with existing and new customers to make sure we are front of mind when it comes to bids for work which generate a significant proportion of our revenue.

Attractive growth opportunities

Organic expansion
We want to accelerate profitable growth through above market revenue growth and targeted branch expansion.

Bolt-on acquisitions
We complement our organic growth strategy with bolt-on acquisitions to expand our leadership positions or capabilities to extend the value of our brand. These are rapidly integrated into our network to deliver attractive returns.

Adjacent opportunities
We will utilise our existing knowledge, skills and infrastructure to capitalise on new market opportunities. For example, Facilities Supply and our B2C e-commerce businesses.

Excellent execution

Operating model and e-commerce development
We need to ensure that our operating model is agile and flexible so it can adapt to changing customer needs and that we are able to flex our cost base when required. Increasingly our customers want to deal with us online and we must ensure we have the leading e-commerce platform in each market in our industry.

Pricing discipline
We will work constantly to understand our customers' needs more accurately and structure our pricing to be fair, consistent and transparent.

Own brand penetration
We will systematically build upon and extend our portfolio of own brand categories which provide additional choice and great value for our customers. We have an opportunity to offer a wider range of own brand products to our customers, some of which attract higher gross margins.

Group Chief Executive's review of 2017/18

Measurable progress against our key priorities

The Group delivered a good result in the year, revenue increased to $20.8 billion and ongoing trading profit increased by $200 million to $1.5 billion. In the USA, all businesses grew well and continued to gain market share. Markets in the USA and Canada have remained good throughout the year despite recent inflationary pressures, though the UK remains tough.

"We have made measurable progress against our strategic objectives and delivered the Group's best ever financial performance to the benefit of all stakeholders."

A year of further progress

On behalf of all our associates whom I have the privilege to represent, I am pleased to report measurable progress against the priorities we set out last year. We continued to develop our people, enhance our services and focus relentlessly on our customers to improve our market position in all our businesses. We have made measurable progress against our strategic objectives and delivered the Group's best ever financial performance to the benefit of all stakeholders. We have continued to focus our resources on those opportunities where we are best equipped to win and where we can generate attractive returns for shareholders.

Building on the priorities set out last year we have introduced a new priority, to accelerate innovation across the Group, to ensure that we identify new technology and business models to stay relevant to our customers. Having completed the sale of our Nordics business we have introduced a new priority to focus on growth in Canada.

Priority one

Generate the best profitable growth in the USA

Market conditions were supportive and due to our consistently strong service culture we continued to gain profitable market share. Some of the drivers of outperformance are shown in the diagram opposite which sets out how we aim to win in our local markets, outperform our competitors and drive strong financial results. Our businesses are not homogeneous and they require specific strategies which depend on local market conditions, specific customer needs and the competitive environment. Our growth opportunities are enviable, and we continue to prioritise investment to capitalise on the most attractive opportunities in each region and across each business unit. You can read more detail about our business in the US regional performance section on pages 34 to 37.

Ever since the establishment of Ferguson Enterprises over 65 years ago, our culture has been defined by a relentless focus on the recruitment, training, development and retention of the very best people in our industry. We have retained this focus during the year, recruiting more than 600 graduates alongside our other 1,900 recruits and introduced a number of "College of Ferguson" programmes to provide up to six months of specialist training at the start of a career in Ferguson. We have revamped and invested substantially in our HR business platforms throughout the Group and achieved creditable improvement in associate engagement to impressive levels.

We have allocated significant resources to the acceleration of our own brand capabilities which now represents 6.9 per cent of US revenues through organic expansion and selective acquisitions, developing new own brand categories to provide additional choice and great value to our customers. This also enables us to capture a greater part of the value chain which is reflected in better margins, and to compete more effectively with transaction-only competitors.

We continue to develop our logistics and supply chain capabilities. This year we invested in an important new market distribution centre in Indianapolis. We have plans to introduce more of these selectively in our major metro markets during 2019. We are also building a large freehold distribution centre in Perris, southern California, to serve one of the largest plumbing and heating markets in the world. We expect to complete the facility in 2019 and it will replace an existing smaller leasehold site nearby.

A focus on developing our people: The College of Ferguson

Graduate intake remains a cornerstone of our recruitment process. Over 7,600 (29 per cent) of Ferguson's workforce in the USA now have higher education degrees. Growing early career talent is critical to our success and the goal of our College of Ferguson programmes are to increase the speed of impact for these new hires.

Each trainee, in conjunction with their College of Ferguson trainer, works through a well-rounded curriculum and syllabus that includes coursework on Ferguson culture and history; product knowledge; finance and credit; customer service; warehouse, counter and showroom management; systems training and much more. They are tracked and assessed locally by their trainer, but additional support and feedback is provided by assigned mentors who guide and inspire the trainees during their time in the programme.

We are beginning to use quantitative and qualitative metrics – total sales, tickets per associate, retention and promotability to measure the value trainees bring to the business. This year over 600 associates attended speciality programmes for Blended Branches, HVAC, Facilities Supply, Industrial and Waterworks in 18 training centres across the USA. We are already experiencing excellent retention rates of the associates who took part in prior year programmes.

It has been a period of considerable progress in the development of our e-commerce capabilities, with the migration to new platforms in every region and the continuing development of mobile-optimised sites. Basic transactional capabilities are not enough to encourage customers to switch online. Tradespeople and contractors demand more sophisticated applications to add value to their businesses and search functionality, inventory availability and historical order lists are widely used as is the capability to convert quotations into orders. We are making good progress in further developing this and other valuable functionality for our customers.

Priority two

Execute the UK restructuring and repositioning programme

Trading performance in the UK this year was disappointing. Our priority remains on rapidly implementing the restructuring programme we announced last year. In the autumn, we made some changes to accelerate the pace of change and improve focus and accountability. In March, we appointed Mark Higson to lead the business. Mark is an experienced executive having previously been Chief Operating Officer of Royal Mail and British Plasterboard.

An important part of the strategy was to invest in more disciplined category management, defining a clear range of products to drive availability which our customers can rely on and we've made good progress here. The re-configuration of our logistics and supply chain infrastructure is underway, including a move to in-night replenishment of our branches, which supports a better service proposition for our customers. We have surplus distribution centre capacity and will close one distribution centre. This will reduce the amount of double-handling of inventory. We are also downsizing and relocating the UK headquarters in Leamington, which we expect to complete later this year.

In January 2018, we closed the BCG wholesale business, which generated unsustainably low margins, we completed a further 60 branch closures and implemented a redundancy programme which has lowered the cost base by $30 million per year. Some of these actions have been a headwind to our financial performance this year but we are confident that they will help us build a better business for the future.

Priority three

Capitalise on the significant growth opportunity in Canada

It has been a landmark year for Wolseley Canada, during which we have generated encouraging growth and made clear progress towards fulfilling our strategic objectives. Revenue growth was good and we improved gross margins. Strong trading profit growth enabled us to fund significant investments in the development of the business model, as well as generating good financial returns.

As in our other businesses, we have allocated more resources to the development of our own brand products and we have implemented a new platform for B2B e-commerce, to improve functionality and drive further penetration.

We opened a major new distribution centre in Montreal this year without disruption to our customers, and our distribution facilities in Toronto have been consolidated to give customers greater access to inventory from the distribution centre in Milton. We have also implemented new demand planning technology to drive better availability for our customers.

The plumbing and heating market in Canada is attractive and fragmented and we are supplementing our organic growth activities with selective bolt-on acquisitions. Towards the end of the year we concluded the acquisition of AMRE, a facilities supply business with a strong and compelling customer proposition, which will be complementary to our existing business and presents an exciting growth opportunity.

Priority four

Accelerate innovation across the Group

Whilst many of our customers value our traditional services very highly, as the market leader we have an obligation and a great opportunity to identify new technologies and business models that customers will value in years to come and which could disrupt our value chain. We have established an innovation and disruption team to identify and pursue these opportunities. We have also established Ferguson Ventures to invest or partner with innovative people, businesses and emerging technologies that can enhance the customer or contractor experience. The team includes associates from inside and outside the business, along with some specialist help, to identify and develop promising new business models. We have begun partnering with some exciting businesses with the potential to help us change and develop new customer propositions in our industry as you can read in the case study (left).

Our dedication to customer service

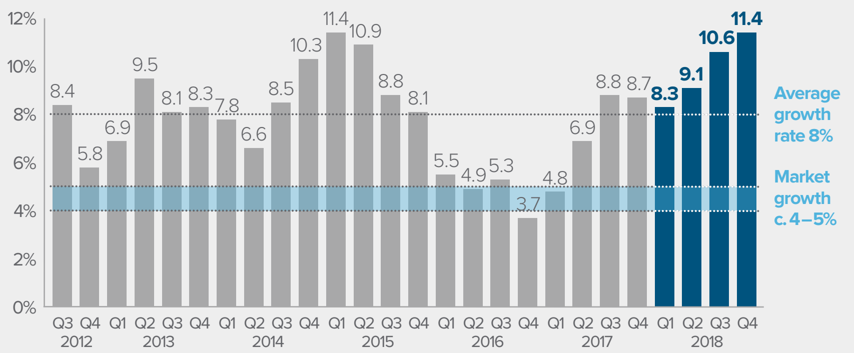
The concept behind our business model is simple; we source products and deliver them to the point of use on behalf of our customers. Getting these basic activities right, though, is not sufficient to build a sustainable competitive advantage. Our business is not just a series of transactions, we help our customers to deliver their projects, we support them when they are pitching for work and we work hard throughout the construction and renovation lifecycle to help them manage their projects. Our associates are not just looking to maximise the profit opportunity of a sales transaction, they support our customers over numerous projects over many years and develop enduring relationships based on trust. In this Annual Report and Accounts we have picked just a few real-life examples from the many thousands of interactions we have with customers every day. Understanding how we deliver this service consistently is the key to understanding the value we deliver to customers. You can read about them on pages 1 to 11.

Ferguson Ventures: forging technology partnerships to solve key industry problems

This year we have added a new priority to accelerate innovation. Our customers are currently facing significant challenges with the shortage of skilled trade professionals and the need for improved construction productivity. We created Ferguson Ventures this year to help discover, invest in and partner with technology companies and start-ups to accelerate the use of emerging technologies and business models to help solve some of these industry problems.

We recently entered into our first strategic partnership with GTP Services, a company that provides software and services for Building Information Modelling (“BIM”). BIM is a process for creating and managing information on a construction project across the building lifecycle. One of the key outputs of this process is the building information model, a digital representation of every aspect of the build, also known as a digital twin. This model draws on information assembled collaboratively and updated at key stages of a project. Through a cloud-based software solution, the company is assisting mechanical, electrical and plumbing trades professionals to develop workflow solutions for the construction element of their jobs. The software offers users an intuitive tool they can use to plan, collaborate, order, fabricate and track jobs with lean construction methodologies. We see great opportunities to work with our larger customers to create efficiencies throughout the entire lifecycle of a project from planning to ongoing maintenance.

Quarterly organic revenue growth rate in the USA
%



Sustainability

We are conscious of our opportunity to help our customers and suppliers to develop sustainably and to minimise any adverse impact of our operations on the environment. We continue to make steady progress on our sustainability programme this year and you can read about our progress on pages 40 to 43. This year we have rejuvenated our health and safety programme in order to achieve a much better performance and in the second half of the year we have made encouraging progress. We have launched several new initiatives across the Group including the establishment of a Health and Safety Committee in the US providing the right senior executive level oversight and monitoring of health and safety issues. Hannah Sesay joined the Group to provide strong functional leadership. Hannah is an experienced executive and has led safety and environmental teams at American Express, Nabisco, BAE Systems and Amec Foster Wheeler.

For major incidents we now initiate a safety stand down within 24 hours to draw immediate attention and awareness to it. An investigation of the incident is conducted and an injury review panel convened to analyse the findings of the investigations, discuss root causes and share key lessons learned across the organisation. In the USA, we launched our "First in Safety" campaign designed to give greater visibility to our actions and embed safety into our culture.

These are small steps but the business is starting to see improvements in the monthly health and safety key performance indicators, though we still have a long way to go to fulfil our ambition to be best in class.

Acquisitions and disposals

The majority of our growth is organic and our first priority for the deployment of capital and resources is to support our organic growth. As you can see in the chart above, in the USA, we have consistently generated organic revenue growth 3-4 per cent ahead of the market for many years. We also actively search for acquisitions that will deliver attractive returns, improve our market leadership positions or expand the capabilities of our existing business model. This year we have acquired new e-commerce capabilities and own brand businesses to expand the categories of products we provide to our customers.

During the year, we completed 13 acquisitions with annualised revenue of $435 million in the USA and Canada. Since the year end, we have completed three further acquisitions with annualised revenue of $415 million.

In March, we completed the sale of Stark Group, our Nordics building materials business, which funded the $1 billion special dividend paid at the end of June. In addition, we have recently announced our intention to dispose of Wasco, our Dutch plumbing and heating business. The business has a strong leadership team and dedicated workforce and has consistently delivered strong financial performance, but there are few synergies with the other businesses in the Group.

People

Looking back on the last year, I am most proud of our associates and my colleagues in the leadership team. Their passion for delivering great service to our customers and for executing our strategies is remarkable and their pursuit of short-term goals and long-term strategic development is relentless. I would like to thank all our associates for their commitment and hard work during the year. The connection our associates have to our customers and our business is evident in our outstanding engagement surveys and net promoter scores (see pages 24 to 26), which provides a great foundation for the next stage of development of our Company.

Outlook

In the first eight weeks of our new financial year organic revenue growth has been broadly in line with the overall growth rate last year, though growth in September was slightly lower than August. The growth in our order books suggests continued growth in the months ahead.

John Martin
Group Chief Executive

Our markets are large and fragmented with strong growth characteristics

The USA continues to be our largest market with the greatest growth opportunities. It has strong growth characteristics and is highly fragmented with no market dominated by any single distributor.

Market characteristics and opportunities

Average customer basket of goods

Ferguson serves over one million customers. In the USA, the average basket size is five products valued at approximately $700.

Customers' needs are local

The customer base is fragmented. Professional contractors typically operate within 20 miles of their home base and may visit their local branch several times per week. In addition, they continue to increase the usage of digital channels which complement their working patterns.

Large supplier base

Ferguson distributes over one million products from approximately 43,000 suppliers across the world.

Clear need for distributors in the supply chain

Distributors, including Ferguson, bridge the gap between a fragmented supplier base and the large and geographically dispersed professional customer base.

Highly fragmented industry

Our markets are typically highly fragmented, with few large players in the industry.

Benefits of scale

Due to scale benefits, market leaders can perform better through the economic cycle and customers have quicker access to products.

Strong organic growth opportunities

Market characteristics support long-term organic growth opportunities.

Bolt-on acquisition opportunities

Ferguson has a large database of targets to support continued growth.

Market growth drivers

Population growth

Total population growth of more than 6 per cent is expected in the USA in the next decade.

Source: United Nations Department of Economic and Social Affairs.

Housing transactions

Existing single family home sales continue to grow while remaining significantly below the previous peak.

Source: National Association of Realtors.

Consumer confidence

In the USA, consumer confidence in 2018 was high, August 2018 was the highest in 18 years. There is a strong correlation between consumer confidence and activity levels in our markets.

Source: The Conference Board.

Ageing housing stock

42 years

The median age of homes in the USA is 42 years. There is high demand for repairs, maintenance and improvement in the large installed base of existing homes.

Source: US Department of Housing and Urban Development.

Increased comfort levels in homes

80%

80% of new homes in the USA have two or more bathrooms. There is a trend towards increasing levels of comfort in homes.

Source: US Department of Housing and Urban Development.

Disposable income

No.1

The USA has the highest levels of disposable income per household in the OECD.

Source: Organisation for Economic Co-operation and Development ("OECD").

For further information on the regional markets we operate in, please see pages 34 to 39.

Our business model

How we create value

We are a specialist distributor adding value through the expertise of our people, our scale, bespoke logistics network and use of technology. We bridge the gap between 43,000 suppliers and over one million customers offering the widest range of products and solutions.

Key resources and relationships

+ Pages 24 to 27

Our people
The differentiator in our ability to deliver outstanding customer service for our customers

Our customers
Sole traders, small businesses up to large contractors and construction companies

Our suppliers
Manufacture over one million products worldwide

Channels to market
Branches, e-commerce, showrooms and call centres

Technology
Ongoing investment to improve our business

Distribution network
Distribution centres, branches, showrooms and specialist vehicle fleets

Capital
A strong balance sheet to enable ongoing investment

For detail on the structure of our business and the markets in which we operate, see pages 14 and 15.

Source

43,000

We have a diverse supplier base of 43,000 suppliers sourcing over one million products from around the world, which gives us access to a broad range of products

Suppliers

Distribute

1 million

Our suppliers deliver over one million products in bulk to our network of 19 distribution centres, to branches or directly to our customers

Distribution centres

2,280

In total, we operate 2,280 branches so that our customers do not have to travel far to buy from us

Branches

Our strategy underpins our ability to create value

Sell

How we deliver to customers

12%
Direct from suppliers

6%
Direct from distribution centres

26%
Collected from branches

56%
Delivered from branches

How our customers buy

+1m
Customers

68%
Sales through our branches

10%
Sales through showrooms

21%
Sales through e-commerce

1%
Sales through central account management

24/7
E-commerce offers an extension of our world class service to make sure customers can choose from the industry's largest selection of online products 24/7

Online

Pages 16 to 20

Outcomes of what we do

Great returns for our shareholders
Pages 12 and 13

Engaged and well-trained workforce
Pages 24 to 26

Loyal, satisfied customers
Page 26

Efficient branch and logistics network
Pages 26 and 27

Reduced carbon emissions and waste
Page 43

Increased adoption of "eco" products
Page 41

Serving our customers

We provide our suppliers a cost effective route to market and our customers specialist advice on a wide range of products available where and when they are required. Our resources and relationships are crucial in serving our customers effectively and ultimately, delivering profitable growth.

Our people

35,000
associates

Our associates are fundamental to the success of our business. They deliver exceptional customer service and develop strong and enduring relationships with customers whilst maximising their own effectiveness and helping us to adopt new operating models. One of our Group Values is that "We value our people" and our "Better Business" sustainability framework focuses on six people related areas which you can read more about in this section and on pages 40 to 42.

+ Pages 40 to 42

Leadership

Making our business more successful relies on the effectiveness of our leaders and their people. We have seen a number of external and internal succession appointments within the USA to leadership positions this year, enabling us to broaden the experience, knowledge and diversity of our leaders.

Talent management and development

In 2017/18, we welcomed 600 college graduates to our business in the USA, 200 more than in 2016/17. They will join 7,600 current associates who have higher education degrees, approximately 29 per cent of the US workforce. Our investment in targeted talent management and development remains a key strategic priority.

The College of Ferguson centralised training model has been implemented across the USA to improve participants' speed-to-impact by introducing new associates to the culture and environments representative of their role and responsibilities. You can read more about this in the case study on page 18.

In the UK, individual talent assessments on the senior management team resulted in tailored development plans, all aimed at driving improved business performance.

Micah's journey

Micah Harris, Director of Commercial Business, South Plains, USA, is a great example of the opportunities Ferguson provides for our people to grow and develop into future leaders. We aim to develop a culture where every associate can realise their full potential in the business. In 12 years, Micah has moved from a sales associate in Texas to become Director of Commercial Business, where he is responsible for leading the development, communication and implementation of effective growth strategies.

Competitive pay and reward

Celebrating success through our reward programmes reinforces the way we do business. Every year, across the Group we review our incentive programmes, from branch and sales associates through to our leaders, to ensure they continue to reward high performance as well as driving the right behaviours that support our corporate objectives and introduce new incentives or re-develop existing ones where appropriate. We adjust measures to suit the type of role or team, but typically incentivise associates based on combinations of growth in trading profit, gross profit, average cash-to-cash days and net promoter score. For more information on remuneration please see pages 70 to 96.

+ Pages 70 to 96

In the USA, we have a number of well established recognition programmes including the President's Club which recognises our top performing outside sales associates; the President's Circle, recognising top performing sales associates and sales managers; and the President's Gallery, honouring showroom sales associates which recognises outstanding contributions that support profitable growth in the field. The Bob Wells Leadership Award, is presented to a remarkable Ferguson sales associate who consistently demonstrates exceptional sales leadership and performance.

In the UK, we have several recognition programmes; the Top 10% Club recognises top performing sales associates and the branch of the year award recognises consistent operational outperformance.

We are in the process of embedding a high performance culture in Canada and currently have informal regional sales recognition programmes in place. We have begun to design a national programme that will recognise high performers more formally and take into account local needs and best practice.

For our 2018/19 financial year, we are redesigning our Group-wide long-term incentive programme, which will reward our leaders and senior managers for improved trading profit performance in our different businesses. Our investment in this programme is overseen by the Remuneration Committee.

Associate engagement

All businesses in the Group measure associate engagement and take action to identify improvements locally, regionally and nationally. It is essential for our continued success that associates are able to express their opinions and views which are listened to by our leaders. Our associates across all the teams in sales, branches, contact, logistics and distribution centres are critical to our success, through the relationships they build with all our customers, whether big or small. Our associate engagement scores which, over the past six years, have consistently exceeded 75 per cent (well above industry averages), with an improvement in the score in 2017/18 by 6.6 points in comparison with the prior year. For more information see the KPIs section on pages 28 and 29.

+ Pages 28 to 29

Rebuilding lives in Oklahoma

In June, Ferguson reopened a branch in Tulsa, Oklahoma just 10 months after it was devastated by two tornadoes that blew through the City. As with all natural disasters, Ferguson has robust business continuity plans and notified the branch in advance of the weather event. After ensuring that our associates and customers were safe, our teams worked with local leadership to survey the damage and check on the 42 associates who work in the area.

While several other area businesses that were hit during the tornado remained closed, we were committed to looking after our associates and ensured they could find alternate assignments at other local branches while the rebuild was underway. When the branch reopened 10 months later, all affected associates returned to that branch.

In our UK business, which has undergone significant change over the last two years, the associate engagement survey scores have remained consistent whilst participation has been over 70 per cent for the last few years. The associate forum which was established to help drive the restructuring programme has continued to provide support for associates and helped inform decision-making. Formal consultation processes continue to run in parallel, where appropriate, ensuring all our associates can be reassured that all changes are managed openly and fairly.

The Canadian team is concentrating on building organisational capability in key skill areas with a focus on identifying and developing top talent. For example, partnering with top tier universities for internships and innovative projects. The team is also building a talent development curriculum to provide the core skills required by our associates to deliver exceptional customer service.

Diversity and inclusion

We want access to the best talent irrespective of gender, race, sexual orientation or background. The Board has a 50:50 balance of males and females in our Non Executive Directors. We have reviewed and updated our Board diversity policy which you can read more about on page 61.

+ Page 61

Following the appointment of John Martin as Group Chief Executive last year there has been a significant change in the composition of our Executive Committee. Whilst we have work to do, we are making progress with an increase in women to two out of the nine members. Additionally, there was a small increase in the number of women at senior management positions across the Group, up three per cent.

+ Pages 42 to 43

Our recruitment practices factor in under-represented groups and we insist on balanced candidate lists when using executive search firms. In the UK, the government requires certain businesses to declare their gender pay gap. The UK business has a 4.16 per cent gap in base pay compared to the UK average of 18.4 per cent. We are deploying strategies now to eliminate the pay gap entirely.

We are in the process of reviewing our Group Diversity Policy which will build on our present practices where, like many businesses, we continue to identify and remove any potential for unconscious bias in our employment and promotion practices. For more information on our approach to diversity see page 61.

+ Page 61

Health and safety

Caring for our associates' health and safety is at the heart of the Group's values. We are committed to ensuring that the safety of our associates and our customers is never compromised. We have made considerable progress in improving our Health and Safety programmes this year under the leadership of a new Group Vice President of Health and Safety, Hannah Sesay. Specific changes have been implemented this year to improve safety behaviour in the USA which include:

1) Established an Executive Health and Safety Committee:

This Committee is responsible for providing oversight and monitoring health and safety issues across the USA, led by Chief Operating Officer, Alex Hutcherson.

2) Established a major injury review panel:

The panel reviews all accidents that cause a major injury to understand why and how they occurred to minimise the recurring risk.

3) Toolbox talks:

A "toolbox talk" is an informal safety meeting that focuses on safety topics related to the specific job, such as workplace hazards and safe work practices. These meetings are normally short in duration and are generally conducted prior to the commencement of a work shift.

4) Safety moments:

All significant meetings across our Group are now starting with a "safety moment" from the associate hosting the meeting. Safety Moments are short, informal talks about safety issues to keep safe behaviour front of mind.

5) Safety stand downs:

When an accident occurs in one location involving a task that is performed at multiple locations a "safety stand down" is initiated across all those locations. For example, if an accident in a pipe yard occurs, all national pipe yards are to hold a safety stand down where the root cause of, and key learnings from, the accident are shared and actions implemented to minimise the risk of the accident occurring again. This happens within 24 hours of notification and all work must cease at that location until the stand down has been completed.

6) Launch of "First in Safety" campaign: An internal communications campaign was launched in 2017/18 targeting all US associates with the aim of keeping safety front of mind and part of our culture.

The UK and Canada have seen improvements in key health and safety metrics. In the UK, the main focus was to reduce lost time injuries which we achieved by reducing the injury rate by almost half. In Canada, the focus this year was on implementing preventative controls on high risk injury causes.

Following these initiatives, the business is beginning to record improvements in the current health and safety key performance indicators.

+ Pages 40 to 43

Ethical behaviour and human rights

We are committed to complying with the law and to operating under the highest ethical standards. This protects us from business disruption; it also strengthens our reputation with customers, suppliers and other stakeholders. Our Code of Conduct is dedicated to helping each of our associates to comply with our values on a daily basis and guide them in their decisions and interactions. Our Code of Conduct in the USA was updated during 2017/18 and features question and answer sections to provide real life examples of our values in action.

All of our businesses provide training for relevant associates on anti-corruption, anti-trust and modern slavery matters. This is typically provided through online training material and face-to-face training is also provided. Training is provided for new associates on induction.

For information on ethical behaviour in our supply chain, please refer to page 40 to 43.

+ Pages 40 to 43

Our customers

over
1 million
customers

Our customers rely on us for high levels of availability on a broad range of products, ready for collection or delivery when and where they need it. Our customers value high quality and efficient service from local relationships, competitive pricing, account based credit and billing and order accuracy. They also want flexibility in choosing the most convenient way to do business with us, whether in a branch, by phone or online. These are the basic transactional aspects of our business which need to be executed consistently. Additionally, customers rely on Ferguson for a range of additional services and advice that we offer. For example, outside sales associates often visit customers at their job sites and support them when they are bidding for work. An overview of these services is set out on page 1 and in the case study examples on pages 2 to 11.

+ Pages 1 to 11

We operate our business responsibly so that our customers can feel confident that we look after our associates, provide safe and high-quality products, operate efficiently and actively contribute to the communities in which we operate. We consult with key customers each year to understand their business needs and their sustainability priorities so that we can continually evolve our business to meet their expectations. Where the market demand exists, we promote sustainable products and provide training and advice to customers to support growth in these new product categories. Customers of Build.com in the USA can filter their product search to view products with recognised national environmental labels.

+ Page 42 and 43

Our suppliers

43,000
suppliers

We have 43,000 reputable suppliers manufacturing over one million products around the world. This gives us access to a diverse and broad range of quality products.

While the product is incredibly important, an equally essential part of the equation is the expert knowledge that we bring. We are frequently asked by our customers to help them find a suitable product to meet a specific need. The expert guidance that we offer is based on a broad knowledge of the supplier landscape. Our logistics network, which connects these suppliers to our customers, is a key differentiator.

Our leading market positions enable our central sourcing teams in each region to leverage our scale and negotiate competitive prices in return for access to over one million customers.

We work with our suppliers to ensure that they are reliable and ethical and that their products are fully compliant with the laws and regulations of the countries in which we operate. This provides protection to us and our customers in the event of a product failure or breach of regulation in the supply chain. On the rare occasion that a product is faulty, customers have the confidence of knowing that we will support them.

+ Pages 40 to 43

Channels to market

2,280
branches

Our customers interact with us through multiple sales channels on a 24/7 basis which is often a combination of branches, showrooms, transactional websites, call centres and inside/outside sales teams. We conduct the majority of our business through sales associates or consultants.

A large proportion of the business is still conducted through our branches and our extensive branch network means customers minimise the distance they travel to buy from us and visit several times a week. The branch network is also an important delivery channel particularly when customers need immediate availability.

This multi-channel approach allows our customers to access products and advice 24 hours a day, seven days a week, whenever it is required.

We manage our estate very carefully to ensure the health and safety of our associates, customers, suppliers and any other visitors.

Health and safety risk assessments and branch audits are carried out regularly so that we maintain our equipment and product racking and are prepared for any potential emergency incident. Our insurers also support these efforts, undertaking their own safety assessments at selected key sites each year.

Our buildings generate about 30 per cent of the Group's carbon usage. This includes electricity and fuels consumed for heating or cooling. Each business has targets to reduce carbon and the associated energy consumption, relative to revenue. Our online sales channels, available through any device, allow our customers to reduce their environmental impact as travel to our branches for product advice or product collection is reduced.

For information about our environmental efficiency efforts see page 40 to 43.

+ Pages 40 to 43

For information about our health and safety programme see pages 40 to 43.

+ Pages 40 to 43

Technology

21%

proportion of Group revenue from e-commerce activities

We are continually investing in technology to improve the customer experience, retain existing customers and win new ones. Technology investments are aimed at improving execution and efficiency in all areas of our business from warehousing, fleet, inventory and customer relationship management to back-office human resources and financial management and reporting systems.

We have a clearly defined technology strategy and roadmap. This provides a clear route forward for the development of our order and transaction management systems. We are increasing our focus on strategic investments which will mean we have many order capture channels that feed into one fulfilment and transaction platform connected through cloud-based systems. Our aim is to provide a seamless experience for our customers no matter what sales order channel they use. Our associates will spend less time processing orders and more time interacting with our customers, enhancing productivity and customer service and relationships.

+ Pages 16 to 20

Distribution network

5,900

fleet vehicles

To ensure the availability of a wide range of products to our customers we continue to invest in our extensive distribution network and large vehicle fleet. Our customers rely upon us for prompt and flexible delivery options to meet their own needs, such as specialist vehicles and same day delivery. Suppliers deliver to our distribution centres, our branches or directly to our customers.

We predominantly distribute from branches to customers, though increasingly, in large metropolitan areas we are using specialist market distribution centres to centralise final mile logistics and reduce fleet and distribution costs.

During the year, we undertook a detailed analysis of our entire US supply chain network. We have identified several opportunities to improve network efficiency which will increase product flow for greater network speed, mitigate double handling, bring the network closer to our customers for same day/next day delivery, and support our e-commerce channel capabilities. For example, in Perris, California, we are building a new distribution centre to serve one of the largest plumbing and heating markets in the world and we expect it to be fully operational in 2019.

By capitalising on these efficiencies, we are not only reducing the cost to our customers, but also reducing our carbon footprint. More than half our carbon footprint is generated by transport.

Within the distribution network we have reduced our carbon emissions through improved fleet operations. Following the implementation of a telematics system, our US operations began implementing regenerative braking technology into fleet vehicles. As in prior years, each of our businesses has performance targets to reduce carbon and the associated costs for transport and fuel, relative to revenue. These emission reduction projects ensure that we are able to meet our goals for environmental performance in addition to our financial goals.

Our branches continue to utilise our distribution networks to send recyclable waste back to distribution centres for sorting, baling and weighing. When returned products are unable to be resold, they are also transported back to our distribution centres where we aim to reduce or re-use these products to avoid landfill.

For information about our environmental efficiency efforts and health and safety see page 40 to 43.

+ Pages 40 to 43

Packaging efficiency savings

A recent efficiency improvement identified within the distribution network relates to packaging. New "Packsize" packaging machines allow us to print the actual dimensions of a package in order to ensure that each parcel is shipped in the most efficient way, minimising waste. Several of our distribution centres have had these machines installed, which has resulted in efficiency savings.

Key performance indicators (“KPIs”)

Measuring our progress

We have reviewed and aligned our KPIs to our strategic drivers set out in detail on page 16.

Engaged associates | Excellent service ethic | Strong sales culture | Organic expansion | Bolt-on acquisitions | Adjacent opportunities | Operating model and e-commerce development | Pricing discipline | Own brand penetration

Organic revenue growth[2]

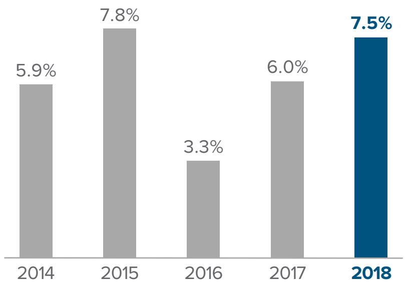
Replacement[1]

Definition

The percentage increase or decrease in revenue year-on-year excluding the effect of currency exchange, acquisitions and disposals and trading days.

The measured KPI has changed from like-for-like revenue growth to organic revenue growth in line with the change in management reporting.

Performance



+7.5%

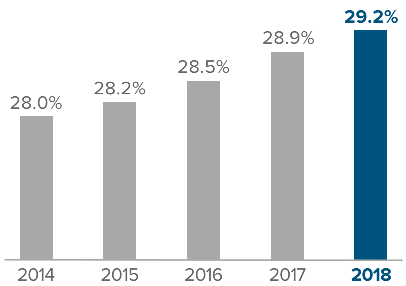
Organic revenue growth was 7.5 per cent in 2017/18. The improved growth rate from 2016/17 was due to a strong outperformance of the market in the USA, see page 37 for further detail.

Ongoing gross margin[2]

Definition

The ratio of ongoing gross profit, excluding exceptional items, to ongoing revenue.

Performance



+0.3%

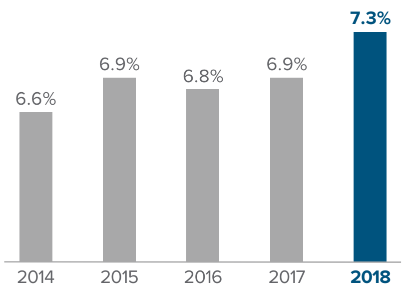
Gross margin improved by 30 basis points compared to 2016/17 principally as a result of the USA and Canada and Central Europe improving their mix of business towards higher margin product categories and improved procurement.

Ongoing trading margin[2]

Definition

The ratio of ongoing trading profit to ongoing revenue.

Performance



+0.4%

The trading margin improved and rose to 7.3 per cent. Revenue growth was good and flowed well in to trading profit due to gross margin improvements and operating cost efficiencies.

Operating cash flow

Replacement[1]

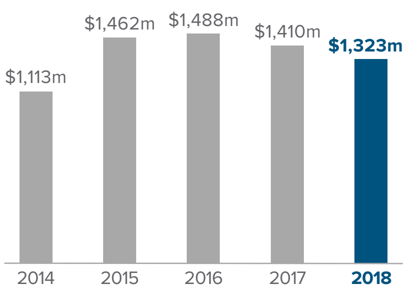
Definition

Cash generated from operations before interest and tax.

The measured KPI has changed from average cash-to-cash days to operating cash flow. Operating cash flow is one of three performance measures for awards under the Long Term Incentive Plan (“LTIP”) and is a relevant measure of performance and working capital efficiency, see Directors’ Remuneration Report on page 86 for more information.

All

Performance



$1,323m

Cash flow from operations was $1.3 billion in the year. Continued good cash flow is a key part of the Group’s long-term generation of cash to fund investment and returns to shareholders.

1. We have reviewed the KPIs for the Group. Two KPIs have been replaced with metrics that are better aligned to the strategic drivers and one new KPI has been added.
2. This is an APM, for further information on APMs, including a description of our policy, purpose, definitions and reconciliations to equivalent IFRS statutory measures, see note 2 and 3 on pages 107 to 112.

Own brand percentage of revenue

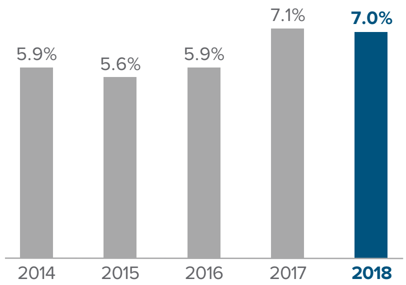
New[1]

Definition

The proportion of revenue from own brand products to total revenue.

Own brand percentage of revenue has been added as a KPI. Growing the percentage of own brand revenue is a key driver of profitable growth, see page 16 to 20 for further details.

Performance



-0.1%

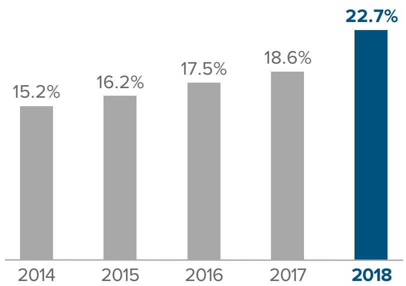
The percentage of own brand revenue decreased by 0.1 per cent in 2017/18 to 7.0 per cent. All regions grew own brand revenue, but at a lower rate than total revenue growth in the USA and Canada and Central Europe.

Return on gross capital employed[2]

Definition

The ratio of trading profit to the average year-end aggregate of shareholders' equity, adjusted net debt and cumulative goodwill and other acquired intangible assets written off. This is for continuing and discontinued operations.

Performance



+22.7%

Return on gross capital employed was 22.7 per cent which remains at attractive levels. This is in line with our investment case and long-term objective of generating attractive returns on capital.

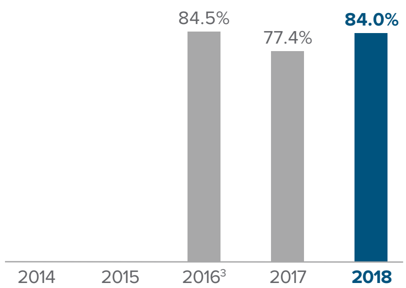
Changing the Group's presentational currency to US dollars has changed the return on gross capital employed in prior years, no other changes have been made to the history.

Associate engagement

Definition

Engaged associates deliver excellent customer service, consequently we measure associate engagement in every region. Engagement surveys are periodically sent to associates at all levels asking: "Would you recommend Ferguson as a place to work to a good friend?"

Performance



84.0%

The process of tracking and reporting engagement differs by region, therefore an example is given for the USA. Average engagement was 84.0 per cent and remains a very high score, well above industry averages. See Key Resources and Relationships on pages 24 and 25 for more information.

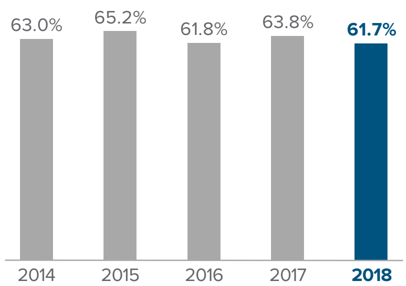
3. A new methodology using an annual associate-wide survey rather than more frequent pulse surveys, was launched in 2016.

Customer service

Definition

There is a good correlation in our business between high customer service scores in a branch and better financial performance. The net promoter score is a means of measuring customer service. The survey asks: "How likely is it that you would recommend Ferguson to a friend or colleague?" and customers respond with a score between zero (bad) and 10 (exceptional). We look at the four quarter average of the proportion of customers who scored nine or more, less those customers scoring six or less. The methodology was changed in 2017 and prior years restated to weight the responses by business unit revenue.

Performance



61.7%

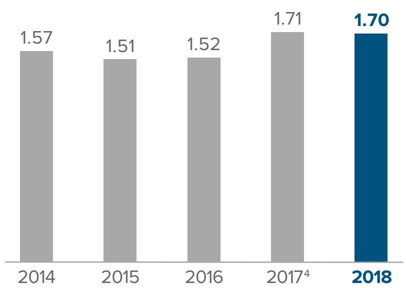
The process of tracking and reporting customer service differs by region, therefore an example is given for the USA. The average net promoter score remains an excellent score and is best in class in our industry and is among the highest levels achieved in any industry.

Injury rate

Definition

Total number of injuries per 100,000 hours worked. The numbers are based on injuries requiring an associate to leave the workplace for medical treatment. The hours worked are calculated using full-time equivalent associate numbers and average work days by business and assume an eight-hour working day. This is for continuing and discontinued operations.

Performance



0.6% improvement

Injuries requiring medical treatment per 100,000 hours worked improved by 0.6 per cent compared to the previous year. This is primarily as a result of the increased focus on health and safety. See the Sustainability section for more information on pages 40 to 43.

4. Prior year data has been restated to reflect improved historic data.

Financial and operating review

Strong financial performance

Ferguson delivered a good set of results, gaining market share in supportive markets in the US, which account for 90 per cent of trading profit. Market conditions were also good in Canada where we continued to make progress, though weaker in the UK where we are executing the restructuring plan.

Mike Powell
Group Chief Financial Officer

Key highlights

- Revenue growth of 7.6 per cent including ongoing organic revenue growth of 7.5 per cent, driven by the USA
- Ongoing gross margin expansion of 30 basis points, ongoing trading profit margin up 40 basis points
- Completed 13 acquisitions for total consideration of $415 million with 5 further acquisitions since year-end for consideration of $240 million
- Returned over $2 billion to shareholders during the year and increased the ordinary dividend by 21 per cent, including a 10 per cent upwards re-basing

Statutory results

The financial results have been prepared under IFRS and the Group's accounting policies are set out on pages 102 to 106.

The Group changed its presentational currency to US dollars, to better align with the Group's operations, which generate the majority of revenue and profit in US dollars, and is expected to reduce the impact of foreign exchange rate movements. The change in presentational currency was effective from 1 August 2017 and, in line with IAS 21, is accounted for retrospectively and all comparatives have been restated.

Continuing operations	2018 $m	Restated 2017 $m
Revenue	**20,752**	19,284
Operating profit	**1,360**	1,478
Net finance costs	**(53)**	(54)
Share of profit/(loss) after tax of associates	**2**	(1)
Impairment of interests in associates	**(122)**	–
Profit before tax	**1,187**	1,423
Tax	**(346)**	(370)
Profit from continuing operations	**841**	1,053
Profit/(loss) from discontinued operations	**426**	(133)
Profit for the year attributable to shareholders	**1,267**	920

Revenue of $20,752 million (2016/17: $19,284 million) was 7.6 per cent ahead of last year which included the results of two disposals for part of the year.

Operating profit of $1,360 million (2016/17: $1,478 million) was lower than last year, with profit growth in the operating segments more than offset by a one-off exceptional gain on disposal in the prior year of $265 million.

Profit for the year attributable to shareholders increased to $1,267 million (2016/17: $920 million) due to the reduction in operating profit and the impairment of interests in associates being more than offset by the gain on disposal within profit from discontinued operations.

Reconciliation between ongoing trading profit and statutory operating profit

In order to monitor performance on a consistent basis the Group uses certain alternative performance measures which enable it to assess the underlying performance of its businesses. The Group's key financial performance metric is "Trading Profit" which is operating profit before exceptional items and the amortisation and impairment of acquired intangible assets. The Group's definition of exceptional items includes costs incurred on major restructuring programmes, gains or losses on disposal of businesses and other significant one-off items.

In accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", the Group has businesses which were classified as discontinued operations in the current and prior year and are excluded from continuing operations. In addition, the Group has disposed of a number of businesses which do not satisfy the criteria of IFRS 5 and are therefore included in the Group's results from continuing operations. The results from disposed businesses included in the Group's continuing operations, referred to as "non-ongoing" operations, are excluded from the Group's alternative performance measure of "ongoing" results. Any reference to "ongoing" operations excludes the performance of the Group's discontinued and "non-ongoing" businesses.

See note 2 on pages 107 to 109 for further information, definitions and reconciliations of alternative performance measures.

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

	2018 $m	Restated 2017 $m
Ongoing trading profit	**1,507**	1,307
Non-ongoing trading profit	**–**	34
Continuing trading profit	**1,507**	1,341
Amortisation of acquired intangible assets	**(65)**	(81)
Exceptional items	**(82)**	218
Statutory operating profit	**1,360**	1,478

Operating profit

Performance of the ongoing business

	2018 $m	Restated 2017 $m	Growth %	Growth at constant exchange rates %
Revenue	**20,752**	18,845	+10.1%	+8.8%
Gross profit	**6,063**	5,448	+11.3%	+10.2%
Operating expenses	**(4,556)**	(4,141)	+10.0%	+8.7%
Trading profit	**1,507**	1,307	+15.3%	+14.7%
Gross margin	**29.2%**	28.9%	+0.3%	
Trading margin	**7.3%**	6.9%	+0.4%	

Ongoing revenue of $20,752 million (2016/17: $18,845 million) was 10.1 per cent ahead, with growth driven by the USA, Canada and Central Europe. Ongoing organic revenue growth was 7.5 per cent, with a further 1.3 per cent of growth from acquisitions and 1.3 per cent from favourable movements in foreign exchange rates. Ongoing gross margin of 29.2 per cent (2016/17: 28.9 per cent) was 30 basis points ahead driven by improved procurement and disciplined pricing. Ongoing operating expenses were 8.7 per cent higher at constant exchange rates and included 1.2 per cent from acquisitions.

Ongoing trading profit was $1,507 million (2016/17: $1,307 million), 14.7 per cent ahead of last year at constant exchange rates. The ongoing trading margin was 40 basis points ahead of last year at 7.3 per cent. Foreign exchange rate movements increased revenue by $229 million and trading profit by $7 million. The number of trading days was the same in both years.

Non-ongoing trading profit

In the prior year, the Group's non-ongoing businesses, which comprised a small non-core Industrial business, Endries, in the USA and its Swiss business, Tobler, generated revenue of $439 million and trading profit of $34 million.

Amortisation of acquired intangible assets

Amortisation of $65 million (2016/17: $81 million) represents the charge in respect of the Group's acquired intangible assets.

The Group reviews the carrying value of its goodwill and acquired intangible assets annually and when there is an indicator of impairment during the year. No impairment of goodwill or acquired intangible assets was identified as part of the annual review. Goodwill, with a carrying value of $1,408 million (2016/17: $1,173 million), remains on the balance sheet and is supported by the value in use calculations.

Exceptional items

Net exceptional charges in operating profit totalled $82 million in the year (2016/17: $218 million credit), comprising $72 million restructuring charges and $10 million of other exceptional charges. The restructuring charges were primarily in relation to the UK turnaround strategy and principally comprised redundancy costs, property closure costs, asset write offs and implementation costs. Other exceptional charges include a $5 million settlement cost on the closure of a defined benefit pension plan in the USA.

Net finance costs

Net finance costs were $53 million (2016/17: $54 million). This was due to a lower level of average net debt in the year from holding the Nordics disposal proceeds, partially offset by increases in underlying USA interest rates.

Impairment of interests in associates

The Group reviews the carrying value of its investments in associates annually and when there is an indicator of impairment. During the year, our Swiss associate issued a number of public market announcements regarding difficult trading conditions and the temporary suspension of dividends which generated a trigger event for management to reassess the recoverability of the carrying value recognised in the Group's consolidated financial statements. This assessment resulted in an impairment charge of $122 million.

Tax

Ferguson plc is tax resident in Switzerland. The Group's operations are international with 90 per cent of the Group's ongoing trading profit generated in the USA, 5 per cent generated in the UK and 5 per cent in other overseas territories before central costs. The Group's profits are therefore subject to different overseas tax rates and tax laws.

Other than intra-group financing and the recharging of shared management services costs, the Group currently has no significant transfer pricing arrangements.

The Group's Tax Strategy is to maintain the highest standards of tax compliance. We support the execution of the Ferguson business strategy by managing our tax affairs in full compliance with local laws and international guidelines while seeking to maximise shareholder value and serving the interest of all our stakeholders. The Group Tax Strategy can be found at **www.fergusonplc.com**.

The Group incurred a tax charge of $346 million (2016/17: $370 million) on profit before tax of $1,187 million (2016/17: $1,423 million) resulting in an effective tax rate of 29.1 per cent (2016/17: 26.0 per cent). The ongoing tax charge is $364 million (2016/17: $351 million) which equates to an ongoing effective tax rate of 25.0 per cent (2016/17: 28.0 per cent) on the ongoing profit before tax, exceptional items, the amortisation and impairment of acquired intangible assets and the impairment of interests in associates of $1,456 million (2016/17: $1,253 million).

The wider macro political and economic situation is uncertain in many of the territories in which Ferguson operates and changes could affect the Group's future tax rate. A combination of growing international trade pressures, withdrawal of quantitative easing by central banks and rising debt levels is creating political uncertainty which could lead to changes to the prevailing tax regime. As a result, we anticipate that the effective tax rate may increase over the medium term. The Company is engaged with the relevant tax authorities and will ensure any changes are reflected in Ferguson's tax strategy.

The Group will continue to monitor and assess all external developments which could potentially impact the rate.

The Group paid $234 million (2016/17: $393 million) in corporation tax in the year. The corporation tax paid in the year will typically differ to the total tax charge in the income statement as a result of:

– non-cash deferred tax expense or income arising from accounting requirements in IAS 12: "Income Taxes" to recognise tax which may become payable or recoverable in future periods;
– adjustments to the current year's tax charge in respect of the under or over provision of tax for prior years; and
– timing differences between when tax is reflected as a charge in the accounts and when it is paid to the tax authority.

Discontinued operations

Discontinued operations include the results of the Nordic region and France. The result from discontinued operations is comprised as follows:

	2018 $m	Restated 2017 $m
Discontinued trading profit	59	80
Amortisation of acquired intangible assets	–	(6)
Impairment of goodwill and acquired intangible assets	–	(129)
Finance costs	(6)	(5)
Exceptional items after tax	404	(73)
Tax	(31)	–
Profit/(loss) from discontinued operations	**426**	(133)

Discontinued trading profit represents the results of the Nordic region for the eight months of ownership (2016/17: 12 months) and the results relating to the remaining French property assets.

Discontinued exceptional items in the current year are primarily comprised of a gain on disposal of Stark Group, gains from the sale of Nordic property assets and an impairment charge for the remaining Nordic properties.

Earnings per share

Headline earnings per share increased by 21.4 per cent from 366.1 cents to 444.4 cents. Basic earnings per share from continuing operations were 342.3 cents and diluted earnings per share were 339.8 cents. Total basic earnings per share, including discontinued operations, were 515.7 cents and total diluted earnings per share were 511.9 cents.

Cash flow

The Group has continued to generate strong cash flows during the year with cash generated from operations of $1,323 million (2016/17: $1,410 million) and a good cash conversion ratio of cash generated from operations/adjusted EBITDA of 76 per cent (2016/17: 86 per cent). Cash generated from operations includes one-off payments to pension plans of $99 million. Without this, the cash conversion ratio would have been 81 per cent.

	2018 $m	Restated 2017 $m
Cash generated from operations	1,323	1,410
Interest and tax	(287)	(460)
Acquisitions and capital expenditure	(715)	(555)
Disposal proceeds	1,440	346
Dividends paid	(1,359)	(328)
Net purchase of shares by EBT	(41)	(8)
Net (purchase of)/proceeds from Treasury shares	(651)	27
Foreign exchange and other items	(84)	100
Movement in net debt	**(374)**	532

Acquisitions and capital expenditure

Acquisitions are an important part of our growth model and during the year we invested $415 million in 13 bolt-on acquisitions, principally in the USA. Since the year-end, the Group has acquired five businesses, four in the USA and one in Canada, for total consideration of $240 million, with a combined annual revenue of $171 million. These acquisitions include Plumbing Holdings Corporation (trading as Jones Stephens), a master distributor of own brand plumbing speciality products which was acquired to further develop our product strategy and expand our customer base in the USA.

The strategy of investing in the development of the Group's business models is supported by capital expenditure of $299 million (2016/17: $224 million). This investment was primarily for strategic projects to support future growth such as distribution hubs, technology, processes and network infrastructure.

As at 31 July 2018, the Group had total operating lease commitments of $1,081 million (2016/17: $1,129 million). There continues to be capacity for revenue growth utilising the existing branch infrastructure and we will remain cautious when considering new lease commitments. Additional information can be found in note 32 on page 139.

Returns to shareholders

The Group paid an interim dividend of 57.4 cents per share (2016/17: 36.67 pence per share) amounting to $142 million. A final dividend of 131.9 cents per share (2016/17: 73.33 pence per share), equivalent to $304 million is proposed. This brings the total ordinary dividend for 2017/18 to 189.3 cents per share, an increase of 21 per cent, which includes an upward re-basing by 10 per cent.

The Group paid a special dividend of $4 per share amounting to $974 million in June 2018 following the receipt of the proceeds from the disposal of Stark Group.

The Group completed the $675 million (£500 million) share buyback it announced last year at an average price £54.48 per share.

Net debt

Net debt increased during the year by $374 million to $1,080 million at 31 July 2018. The increase is principally due to the completion of the share buyback in the year with the majority of the proceeds from the disposal of the Stark Group returned to shareholders via the special dividend. Strong operating cash flow generation of $1,323 million and the proceeds from the sale of tangible assets of $120 million were largely offset by acquisition and capital expenditure of $715 million and interest and tax payments of $287 million.

Pensions

At 31 July 2018, the Group's net pension asset of $174 million (2016/17: net liability of $28 million) comprised assets of $1,945 million (2016/17: $1,983 million) and liabilities of $1,771 million (2016/17: $2,011 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 if different assumptions were used. To help understand the impact of changes in these assumptions we have included key sensitivities as part of our pension disclosure in note 25 (iv) on page 134.

Following receipt of the proceeds from the disposal of Stark Group, a one-off additional employer contribution was made to the UK defined benefit pension plan of $94 million.

The UK pension plan will be subject to its next triennial valuation in April 2019.

The Group completed a buy-out of its primary defined benefit plan in the USA during the year.

Other financial matters

Capital structure

The Group's sources of funding currently comprise operating cash flow, access to substantial committed bank facilities from a range of banks and access to global capital markets. The Group maintains a capital structure appropriate for current and prospective trading and aims to operate with investment grade credit metrics and within a through-cycle range of net debt of one to two times adjusted EBITDA.

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 re-invest in organic growth opportunities;

(ii) to fund the ordinary dividend to grow in line with the Group's expectations of long-term earnings growth;

(iii) to fund selective bolt-on acquisitions to improve our market leadership positions or expand the capabilities of our existing business model; and

(iv) if there is excess cash after these priorities, return it to shareholders reasonably promptly.

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. At 31 July 2018, the Group had total committed facilities of $3,470 million (2016/17: $3,085 million). Of the Group's committed facilities at 31 July 2018, $1,940 million (2016/17: $1,847 million) was undrawn. $1 billion of the total facilities mature after more than five years.

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 borrowing and 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 exchange 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 including counterparty and commodity risk. 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 Group's Treasury Committee and are monitored regularly. The management of customer trade 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 49.

Mike Powell
Group Chief Financial Officer

Regional performance

A more focused geographic footprint

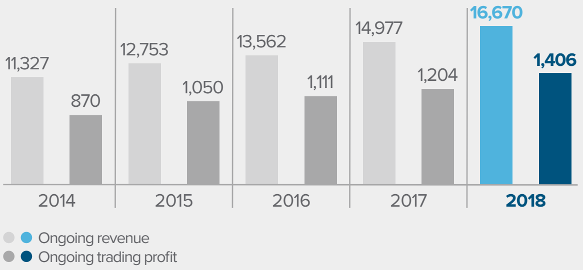
We are progressively focusing more resources on our business in the USA where we generate the most attractive returns for our shareholders. Our international operations also make an important contribution to the Group.

USA

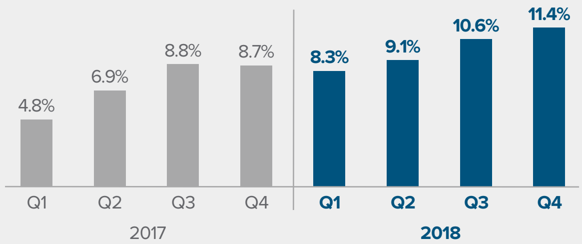
Key highlights

– Organic revenue growth of 9.9 per cent
– Trading margin of 8.4 per cent
– Good growth in all markets
– Nine acquisitions completed in the year

Five-year performance
$m



Quarterly organic revenue growth
%



1	Residential RMI	34%
2	Non-residential RMI	24%
3	Residential new construction	18%
4	Non-residential new construction	17%
5	Civil/Infrastructure	7%

Business profile

The US business operates primarily under the Ferguson brand and is the market leading distributor of plumbing and heating products in the USA. It operates nationally serving the residential, commercial, civil and industrial markets. The largest end market for Ferguson is residential which represents about 50 per cent of sales, commercial about 35 per cent of sales and the remainder is split between civil/infrastructure and industrial. Ferguson predominantly serves the Repair, Maintenance and Improvement ("RMI") markets, with relatively low exposure to the new construction market.

Ferguson operates 1,448 branches serving all 50 states with 26,501 associates. The branches are served by 10 distribution centres, providing same day and next day product availability, a key competitive advantage and an important requirement for customers.

There are seven business units which are supported by a single distribution and logistics network. Each business unit provides a different customer offering, six of the business units predominantly serve trade customers with one mainly serving consumers. Each business unit supports differentiated customer types and therefore provides bespoke services and requirements, see page 15 for further detail. Each has its own set of competitors that range from large national companies, including trade sales by large home improvement chains, to small, privately owned distributors.

In line with the Group's strategy the business aims to strengthen its position in existing and adjacent markets through bolt-on acquisitions. Nine bolt-on acquisitions were completed during the year across a majority of the business units and product categories.

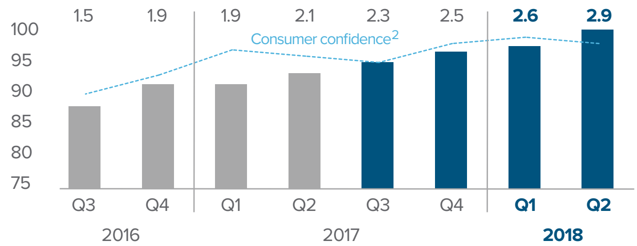
Market trends

Macroeconomic trends

Demand in the US business is correlated with changes in activity in the economy in the USA. The following macroeconomic indicators and their trends have an impact on all of the business units.

Gross Domestic Product ("GDP") is one of the primary indicators used to gauge the health of a country's economy. It is equal to the total expenditure for all final goods and services produced within the country in a specific period.

GDP growth[1]
% calendar year



1. GDP: % change compared to the same quarter of the previous calendar year.
Source: OECD.

2. Confidence: Index of results from a consumer confidence survey that measures the level of optimism consumers have about the performance of the economy in the next 12 months.
Source: Surveys of consumers, University of Michigan.

Ferguson predominantly serves the RMI markets with relatively low exposure to the new construction market.”

GDP growth in the USA has been increasing for over two years, indicating continued expansion in the economy. The rate of growth has sequentially increased quarter on quarter throughout the last year.

Consumer confidence levels have been very high over the last 12 months, sustaining some of the highest levels in the last 10 years.

The unemployment rate continues to fall; it has sequentially decreased quarter on quarter for over 24 months and went below four per cent for the first time since 2000.

Specific market trends

The markets that Ferguson serves have different characteristics and as such certain market data is more relevant to specific end markets.

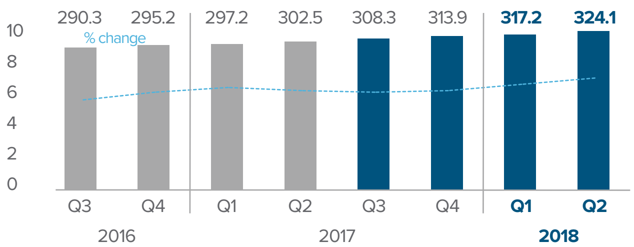
Residential

(Approximately 50 per cent of revenue)

The Leading Indicator of Remodelling Activity (“LIRA”) provides a short-term outlook of national home improvement and repair spending to owner-occupied homes. It is designed to project the annual rate of change in spending for the current quarter and subsequent four quarters. The LIRA projections have continued to increase over the last 24 months at an increasing pace, indicating expanding growth in the market in 2018/19.

LIRA[1]

$bn calendar year



1. $bn remodelling spend and % change compared to the same quarter of the previous calendar year. The LIRA underwent a rebenchmarking in April 2016. Source: The Joint Center for Housing Studies.

In addition, existing single-family home sales is a good indicator for the strength of the market and tends to be a driver of remodelling spend. The seasonally adjusted annual rate of sales has remained high at around 5.5 million throughout the last 12 months.

Commercial

(Approximately 35 per cent of revenue)

The American Institute of Architects (“AIA”) Billings Index – Commercial/Industrial is a leading economic indicator of construction activity and is widely seen as reflecting prospective construction spending. Any score below 50 indicates a decline in business activity across the architecture profession, whereas an index score above 50 indicates growth.

The index has been above 50 for the last 12 months indicating continued growth.

Civil/Infrastructure

(Approximately 7 per cent of revenue)

The AIA Billings Index – Commercial/Industrial is also an indicator for the civils market.

The non-residential construction Put In Place survey is an indicator of the strength of the market, reflecting the historical amount spent each month on construction. After contracting for the first two quarters of 2017/18 the value of spending has rose in the final two quarters of the year.

Industrial

(Approximately 8 per cent of revenue)

The strength of the industrial market is indicated by the Institute of Supply Chain Management Purchase Managers Index. Any reading above 50 indicates that the manufacturing economy is generally expanding, below 50 indicates that it is generally declining.

The index has been at levels above 50 throughout 2017/18 indicating strong growth in the market in that period.

Case study: Offering a complete HVAC solution

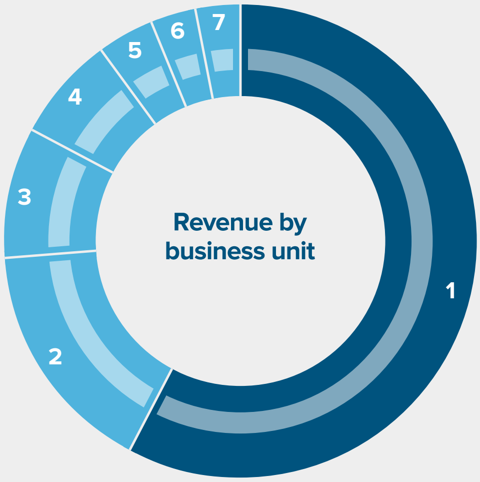
Our HVAC business provided comprehensive product design and installation consultation to Mechanical Solutions LLC (based in Richmond, Virginia) for a highly specialised job. The requirements were to provide heating and cooling for a building originally constructed in 1828. The owners of the old hospital chose to renovate the former administration office and turn it into a boutique hotel, The Blackburn Inn. Included in that renovation was the need for a quiet, efficient HVAC system.

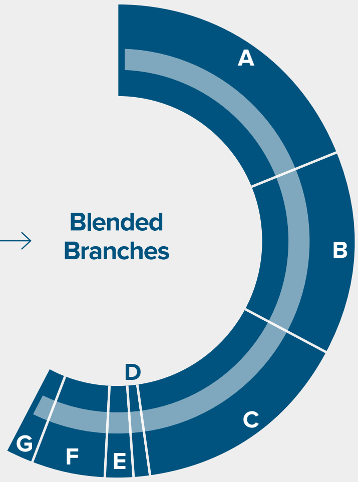
It was agreed a Variable Refrigerant Flow (“VRF”) system was the best solution and Ferguson HVAC’s VRF division, which consists of engineers and factory trained certified product specialists, partnered with Mechanical Solutions to deliver a VRF system that met their requirements, including maintaining the historic integrity of the building. Because Ferguson HVAC has a dedicated VRF team, associates were involved from the initial design phase through delivery and installation, conducting several site visits and walkthroughs to ensure Mechanical Solution’s success.

Ferguson provided equipment and ancillary products, including 70 indoor units, to keep the common areas and 49 hotel rooms comfortable.

Strategic Business Units ("SBUs")

For strategic planning purposes we have nine customer SBUs. Blended Branches predominantly splits into three SBUs (Residential trade, Residential showroom and Commercial) with the remaining revenue allocated to the corresponding standalone business unit.

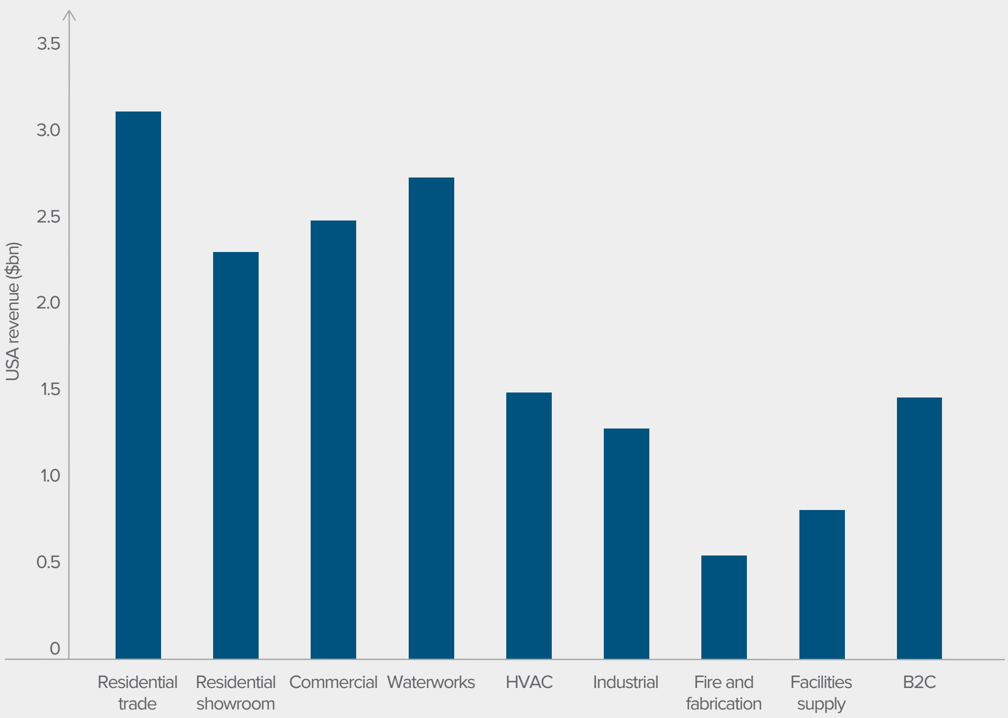




1	Blended Branches	58%
2	Waterworks standalone	16%
3	B2C	9%
4	HVAC standalone	7%
5	Fire and fabrication	4%
6	Industrial standalone	3%
7	Facilities supply standalone	3%

A	Residential trade	19%
B	Residential showroom	14%
C	Commercial	15%
D	Waterworks	1%
E	HVAC	2%
F	Industrial	5%
G	Facilities supply	2%
		58%

Strategic Business Units



Residential Trade
Serves the residential RMI and new construction sectors with a large proportion of sales through the branch counters. It provides plumbing and sanitary supplies, tools, repair parts and bathroom fixtures to plumbing contractors. Ferguson is the number two in the USA with an estimated market share of 16 per cent. The estimated combined market share of the top three companies is 50 per cent with the remainder of the market fragmented between mid-size regional distributors and small, local distributors.

Residential Showroom
Operates a national network of 276 showrooms, serving consumers and trade customers. Showrooms display bathroom, kitchen and lighting products and assist customers by providing advice and project management services for their home improvement projects. Ferguson is the market leader with an estimated 11 per cent market share, the next largest competitor is about one third of the size.

Commercial
Provides commercial plumbing and mechanical contractors with products and services including bidding and tendering support and timeline planning to assist with their construction projects. Ferguson is the number one in the USA with an estimated market share of 19 per cent, roughly twice the size of its nearest competitor.

Waterworks
Sales tend to be part of large planned projects to public and private water authorities, utility contractors, public works/line contractors and heavy highway contractors on residential, commercial and municipal projects across the water, sanitary sewer and storm water management markets. Ferguson is the largest operator in the USA, with an estimated market share of 22 per cent, slightly higher than the number two. Outside the top two, no other company holds greater than 5 per cent market share.

HVAC
HVAC supplies heating, ventilation, air conditioning and refrigeration equipment, parts and supplies to specialist contractors. The business predominantly serves the residential and commercial markets for repair and replacement. Ferguson is the third largest distributor in a highly fragmented market. The market leader is about twice the size of Ferguson with an estimated 8 per cent market share.

Industrial
The Industrial business is a supplier of PVF and maintenance specialising in delivering automation, instrumentation, engineered products and turn-key solutions. We also provide supply chain management solutions. The Industrial business operates across all sectors including oil and gas, mining, chemical and power. The industrial market is fragmented, we estimate our market share to be 5 per cent, with the market leader about three times larger.

Fire and Fabrication
Fire and Fabrication services to fire protection contractors and engineers offering fire protection products, fire protection systems and bespoke fabrication services to commercial contractors for new construction and major renovation projects. Ferguson is the number one with about 20 per cent market share and the two next largest competitors hold an estimated 25 per cent market share between them.

Facilities Supply
Provides products, services and solutions to enable reliable maintenance of facilities across several RMI markets including multi-family properties, government agencies, hospitality, education and healthcare. The market is highly fragmented with no competitors holding more than 5 per cent market share.

B2C
The B2C business sells directly to consumers and trade customers online predominantly using Ferguson's product range and distribution network. The majority of our B2C business is conducted through Build.com which is supported by a call centre of sales consultants to provide advice and support customers. The market is predominantly comprised of large competitors with the top four businesses holding an estimated 75 per cent of the market, Ferguson is estimated to be number two.

Operating performance
The US business grew ongoing revenue 9.9% on an organic basis and acquisitions contributed a further 1.4%. Price inflation was about 2.5%. Blended Branches grew strongly with good growth across all four geographical regions with the West generating organic revenue growth of 11.4%, North Central 8.2%, South Central 8.1% and the East 6.4%. Waterworks grew well and our Industrial business generated strong growth in a good market, also benefiting from two large capital projects. All business units continued to gain market share.

Organic revenue growth by customer end market	% of USA revenue	Market growth	Organic revenue growth
Residential	**~50%**	**~7%**	**+10%**
Commercial	**~35%**	**~6%**	**+8%**
Civil/Infrastructure	**~7%**	**~6%**	**+11%**
Industrial	**~8%**	**~10%**	**+20%**

Gross margin was ahead due to improvements in procurement and disciplined pricing. Operating expense growth included labour cost inflation of 3% – 4%. Ongoing trading profit was $1,406 million (2017: $1,204 million). The ongoing trading margin improved by 40 basis points to 8.4% (2017: 8.0%).

E-commerce accounted for $3.8 billion (23%) of revenue in the USA and we have continued to invest in our B2B and B2C platforms to develop more sophisticated applications to add value to our customers' businesses. We have also allocated significant resources to accelerating our own brand capabilities, which now represent 6.9% of our US revenues, through the development of new products and categories and selective acquisitions.

Nine acquisitions were completed during the year with total annualised revenue of $354 million. In addition to previously announced acquisitions, at the end of the year we bought SafeStep Walk-In-Tub Company, a retailer of own brand bathtubs and showers. Since the year end we have acquired four more businesses which generated $160 million of annualised revenue. This included Jones Stephens, a master distributor of own brand plumbing products, Millennium Lighting an own brand provider of decorative lighting fixtures, Action Automation a leading industrial supplier of actuators and Grand Junction Pipe & Supply a waterworks business based in Grand Junction, Colorado.

> “We continued to implement the restructuring programme and in March we appointed Mark Higson to lead the business.”

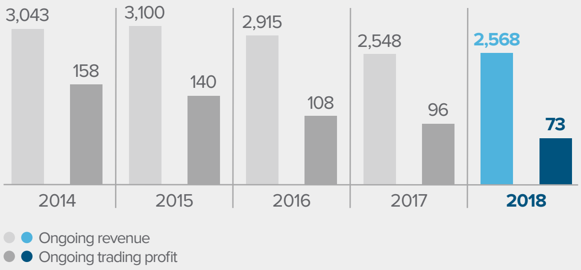
UK

Key highlights

– Like-for-like revenue growth of 0.7 per cent
– Trading margin of 2.8 per cent
– Markets remain challenging
– Restructuring programme continuing

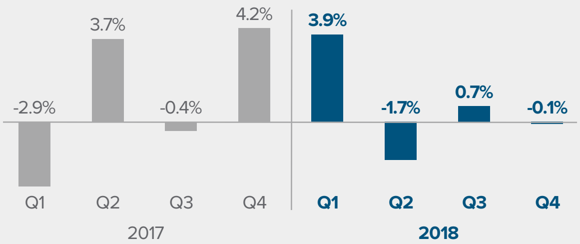
Five-year performance

$m



Quarterly like-for-like revenue growth[1]

%



1	Residential RMI	50%
2	Non-residential RMI	12%
3	Residential new construction	11%
4	Non-residential new construction	17%
5	Civil infrastructure	10%

1. The UK revenue growth rate is presented on a like-for-like basis to remove the impact of closed branches and the exit of low margin business. Like-for-like is organic revenue growth (-5.3%) excluding the effect of branch openings and closures and the exit of low margin business (-6.0%).

Business profile

The UK operates two businesses under the Wolseley brand serving the trade market through 567 branches served by six distribution centres. Branches provide same day and next day product availability, a key service offering to our customers. The UK business mainly serves RMI markets, and has relatively low exposure to the new residential construction market. At 31 July 2018, Wolseley had 5,617 associates.

Wolseley is currently undergoing a major restructuring programme to improve service to customers, performance and profitability, see page 18 for further detail.

Business units and market position

Blended is the largest business within the UK, generating 84 per cent of the revenue. The business operates under the Wolseley brand with a number of smaller brands including William Wilson and soak.com. This business provides plumbing and heating products, air conditioning and refrigeration products, and the associated pipes, valves and fittings to trade customers in the residential and commercial sectors, for mostly RMI purposes. It also provides specialist above ground drainage products. Wolseley is the second largest merchant distributor.

Infrastructure is a specialist in below ground drainage serving the civil infrastructure and utilities markets. The business is estimated to have a market share of about 20 per cent.

Market trends

The quarterly GDP growth rate in the UK has declined over the last 12 months from 1.7 per cent in the first quarter to 1.3 per cent in the final quarter.

Consumer confidence has been negative for the last 12 months indicating an expected decline in the economy over the next 12 months.

Operating performance

UK like-for-like revenue was 0.7% ahead including price inflation of about 3%. Organic revenue was 5.3% lower due to the closure of branches and the exit of low margin wholesale business. Gross margins were at similar levels to last year. Trading profit of $73 million (2017: $96 million) was after a $6 million benefit from foreign exchange movements and the trading margin was 2.8% (2017: 3.8%).

We continued to implement the restructuring programme and in March we appointed Mark Higson to lead the business. We made good progress in improved category management, re-configuration of our logistics and supply chain and the reduction in branch network and distribution centre capacity. Whilst trading performance was disappointing, some of the restructuring actions have been a headwind to our financial performance this year and we are confident that they will help us build a better business going forward.

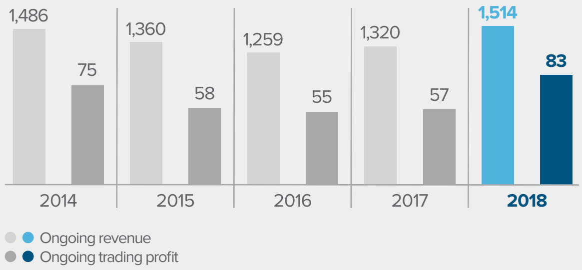
> **"During the year we completed four acquisitions with total annualised revenue of $82 million."**

Canada and Central Europe

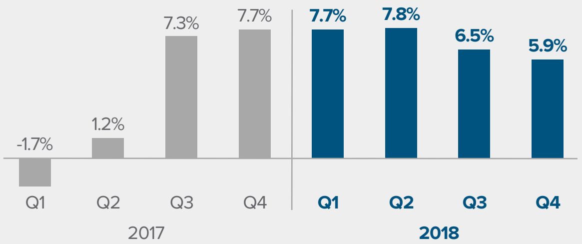
Key highlights

- Organic revenue growth of 6.9 per cent
- Trading margin of 5.5 per cent
- Good growth in good markets
- Four acquisitions completed in the year

Five-year performance
$m



Quarterly organic revenue growth
%



1	Residential RMI	43%
2	Non-residential RMI	17%
3	Residential new construction	19%
4	Non-residential new construction	19%
5	Civil infrastructure	2%

Business profile

Canada and Central Europe operates across two countries, Canada and the Netherlands.

Wolseley Canada serves the residential, commercial and industrial sectors in both RMI and new construction. Wasco in the Netherlands operates in the residential RMI and residential new-construction markets. Both businesses predominantly serve trade customers. The businesses operate 265 branches with three distribution centres. At the year-end Canada and Central Europe had 3,167 associates.

During the year four acquisitions were completed, one in the Netherlands and three in Canada.

Business units and market position

Canada operates under the Wolseley brand (79 per cent of revenue) and supplies plumbing, heating, ventilation, air conditioning and refrigeration products to residential and commercial contractors. It also supplies specialist water and waste water treatment products to residential, commercial and municipal contractors, and supplies PVF solutions to industrial customers. The business is the second largest in the market.

Wasco (21 per cent of revenue) is a distributor of heating, plumbing and related spare parts across the Netherlands. It is the third largest distributor in a consolidated market. We have recently announced our intention to dispose of the Wasco business.

Market trends

Canadian GDP growth has decreased through the year from a high level in the first quarter of 3.1 per cent to 1.9 per cent in the final quarter. Consumer confidence has been high through the year with an average of about 55, a score above 50 indicates an expectation of growth.

GDP growth in the Netherlands has been at an average of about three per cent over the last 12 months, the highest level since 2008.

Operating performance

Canada and Central Europe organic revenue grew by 6.9% including price inflation of about 2%. Acquisitions contributed a further 2.5% of growth. Gross margins were ahead of last year due to improved procurement and product mix. Operating expenses were well controlled. Ongoing trading profit of $83 million (2017: $57 million) included a one-off gain of $6 million from a legal settlement and a $3 million benefit from foreign exchange movements. The ongoing trading margin was 5.5% (2017: 4.3%). During the year we completed four acquisitions with total annualised revenue of $82 million. Since the year end we have completed one acquisition with annualised revenue of $11 million.

After the year end we initiated a process to dispose of Wasco, our remaining business in Central Europe. The business has a strong leadership team and dedicated workforce and has consistently delivered strong financial performance, but there are no significant synergies with the other businesses in the Group. Wasco contributed revenue of $322 million (2017: $269 million) and trading profit of $13 million (2017: $9 million) in the year.

Building a better business

The focus areas described in our "Better Business" framework are important to us and to our stakeholders. They actively support our growth, improve associate engagement and address our top risks and compliance requirements.

We incorporate these focus areas into the way our business works, which is reflected in this report.

Many of the focus areas are described within the key resources and relationships section on pages 24 to 27.

Sustainability and Transparency

Reporting our progress towards our sustainability goals in a clear and transparent manner is important to our programme. As such, we report annually to the Carbon Disclosure Project, which is shared with investors and customers, and publicly available for download at **www.cdp.net**. Additionally, the Company reports to the Morgan Stanley Capital International Sustainability Index and Ecovadis platform for suppliers. While the performance values are an important part of measuring the effectiveness of our programme, we are equally committed to initiating projects that will make a meaningful reduction in these values.

Our values

We act with integrity

We conduct all our activities with fairness, honesty and integrity.

We drive for results and improvements

We listen and respond to the needs of our customers, then exceed their expectations. We are not happy with the status quo and constantly strive to improve.

We value our people

We understand, respect and value personal and cultural differences; we are open and honest in all our dealings with our people.

Our focus areas		Our principles
Our people	**Talent management and development** All	We are committed to people development at every level of the organisation.
	Competitive pay and reward All	We offer competitive remuneration to our people.
	Associate engagement All	We value our associates and actively work to improve associate engagement.
	Diversity and inclusion All	We understand, respect and value personal and cultural differences.
	Health and safety All	We strive to be "First in Safety" and put the wellbeing of our associates first and foremost.
	Ethical behaviour and human rights All	We adhere to strict Human Resources policies and follow our own Code of Conduct.
Our products	**Product quality and integrity**	We work with our suppliers to maintain excellent standards of product quality and safety.
	Responsible sourcing	We expect our suppliers, contractors and agents to adhere to our Code of Conduct and to adopt similar standards.
	Promoting "eco" products	We are a positive link in the sustainable construction supply chain.
Our operations	**Environmental efficiency**	We run efficient operations that consume less energy and produce less waste.
	Compliance with the law	We consider legal compliance our minimum threshold of performance.
	Protecting information	We protect both digital and physical information on behalf of our stakeholders.
Our communities	**Active corporate citizen**	We voluntarily contribute our time and our financial support to the communities in which we work.

Key to drivers of profitable growth

- Engaged associates
- Excellent service ethic
- Strong sales culture
- Organic expansion
- Bolt-on acquisitions
- Adjacent opportunities
- Operating model and e-commerce development
- Pricing discipline
- Own brand penetration
- All: All nine of our drivers of profitable growth

Opportunities	Risks
A multi-skilled and well-trained workforce will help us to deliver against our objectives and adapt to changing customer needs.	Changing operating models require us to constantly up-skill our people. A competitive marketplace puts greater emphasis on excellent career development to attract talent.
Well structured remuneration and incentive programmes align associate and Company objectives in order to maximise results.	An uncompetitive remuneration programme could impact our ability to attract and retain the best people.
Motivated and engaged people deliver excellent customer service, develop strong supplier relationships and maximise operational efficiencies.	Low associate engagement can lead to sub-optimal business results and poor retention of our people.
A diverse workforce brings with it the widest range of knowledge, skills and experience and promotes innovation. An inclusive environment allows our people to feel at ease in the workplace.	In an ever-changing market a lack of diversity can limit business progression.
A robust health and safety programme protects our people, customers and suppliers.	Our principal risks relate to manual handling, working at height, the use of motorised equipment and vehicle collisions. If not mitigated, these risks can harm our associates, impact our service and incur costs. See pages 25, 26 and 42.
A commitment to high ethical standards strengthens our reputation with customers, suppliers and other stakeholders.	The business is exposed to risks of bribery and fraud, which can damage our reputation. Compliance programmes are in place to mitigate these risks. See pages 26, 42, 43 and 49.
Sourcing and supplying safe, quality products improves our margins, enhances customer satisfaction and enables our people in branch to devote more time to service.	Product liability can arise if manufacturers do not stand behind their products.
Working with reputable suppliers gives our stakeholders confidence in the integrity of our supply chain, including standards around ethical labour, modern slavery, conflict minerals and anti-bribery and corruption.	There is increasing focus on supply chain transparency due to the risk of business interruption or reputational harm.
Where the opportunity exists, we can gain market share by supplying eco products and offering training and advice to our customers.	Building regulations increasingly focus on sustainable construction. Growth opportunities can be missed if we do not adapt to our customers' changing product needs.
Better energy and waste management decreases costs and improves operational efficiencies.	Energy costs and increasing "green" taxes can reduce Ferguson's profit margins. We have reduction targets in place to minimise these costs.
High standards of compliance differentiate us from less reputable operators.	Mitigating the risk of non-compliance with increasing levels of governmental regulations is a priority (see page 49). Without certain licences the Company cannot operate.
Robust systems and processes together with an informed workforce allow us to protect our sensitive or commercial data.	Information technology is one of our principal risks. For more detail, see page 48.
Engagement with the communities in which we operate promotes our business and enhances people skills and engagement.	There are no risks, this is just part of who we are and what we do.

Sustainability and drivers of profitable growth

The symbols above are displayed in the table to the left to indicate which of our strategic drivers are most directly supported by each of the "Better Business" programme components. The strategic drivers are summarised on page 16.

Continuous improvement

Our commitment to sustainability remains unwavering. We engage regularly with our stakeholders to identify innovative ways we can continue to improve our business and minimise our carbon footprint.

Governance

Due to material changes in the business, the overall "Better Business" framework is currently under review to test the ongoing relevance of the focus areas identified. The Group's Chief Marketing Officer and Director of Sustainability are responsible to the Board for the overall programme. Objectives and where appropriate, quantified targets, are set for relevant goals. Business units monitor performance throughout the year and performance reports are submitted, reviewed and discussed by the Executive Committee and the Board.

Performance

Our progress over the year in review is detailed over the next two pages. Where further information is available, the source of the reference material is cited. Additional information on Sustainability and Our People is available on our website at **www.fergusonplc.com**.

Promotion of "eco" products

Particular customers are more focused on sustainable products and we promote products that conserve water and energy where there is customer demand. For example, we sell digital thermostats that allow our customers to remotely control their energy consumption and conserve energy when they are away from home.

+ Pages 24

Our people

Our progress on the people focus areas is described on pages 24 to 27. Diversity and health and safety statistics and our human rights statement are provided below.

All material issues relating to our people directly affect all of our strategic drivers on page 16. The effectiveness and level of engagement of our people is crucial in delivering on our strategy and maintaining the sustainability of the business.

Diversity and inclusion

	Unspecified	Total men	Total women	% women
Directors (Board)		**6**	**3**	**33%**
Senior leadership[1]		**68**	**22**	**24%**
Total associates[2]	**11**	**27,318**	**8,019**	**23%**

1. The senior leadership group consists of those members of the Executive Committee, who are not Board Directors, and their direct reports. This is consistent with the data we supply to the annual Hampton-Alexander review.
2. The total average individual associate number of 35,348 is reported above (total men plus total women plus total unspecified) including all continuing businesses.

For more information on diversity and inclusion and our approach see pages 25 and 61.

+ Pages 25 and 61

Health and safety

Ferguson aims for continuous improvement on each of the three health and safety metrics.

Injury rate	**0.6% improvement** (1.70 per 100,000 hours worked)
Lost workday rate	**0.7% improvement** (2.99 per 100,000 hours worked)
Fleet third party collision rate	**17.8% improvement** (1.01 per 100 vehicles)

While we achieved small improvements in our injury and lost workday rate, we believe we can accelerate improvements in future years. This year we improved our health and safety programme and in the second half of the year we made encouraging progress. Further information on key health and safety risks and the actions we are implementing is provided in the Chief Executive's Review on pages 16 to 20 and in the Key Resources and Relationship section on pages 24 to 27.

+ Pages 24 to 27

Ethical behaviour and human rights

+ Page 26

Human rights

Both the United Nations Global Compact and Universal Declaration of Human Rights have been considered in determining the human rights issues that are material to the Company. These topics include associate policies (covering topics such as anti-discrimination), health and safety and ethics and conduct. All of these issues are managed through policies and programmes of work and are regularly monitored for compliance. Business partners and suppliers are expected to conform to our Code of Conduct. The Code of Conduct is set out on our website **www.fergusonplc.com**.

Talent management and development

+ Page 24

Competitive pay and reward

+ Page 24

Associate engagement

+ Page 25

Our products

Product quality and integrity

During 2017/18 we continued to strengthen our quality control procedures for sourcing products. Quality teams in our overseas sourcing entities continue to visit and assess our suppliers. Rigorous testing protocols are in place to ensure quality standards are met, and should an issue be identified, immediate steps are taken to identify the root cause of the issue and prevent it from re-occurring.

Developing own brand solutions

In some of our businesses, specific revenue and profit based targets have been set to stimulate sales of high efficiency products. For other areas of our business, new product development has offered an opportunity for growth. For example, we recently developed an own brand toilet under the PROFLO Greenlee brand that meets WaterSense standards and also has an ultra high efficiency rating while only using 0.8 gallons per flush, one of the lowest in the US market for gravity fed toilets. Ferguson has also developed a "green choice" product label that is available on our website and allows consumers to filter for energy efficient or low flow products.

Responsible sourcing

Each business assesses its suppliers against set criteria to provide protection to both us and our customers in the event of a product failure or breach of regulation in the supply chain.

+ Pages 26 to 27

UK Modern Slavery Act

Since 2016, the Company has responded to the UK government's directive under the Modern Slavery Act for concerted action to tackle the occurrence of forced, involuntary and child labour in the global supply chain. Whilst collectively Ferguson buys products from over 43,000 suppliers in 36 countries, we primarily source manufactured goods from suppliers in North America and Europe where the risk of modern slavery is lower. As we continue to enhance our anti-slavery measures, we will focus our efforts on our international suppliers.

During 2017/18, key milestones included:

- **Increasing the number of suppliers subject to Ferguson's anti-slavery standards.** In total, 1,307 major suppliers have contractually pledged to abstain from use of child, forced, or involuntary labour in their operations. Approximately 10 per cent of these suppliers are in countries with a prevalence of modern slavery according to The Global Slavery Index.
- **Harmonising anti-slavery measures across our businesses.** Our businesses have begun incorporating ethical and anti-slavery elements in their supplier audit methodologies.
- **Developing a risk assessment tool to enhance the effectiveness of our anti-slavery engagement with our international suppliers.** The risk assessment tool will detect high risk suppliers, without regard to level of spend, based on geographic location, level of corruption as measured by Transparency International's Corruption Perceptions Index, and manufacturing sector.

We remain steadfast in our commitment to eradicating any form of modern slavery in our global supply chain.

Additional details of our anti-slavery activities during 2017/18 are set forth in our annual statement in accordance with section 54 of the Modern Slavery Act, available here **www.fergusonplc.com**.

Our operations

Environmental efficiency

In 2015/16 we set five-year targets to reduce carbon by 10 per cent and waste by 15 per cent per $m revenue and to increase the percentage of waste that is recycled to 40 per cent.

In recent years, the reduction in our portfolio of businesses has decreased our physical footprint and therefore our carbon footprint. To aid comparability of performance we have removed non-ongoing operations from the current and prior year periods.

In 2017/18 we reduced total carbon emissions per $m revenue by nine per cent. This was mainly achieved through improved route planning and retiring older vehicles from our fleet. The implementation of a utilities management system in the US allowed us to better manage energy usage and decrease our Scope 2 emissions. The percentage of total waste recycled deteriorated slightly against our goal mainly due to volume growth in the business and, to improve this number, each business is developing a waste diversion plan. Performance at the end of 2017/18, two years into the target period, is as follows against our stated targets.

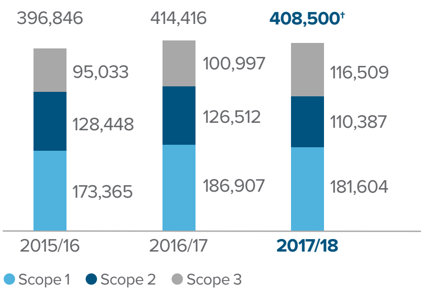
Carbon	12.8% improvement versus 2015/ 16 baseline (22.6 to 19.7 tCO_2e per $m revenue)
Total waste	No change versus 2015/16 baseline (3.18 tons per $m revenue)
% of total waste recycled	Deterioration versus 2015/16 baseline from 23.1% to 21.7% waste recycled

Ongoing revenue of $20,752 million is used when calculating the relative carbon and waste performance.

All Scope 1 and 2 emissions and selected Scope 3 emissions are reported. Scope 1 data includes direct emissions from fuel operations, owned/leased vehicles and refrigerant leakage. Scope 2 data includes indirect emissions from purchased electricity and heat. Scope 3 data includes indirect emissions from outsourced transportation, private vehicles and business travel.

We received limited third party assurance on data marked with the symbol "†" by PricewaterhouseCoopers ("PwC"). It is important to read this data in the context of PwC's full limited assurance opinion and our Basis of Reporting. More information is provided on page 158 and on our website at **www.fergusonplc.com/en/sustainability.html**.

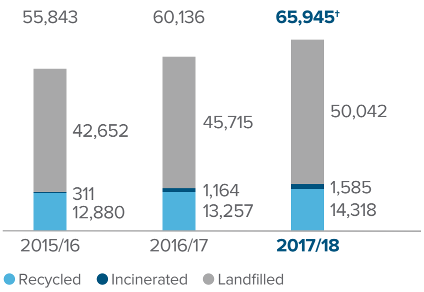
Total carbon emissions
Metric tonnes of CO_2 equivalent



tCO_2e/$m revenue[1]

Carbon emissions	2015/16	2016/17	2017/18	Increase/ (reduction)
Scope 1 and 2 emissions	**17.2**	**16.4**	**14.1**	**(14%)**
Scope 3 emissions	**5.4**	**5.3**	**5.6**	**5%**
Total emissions	**22.6**	**21.7**	**19.7†**	**(9%)**

Total waste
US tons



† Included in PwC's limited assurance scope (see page 158).

To align with the change in presentational currency to US dollars last year, our waste data has been converted from Tonnes to US Tons, and will be reported in those units going forward. For the first six months of 2017/18 for which we have data, non-ongoing operations contributed 17,434 tCO_2e and 8,387 US tons of waste to our total footprint. In 2016/17, non-ongoing businesses contributed 35,500 tCO_2e and 22,975 US tons of waste. In 2015/16, non-ongoing businesses contributed 54,122 tCO_2e and 26,859 US tons of waste. Inaccuracies identified in prior year numbers resulted in immaterial adjustments to the absolute carbon and waste totals in the corresponding charts.

1. Constant currency revenues are used in order to remove the impact of currency fluctuations from our performance. This has reduced the relative carbon figures for prior years. Our approach to measuring carbon was developed in accordance with the Greenhouse Gas Protocol ("GHG Protocol"). Emissions are calculated using DEFRA and IEA carbon factors and are reported as tonnes of CO_2 equivalent (abbreviated as tCO_2e), based on the Global Warming Potential ("GWP") of each of the "basket of six" greenhouse gases, as defined by the Kyoto Protocol. This data includes some estimates where actuals are unavailable.

+ Page 25

Compliance with the law

Legal and compliance teams across the Group work with the businesses to adhere to all legal and regulatory requirements.

Protecting information

As our channels to market develop, so too does the technology that we employ and the data that we hold. We are committed to protecting the security of our systems and information so that customers can transact with us and remain confident that we have the appropriate safeguards in place. The Group operates an IT governance framework, including a full set of dedicated IT policies, aligned to known security and operational risks (see page 48).

+ Pages 46 to 60

Our communities

Active corporate citizen

The Group has a long tradition of contributing to a number of charitable organisations. Our associates invest their time and talents at a range of charities, which include support for the homeless, hunger, veteran support and provision of care for sufferers of cancer and other illnesses.

The skilled labour gap is a challenge for many of our customers. Reflecting this, in 2017/18, our US business committed to a three-year partnership with a skilled trade organisation known as SkillsUSA. This organisation is comprised of students, teachers and industry working together to ensure the development of a skilled workforce. The $300,000 commitment will fund conferences and competitions to develop and test technical skills, and educational programmes to introduce the trades to students.

We will also continue to seek opportunities to support apprenticeship programmes and attract talent to the field. Another example of our commitment to the skilled trades includes product donations for the development of "skills labs" at regional technical training centres , which ensures that students receive the hands-on training that they need.

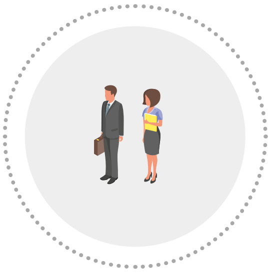
Additional information and case studies of the events our associates and businesses have supported over the last year can be found at **www.fergusonplc.com**.

Principal risks and their management

Risk management at Ferguson

Monitoring risk throughout the Group

The Board is accountable for the system of risk management at Ferguson. The Board, Audit Committee and Executive Committee review risks and controls in the context of the Group's strategic plan and objectives. Throughout the year, information is provided directly from front line operations, via corporate functions and independent audits.



Board, Audit Committee and Executive Committee

Fourth level

Principal risks formally reviewed every six months by the Board and Executive. Thresholds for principal risks agreed.

Overall system of risk management reviewed by the Audit Committee on behalf of the Board.

Associate whistleblowing line

Audit reports throughout the year

Performance reports

Risk reports in March and September

Corporate functions analyse risk and control data, set policies and procedures

Operations report on risk and control status and submit performance reports

Audit findings inform assessments of control effectiveness by Group Risk

Reports from Group Risk inform audit priorities and plans for the coming year

Front line business operations and line management

e.g. branches and distribution centres

First level

Business operations implement policies.

Associates act in line with Ferguson's Code of Conduct and Group policies.

Corporate functions

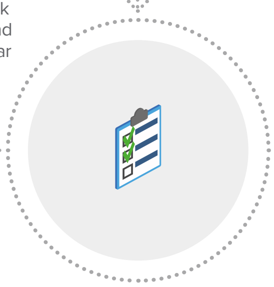
Group and subsidiary level, e.g. risk, treasury, finance, legal, tax and IT

Second level

Set policies and procedures.

Monitor risks and controls.

Collate and submit risk reports.



Independent assurance

Internal audit, external auditors and other independent experts

Third level

Test the design and effectiveness of procedures and controls.

Risk analysis during the year

2017/18 risk and control assessments

Ferguson formally reviews its principal Group and business unit risks every six months – at the half-year and at the year-end.

In January and July 2018, the Board provided its perspective on risks relating to the Group's strategy for 2018/19 and beyond. The Board's assessment was then combined with bottom-up risk reports received from business units in February and August 2018 to produce an overall risk profile and report for the Group.

This risk report, listing principal and emerging risks and how they have changed, was reviewed, amended and finalised with the Executive Committee in March and September 2018. The mitigation in place for each principal risk was then reported to and reviewed by the Audit Committee in March and September.

Throughout the year, members of the Board, Audit Committee and Executive Committee have received updates on the Group's principal risks, as follows:

	Risk	Updates provided
A	**New competitors and technology**	Formal update provided to the Board in January 2018. Related risks considered by the Board in January and July 2018 and by the Executive team.
B	**Market conditions**	Monthly performance reviews with CEO and CFO. CEO update to the Board at each Board meeting.
C	**Pressure on margins**	
D	**Information technology**	Reports on the status of the Group's information technology strategy and operational risks were provided to the Executive Committee and the Board and the Audit Committee throughout the year.
E	**Health and safety**	Performance updates were provided at every Executive Committee and Board meeting during the year.
F	**Regulations**	The status of the Group's anti-bribery programme was reported to the Audit Committee in January 2018.
G	**Talent management and retention**	The Board, supported by the Nominations and Audit Committees, has received detailed updates throughout the year from leadership teams around the Group.
H	**Macro political tax risk**	Reported on tax risks and future reforms to the Audit Committee in September 2017 and March 2018.

Longer-term viability of the Group

Building on this risk analysis, the Directors have assessed the Group's prospects and viability in light of its current financial position, strategic plan and principal risks. The Board believes that a three-year viability assessment period to July 2021 is appropriate as this aligns to the Group's planning horizon. Furthermore, the Group's principal risks are ongoing in nature and could materialise at any time. None are triggered by a specific, known event that will happen beyond that three-year timeframe. Forecasting beyond the three-year timeframe does not therefore provide additional accuracy or risk insight.

The Group's strategic approach is described on pages 16 to 20. Strategic plans have been prepared by business units and financial forecasts and budgets have been reviewed by the Board. The principal risks to the Group's strategy were formally reviewed by the Board and the Executive team in January and July 2018. Consideration has also been given to the strength of the Group's balance sheet and its credit facilities.

Assessment of viability

Whilst the strategic plans represent the Board's best estimates of the future prospects of the business, the Group has also assessed the financial impact of a number of alternative scenarios.

Scenario Modelled	Link to principal risks
Scenario 1 **Revenue reduction** We considered a number of forward-looking scenarios under which forecast revenue was adversely impacted in all years of the assessment period. This was considered alongside mitigating actions which management could reasonably put in place should such conditions be experienced.	New competitors and technology Market conditions Talent management and retention
Scenario 2 **Margin compression** A number of scenarios were considered whereby our ability to maintain attractive margins was tested. This was considered both in isolation and in conjunction with a fall in revenue.	Pressure on margins
Scenario 3 **Large, one-off operational expense** We considered the impact of any potential legal or regulatory fines.	Information technology Health and safety Regulations

Whilst linked to the Group's principal risk factors the scenarios detailed above are hypothetical and designed to test the ability of the Group to withstand such severe outcomes. In practice the Group has an established series of risk control measures in place that are designed to both prevent and mitigate the impact of any such occurrences from taking place.

In each of the scenarios considered the Directors have made practical assumptions around the Group's ability to raise future debt financing. In addition, the testing took account of a number of mitigating actions available to the business to respond to the risk being considered including, but not limited to, reductions in operational and capital expenditure, the release of trade working capital and reductions in acquisition activity. The results of the stress testing undertaken showed that the Group would be able to absorb the impact of the scenarios considered should they occur within the assessment time period.

Viability statement

Based on the outcomes of the scenarios and considering the Group's financial position, strategic plans and principal risks, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment. The Directors' statement regarding the adoption of the going concern basis for the preparation of the financial statements can be found on page 68.

UK withdrawal from the European Union

The UK leaving the European Union ("EU") continues to produce some market uncertainties including volatility in the sterling exchange rate against the US dollar. From 2018 the Group changed the presentation of its financial statements from sterling to US dollars which has greatly reduced the impact of foreign exchange rate movements, most notably sterling, on reported revenue and trading profit. Since the large majority of the Group's profit is derived from North America, the Group does not envisage a material adverse impact from sterling vs US dollar exchange rates in the future. There is a risk that leaving the EU adversely affects domestic demand which could have a negative impact on the business. In addition, disruption in the financial markets could adversely affect the share price. The Group will continue to monitor developments.

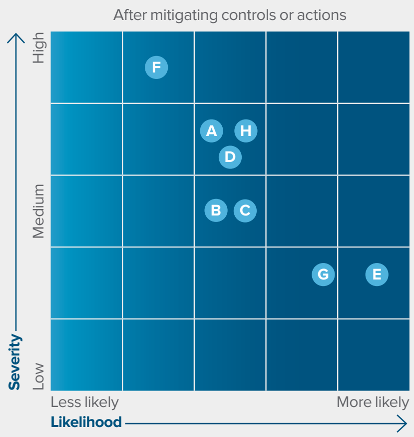
Principal risks and their management

Heat map (after mitigating controls and actions)

The heat map below illustrates the relative positioning of our principal risks by severity and likelihood.

Principal risks

- **A** New competitors and technology
- **B** Market conditions
- **C** Pressure on margins
- **D** Information technology
- **E** Health and safety
- **F** Regulations
- **G** Talent management and retention
- **H** Macro political tax risk



The materialisation of these risks could have an adverse effect on the Group's results or financial condition. If more than one of these risks occur, the combined overall effect of such events may be compounded.

There are two risks that are no longer included in the list of principal risks. Following the disposal of the Stark building materials business, our Strategic change risk has decreased. Litigation risk has also declined due to smaller footprint in the EU and tort reform efforts in the US. Litigation and Strategic change risks continue to be monitored.

The chart shows management's assessment of material risks before mitigating controls and actions. Various strategies are employed to reduce these inherent risks to an acceptable level. These are summarised in the tables on the following pages.

The effectiveness of these mitigation strategies can change over time, for example with the acquisition or disposal of businesses. Some of these risks remain beyond the direct control of management. The risk management programme, including risk assessments, can therefore only provide reasonable but not absolute assurance that risks are managed to an acceptable level.

The Group faces many other risks which, although important and subject to regular review, have been assessed as less significant and are not listed here. These include, for example, natural catastrophe and business interruption risks and certain financial risks. A summary of financial risks and their management is provided on page 33.

Risks to the drivers of profitable growth

The symbols shown at the bottom of this page are displayed alongside each risk on the following pages to indicate which of the strategic drivers of growth are most threatened by that risk.

A New competitors and technology

Risk is unchanged

Inherent risk level
High

Trend
No change

Definition and impact

Wholesale and distribution businesses in other industry sectors have been disrupted by the arrival of new competitors with lower-cost transactional business models or new technologies to aggregate demand away from incumbents.

The Board is attuned to both the risks and opportunities presented by these changes and is actively engaged as the Group takes action to respond.

Changes during the year

A dedicated team and increased resources were allocated to the exploration and incubation of new business models and new technologies. The creation of Ferguson Ventures allows us to partner with start ups and our innovation lab explores emerging technologies.

One example, Ferguson Ventures' partnership with GTP Services, is set out on page 19.

Mitigation

The Group develops and invests in new business models, including e-commerce, to respond to changing customer and consumer needs. This will allow the Group to accelerate the time to market for new revenue streams and gain insight on new disruptive technologies and trends.

The Group remains vigilant to the threats and opportunities in this space. The development of new business models in our market place is closely evaluated – both for investment potential and threats.

Key to drivers of profitable growth

- Engaged associates
- Excellent service ethic
- Strong sales culture
- Organic expansion
- Bolt-on acquisitions
- Adjacent opportunities
- Operating model and e-commerce development
- Pricing discipline
- Own brand penetration
- All: All nine of our drivers of profitable growth

B Market conditions

Risk is unchanged

Inherent risk level
High

Trend
No change

Definition and impact

This risk relates to the Group's exposure to short-term macroeconomic conditions and market cycles in our sector (i.e. periodic market downturns).

Some of the factors driving market growth are beyond the Group's control and are difficult to forecast.

Further information on the market trends can be found in our regional reviews on pages 34 to 39.

Changes during the year

The Group has maintained a strong balance sheet throughout the year and other measures have been taken to manage the cost base in line with forecast growth.

The Group has again tested its financial forecasts, including cash flow projections, against the impact of a severe market downturn. See page 45.

The UK's withdrawal from the European Union continues to create a level of uncertainty affecting the UK economy, although this is not expected to have a material impact on the Group. See page 45.

Mitigation

The Group cannot control market conditions but believes it has effective measures in place to respond to changes. Ferguson continues to reinforce existing measures in place, including:

– the development of our business model;

– cost control, pricing and gross margin management initiatives, including a focus on customer service and productivity improvement;

– resource allocation processes; and

– capital expenditure controls and procedures.

C Pressure on margins

Risk is unchanged

Inherent risk level
High

Trend
No change

Definition and impact

The Group's ability to maintain attractive profit margins can be affected by a range of factors. These include levels of demand and competition in our markets, the arrival of new competitors with new business models, the flexibility of the Group's cost base, changes in the cost of commodities or goods purchased, customer or supplier consolidation or manufacturers shipping directly to customers.

There is a risk that the Group may not identify or respond effectively to changes in these factors. If it fails to do so, the amount of profit generated by the Group could be significantly reduced.

Changes during the year

Pressure on margins remained high during the period under review, primarily due to levels of competition.

In response, the Group has continued to manage its cost base in line with changes in expected growth rates. Business unit performance, including margins achieved, were monitored on a monthly basis throughout the year.

Ongoing gross margin was 30 basis points ahead with growth driven by improved product mix and procurement in USA, Canada and Central Europe.

Mitigation

The Group's strategy for tackling this issue remains unchanged. This includes continuous improvements in customer service, product availability and inventory management. Revenues from e-commerce and other growth sectors continue to expand and the Group has made acquisitions in these areas during 2017/18. Refer to page 134 for more information on acquisitions during the year.

The performance of each business unit is closely monitored and corrective action taken when appropriate.

Resource allocation processes invest capital in those businesses capable of generating the best returns.

D Information technology

Risk has been added to the list of top Group risks this year

Inherent risk level
High

Trend
New

Definition and impact

With the appointment of a new Chief Information Officer, the Group now has a clearly defined global technology strategy and roadmap (see page 27).

Technology systems and data are fundamental to the future growth and success of the Group. Information Technology (IT) risks are categorised as strategic and operational.

Strategic risks are threats that could prevent execution of the IT strategic plan such as inadequate leadership, poor allocation/management of resources and/or poor execution of the organisational change of management necessary to adopt and apply new business processes.

Operational risks include business disruption resulting from system failures, fraud or criminal activity. This includes security threats and/or failures in the ability of the organisation to operate, recover and restore operations after such disruptions. While cyber security threats have resulted in minimal impact to date, this risk continues to persist and evolve.

Changes during the year

IT risks have remained material and are being closely monitored as we implement the global technology strategy and roadmap (see page 27).

A new Chief Information Officer and Chief Information Security Officer have been appointed during the year.

The IT function has been reorganised to align resources and focus on the strategic plan.

Internal Audit and IT are partnering to transition IT General Control testing to Internal Audit.

Briefings on the status of the Group's IT strategy were provided to the Board, the Audit Committee and the Executive Committee throughout the year.

Regular Board update checkpoints have been established to provide monitoring and oversight of execution of the IT strategic plan.

Mitigation

Business leadership is implementing a comprehensive change management programme designed to transition current business practices and norms to adopt new business capabilities.

A Business Technology Centre of Excellence is in place to drive organisational discipline around the prioritisation of business projects to ensure alignment with Ferguson's strategic framework.

An assessment of information security capabilities is underway with the intent of driving a rolling three-year global roadmap of investments in processes, resources and technical defences necessary to continuously address emerging security threats.

Group level compliance processes continue to remain in place.

Disaster recovery systems, secondary data centres, resources and processes have been implemented to ensure business critical systems are recoverable in the event of a major disaster. Testing of critical infrastructure and application systems are in place and have been consistently executed across the Group.

Insurance coverage is in place, including data protection and cyber liability.

E Health and safety

Risk is unchanged

Inherent risk level
Medium

Trend
No change

Definition and impact

The nature of Ferguson's operations can expose its associates, contractors, customers, suppliers and other individuals to health and safety risks.

Health and safety incidents can lead to loss of life or severe injuries.

Changes during the year

A new Vice President of Health and Safety joined this year. The Group has developed a functional strategic plan with clear objectives to address performance challenges. The hiring and deploying of health and safety professionals in the field will provide businesses with technical resources to more effectively mitigate risk. The overall performance across the Group is showing a slight improvement. Page 29 provides further information.

Mitigation

Leadership of health and safety is key. Health and safety performance is reported to and discussed at all Executive Committee and Board meetings.

The Group maintains a health and safety policy and detailed minimum standard, which sets out requirements which all Ferguson businesses are expected to meet. Branches are audited against this standard. Businesses are implementing key changes to transform our culture which are summarised on pages 25 and 26.

Key to drivers of profitable growth

- Engaged associates
- Excellent service ethic
- Strong sales culture
- Organic expansion
- Bolt-on acquisitions
- Adjacent opportunities
- Operating model and e-commerce development
- Pricing discipline
- Own brand penetration
- All — All nine of our drivers of profitable growth

F Regulations

Risk is unchanged

Inherent risk level
High

Trend
No change

Definition and impact

The Group's operations are affected by various statutes, regulations and standards in the countries and markets in which it operates. The amount of such regulation and the penalties can vary.

While the Group is not engaged in a highly regulated industry, it is subject to the laws governing businesses generally, including laws relating to competition, product safety, data protection, labour and employment practices, accounting and tax standards, international trade, fraud, bribery and corruption, land usage, the environment, health and safety, transportation and other matters.

Violations of certain laws and regulations may result in significant fines and penalties and damage to the Group's reputation.

Changes during the year

The most significant change in the level of regulation applying to the Group this year is the EU's adoption of the General Data Protection Regulation (GDPR). The Group has adopted procedures and controls required by the legislation to ensure compliance.

Anti-bribery and anti-corruption practices in all businesses were reviewed during the year and the findings reported to the Executive Committee and to the Audit Committee.

Further information on the Group's ethics and compliance programme can be found on page 26.

Mitigation

The Group monitors the law across its markets to ensure the effects of changes are minimised and the Group complies with all applicable laws.

The Group aligns company-wide policies and procedures with its key compliance requirements and monitors their implementation.

Briefings and training on mandatory topics and compliance requirements including anti-trust, anti-bribery and corruption are undertaken.

G Talent management and retention

Risk is unchanged

Inherent risk level
Medium

Trend
No change

All

Definition and impact

As the Group develops new business models and new ways of working, it needs to develop suitable skill-sets within the organisation.

Furthermore, as the Group continues to execute a number of strategic change programmes, it is important that existing skill-sets and talent are retained.

Failure to do so could delay the execution of strategic change programmes, result in a loss of "corporate memory" and reduce the Group's supply of future leaders.

Changes during the year

There has been no material change in the level of associate turnover during the year; however a number of senior management changes have occurred throughout the Group. These have included the appointment of key Group Services roles and a new Managing Director and Chief Financial Officer of Wolseley UK.

Talent management procedures were reviewed during the year.

Page 24 provides further information.

Mitigation

All of the Group's businesses have established performance management and succession planning procedures. Reward packages for associates are designed to attract and retain the best talent.

New Group Chief Financial Officer and new CEO, USA transitions complete.

A new talent review process will be launched across the Group.

The Group continues to invest in associate development.

H Macro political tax risk

Risk has been added to the list of top Group risks this year

Inherent risk level
High

Trend
New

Definition and impact

The wider macro political and economic situation is uncertain in many of the territories in which Ferguson operates and changes could affect the Group's future tax rate. A combination of growing international trade pressures, withdrawal of quantitative easing by central banks and rising debt levels, is creating political uncertainty which could lead to changes to the prevailing tax regime. As a result, we anticipate that the effective tax rate may increase over the medium term.

Changes during the year

Group Tax has allocated further resources to ensure the macro political uncertainties are being appropriately monitored and mitigation plans updated when the need arises.

Mitigation

The Group is engaged with the relevant tax authorities to proactively assess any proposed changes in tax policy.

Once policy changes are fully assessed the Group will ensure any changes are reflected in Ferguson's tax strategy.

The Strategic report has been approved by the Board and signed on its behalf by:

John Martin
Group Chief Executive

Governance

"We remain committed to achieving high standards of corporate governance both in the boardroom and throughout the Group."

Gareth Davis
Chairman

Drivers of profitable growth

On the following pages the symbols below indicate where the activity of the Board and its Committees related to the drivers of profitable growth set out in the Group Chief Executive's review on page 16.

Fulfilling customer wants

- **Engaged associates**
- **Excellent service ethic**
- **Strong sales culture**

Attractive growth opportunities

- **Organic expansion**
- **Bolt-on acquisitions**
- **Adjacent opportunities**

Excellent execution

- **Operating model and e-commerce development**
- **Pricing discipline**
- **Own brand penetration**

All **All nine of our drivers of profitable growth**

Gareth Davis
Chairman

Compliance with the Code

Throughout the financial year ended 31 July 2018, the Company has been in compliance with the provisions set out in the 2016 UK Corporate Governance Code (the "Code"). The Company's auditors, Deloitte LLP, are required to review whether the above statement reflects the Company's compliance with the provisions of the Code specified for their review by the Listing Rules of the UK Listing Authority and to report if it does not reflect such compliance. No such report has been made. A copy of the Code can be found on the Financial Reporting Council website **www.frc.org.uk**.

A strong governance culture

Dear Shareholder

I am pleased to present the Company's Corporate Governance Report for the financial year ended 31 July 2018.

This section, together with the reports from the Nominations, Audit and Remuneration Committees beginning on pages 60, 62 and 70 respectively, provide a description of how the Company has applied the main principles and complied with the relevant provisions of the Code. We remain committed to full compliance with the Code and to achieving high standards of corporate governance both in the boardroom and throughout the Group. We have used the core principles of the Code as the framework within which we explain our governance practices in this report – please see the boxes below, which direct you to further detail.

Your Board remains committed to presenting a clear assessment of the Company's position and prospects through the information provided in this report and through our financial statements and other narrative and financial reports as required. Please note that further information on the Board, its Committees and our governance practices can be found at **www.fergusonplc.com**.

Ensuring a clear and compelling strategy All

During the year, the Board regularly reviewed aspects of the strategy and how it was being implemented. In addition to receiving regular reports from management on progress made with our strategy, the Board visited our US business twice during the year. These visits enabled the Directors to enhance their understanding of Ferguson's largest market, to meet customers, suppliers and associates and to see first-hand how our associates are going the extra mile to provide the best service proposition in our industry. Further details of the Board's visits to the USA are provided on page 55.

The Board reviewed and approved a number of acquisition and capital investment opportunities along with the disposal of Stark Group and two capital returns. Further information on the acquisitions completed and the capital returns in the year are provided on pages 116 and 135 to 137.

Risk is an inherent part of any business and it is the role of the Board to determine the nature and extent of the principal risks it is willing to accept in achieving its strategic objectives and ensuring that sound risk management and internal control systems are maintained. The effectiveness of these systems is reviewed through the work of the Audit Committee described on pages 62 to 66. I can confirm that, during the year, the Board and its Committees carried out a robust assessment of the risks facing the business which included a review of environmental, social and governance risks as appropriate. The principal risks which the Board has focused on are set out in the Principal risks and their management section on pages 44 to 49.

Board composition and diversity All

The Board and Nominations Committee continued to focus on ensuring that we have the right talent in our business to enable the Group to achieve its strategic objectives. I give more details of our work in that area on pages 60 and 61.

Your Board continues to believe that diversity, both at Board level and throughout the organisation, is a key component of our success. We have formalised our approach to Board diversity by adopting a Board Diversity Policy during the year. I am pleased to report that in January 2018 the Group Chief Executive, supported by the Board, joined the 30% Club, a campaign organisation with members drawn from the chairs and chief executives of listed and other large organisations that is committed to achieving better gender balance through voluntary action. Further detail on the Board's approach to diversity, including the Board Diversity Policy, can be found on page 61 and further detail on how we have approached diversity across the Group, including our gender pay gap information, can be found on pages 25 and 42.

Culture and good governance

At Ferguson, we are committed to fostering an effective governance framework, through our policies and procedures, that supports the Company's core values and which underpins our ability to set the overall strategic direction of the Ferguson Group. I note with interest the changes to the Code published on 16 July 2018 and due to come into effect for our financial year ending 31 July 2020. We will review our policies and procedures during the coming year and look forward to reporting how we have implemented these changes.

Your Board continues to strive for improvement and the areas for further development identified in the annual effectiveness review have been noted as priority areas for 2018/19. In line with the recommendations of the Code, this year the Board and Committee effectiveness review was externally facilitated. Further details on the review, issues covered and key findings and action points can be found on page 58, along with a description of how the Non Executive Directors, led by the Senior Independent Director, Alan Murray, conducted their annual evaluation of my performance.

Maintaining a corporate culture that is aligned with the Group's strategy is fundamental to our success. Our culture is reflected most strongly in the collective and individual behaviours of our associates. The Group's "Better Business" framework, detailed on pages 40 and 41, sets out the 13 material issues we consider essential to how we do business.

Look ahead

Finally, I would like to take this opportunity to thank our shareholders for their continuing support. The Board and I will be available to respond to any questions on this report or any of the Committee's activities at our 2018 AGM in November and I look forward to welcoming those shareholders able to attend.

Gareth Davis

Gareth Davis
Chairman

Core principles

Leadership	Effectiveness	Accountability	Remuneration	Relations with shareholders
Continued close focus on strategy and its execution.	A strong, open and effective Board.	Close scrutiny of risks and controls.	Prudent oversight of executive remuneration.	Open engagement with shareholders.
+ Pages 52 to 58 and 60 to 61	+ Pages 52 to 58 and 60 to 61	+ Pages 62 to 69	+ Pages 70 to 96	+ Page 59

Board of Directors

The primary role of the Board is to provide effective and entrepreneurial leadership necessary to enable the Group's business objectives to be met and to review the overall strategic development of the Group as a whole.

Gareth Davis
Chairman

M N

Year of Appointment: 2011 (appointed Chairman), 2003 (appointed to the Board as a Non Executive Director).

Key strengths and experience:
Extensive international board and general management experience, having served on and chaired various company boards for many years. Mr Davis spent 38 years in the tobacco industry and was Chief Executive of Imperial Tobacco Group plc from its incorporation in 1996 until May 2010. From 2010 to April 2018 Mr Davis was Chairman of William Hill PLC.

Other principal appointments:
Chairman of DS Smith Plc.

John Martin
Group Chief Executive

D E M

Year of Appointment: 2016 (appointed Group Chief Executive), 2010 (appointed to the Board as Group Chief Financial Officer).

Key strengths and experience:
Extensive operational and financial management experience of running large international businesses. Mr Martin has strong leadership capabilities and significant experience in strategic development and driving improvements in operational performance. He joined the Company as Chief Financial Officer and assumed management responsibility for the Group's Canadian business between 2013 and 2016. Previously he was a partner at Alchemy Partners, the private equity group, and prior to that was Chief Financial Officer of Travelex Group, the international payments business, and Hays Plc.

Other principal appointments:
None.

Mike Powell
Group Chief Financial Officer

D E M T

Year of Appointment: 2017

Key strengths and experience:
Considerable financial management and operational experience. Experience of running multi-national businesses with significant US operations. Mr Powell, a chartered management accountant, joined the Company on 1 June 2017 as Group Chief Financial Officer. From July 2014 until his appointment at Ferguson Mr Powell was Group Finance Director of BBA Aviation plc, one of the world's leading providers of aviation support services. Before joining BBA he served as CFO of AZ Electronic Materials plc and CFO of Nippon Sheet Glass, based in Tokyo. Prior to that he spent 15 years at Pilkington plc in a variety of operational and finance roles.

Other principal appointments:
Non Executive Director of Low & Bonar plc.

Alan Murray
Independent Non Executive Director

A M N R S

Year of Appointment: 2013

Key strengths and experience:
Considerable international operational experience and extensive executive management experience within global businesses. Mr Murray was, from 2010 until August 2017, a Member of the Supervisory Board of HeidelbergCement AG and was previously a Non Executive Director of International Power plc (2007 to 2011). Prior to that, he spent 19 years at Hanson plc and was Group Chief Executive between 2002 and 2007. From 2007 until 2008, he was a member of the Management Board of HeidelbergCement AG. Mr Murray is a qualified chartered management accountant.

Other principal appointments:
Non Executive Director of Owens-Illinois, Inc.

Darren Shapland
Independent Non Executive Director

A N R

Year of Appointment: 2014

Key strengths and experience:
Considerable commercial, operational, financial management and broad public company experience in major consumer businesses. Until September 2016 Mr Shapland was Chairman of Poundland Group plc. He was a Non Executive Director of Ladbrokes plc and was Chairman of its Audit Committee until 2015. Between 2012 and 2013, he was Chief Executive Officer of Carpetright plc. From 2005 to 2010, Mr Shapland was Chief Financial Officer of J Sainsbury plc and from 2010 to 2011, Group Development Director. He was also Chairman of Sainsbury's Bank. Prior to that, Mr Shapland held a variety of senior finance and operational positions at Carpetright plc, Superdrug Stores plc, the Burton Group and Arcadia.

Other principal appointments:
Chairman of Topps Tiles Plc.

Nadia Shouraboura
Independent Non Executive Director

A N R

Year of Appointment: 2017

Key strengths and experience:
Considerable expertise in running complex logistics and supply chain activities, with insight in cutting edge technology and deep knowledge of e-commerce. Dr Shouraboura was a Vice President at Amazon.com, Inc. where she served on the senior leadership team. After eight years at Amazon, she founded Hointer Inc., a consultancy that helps retailers create innovative in-store experiences. Prior to her time at Amazon Dr Shouraboura was Head of System Development for Trading at Exelon Power Team, Senior Principal at Diamond Management and Technology and Co-founder and Vice President, IT at Starlight Multimedia Inc. in addition to other technology and multimedia roles.

Other principal appointments:
Founder and Chief Executive Officer of Hointer Inc., a Non Executive Director of Cimpress NV and a Member of the Supervisory Board of X5 Retail Group N.V.

Kevin Murphy
Chief Executive Officer, USA

E M

Year of Appointment: 2017

Key strengths and experience:
Strong leadership skills and deep industry knowledge. Mr Murphy has a strong track record of driving sustainable profitable growth. He is responsible for all of the Group's businesses based in the USA. From 2007 until his appointment as Chief Executive of Ferguson Enterprises on 1 August 2017, Mr Murphy was Chief Operating Officer of Ferguson Enterprises and a member of its senior leadership team. He joined Ferguson Enterprises as an Operations Manager in 1999 and subsequently held several leadership positions including three years as Vice President of the US Waterworks division.

Other principal appointments:
None.

Tessa Bamford
Independent Non Executive Director

A N R

Year of Appointment: 2011

Key strengths and experience:
Extensive boardroom and City experience. Ms Bamford has broad business experience having held senior advisory roles in both the UK and USA across a range of sectors. She was formerly a founder and Director of Cantos Communications, an online corporate communications service provider (2001 to 2011) and until 30 June 2018 a Non Executive Director of Barratt Developments plc. Previously, she was a Director of J Henry Schroder & Co, where she worked for 12 years in a number of roles and, prior to that, worked in corporate finance for Barclays de Zoete Wedd.

Other principal appointments:
Consultant at Spencer Stuart.

Key to Board and Committee Membership
- A Audit
- D Disclosure
- E Executive
- N Nominations
- M Major Announcements
- R Remuneration
- T Treasury
- S Senior Independent Director
- Committee Chair

Jacky Simmonds
Independent Non Executive Director

A N R

Year of Appointment: 2014

Key strengths and experience:
Extensive executive remuneration and human resources experience within large international businesses. Ms Simmonds was Group People Director of easyJet plc from 2015 until 2017. Before joining easyJet plc, she was Group HR Director of TUI Travel plc from 2010 until 2015, HR Director for TUI UK from 2007 to 2010 and a divisional Director of First Choice Holidays PLC until the business was merged with TUI AG in 2007 to form TUI Travel PLC. Ms Simmonds was also a member of the Supervisory Board of TUI Deutschland, GmbH and a Director of PEAK Adventure Travel Group Limited.

Other principal appointments:
Group Chief People Officer of VEON Ltd.

Graham Middlemiss
Company Secretary

Graham was appointed Company Secretary of Ferguson plc on 1 August 2015. He is Secretary to the Board and all of the Committees of the Board. Graham, a solicitor, joined the Group in August 2004 as the General Counsel of its UK business and was Group Deputy Company Secretary from November 2012 to July 2015.

Appointments and other Board and Committee members
Each Board member listed on this and the previous page served throughout the financial year ended 31 July 2018.

In addition, John Daly was a Non Executive Director and a member of the Audit, Nominations and Remuneration Committees during the year until he stepped down from the Board on 31 May 2018. Pilar López was also a Non Executive Director and a member of the Audit, Nominations and Remuneration Committees throughout the year, until she stepped down from the Board on 31 July 2018.

Why you should vote to re-elect your Board
In accordance with the Code, all Directors will stand for re-election at the 2018 Annual General Meeting ("AGM"). Further details on the AGM can be found on page 156 and at **www.fergusonplc.com**.

In line with the findings of the externally-facilitated Board and Committee effectiveness review, detailed on page 58, and as evidenced by their biographies, the Board contains a broad range of experience and skills from a variety of industries and advisory roles, which fully complement each other. As such, the Board believes that the re-election of each Director is in the best interests of the Company.

Ferguson's governance structure

Ferguson plc has a premium listing on the London Stock Exchange, and is therefore subject to the Listing Rules of the UK Listing Authority. Although the Company (being Jersey incorporated) is not subject to the UK Companies Act, the Board retains its standards of governance and corporate responsibility as if it were subject to the Act. It continues to provide shareholder safeguards which are similar to those that apply to a UK registered company and complies with relevant institutional shareholder guidelines.

Under Ferguson plc, the Ferguson Group operates across three geographic regions: USA, UK, and Canada and Central Europe. For further information on the Group's regional strategy and performance please see pages 34 to 39.

The table below describes the Company's governance structure, an overview of the key Committees of the Board and other administrative committees.

Shareholders

Board and Committees of the Board

Committees of the Board support the Board in the fulfilment of its duties. These take strategic decisions of a substantive nature.

The Board

- Collectively responsible for the long-term success of the Company
- Accountable to shareholders and responsible for the proper conduct of the business
- Setting the overall strategic direction of the Company
- Oversight of effective management of the Ferguson Group ensuring the appropriate leadership and resources are in place to meet its objectives
- Reviewing the performance of the Board and its Committees and ensuring effective succession planning
- Ensuring effective financial reporting
- Approval of key strategic projects in the best interests of the Group
- Maintaining a sound system of risk management and internal controls

Audit Committee

- Oversees, monitors and makes recommendations as appropriate in relation to the Company's financial statements, accounting processes, audit (internal and external), risk management and internal controls and matters relating to fraud and whistleblowing
- The Audit Committee is the body responsible for the functions specified by DTR 7.1.3R. The membership of the Audit Committee is detailed on page 62

+ Page 62

Remuneration Committee

- Reviews and recommends to the Board the framework and policy for the remuneration of the Chairman, the Executive Directors and the Executive Committee
- Takes into account the business strategy of the Group and how the Remuneration policy reflects and supports that strategy

+ Page 70

Nominations Committee

- Regularly reviews the structure, size and composition of the Board and its Committees
- Identifies and nominates suitable candidates to be appointed to the Board (subject to Board approval) and considers succession generally

+ Page 60

Major Announcements Committee

- Meets as required in exceptional circumstances to consider disclosure obligations in relation to material information where the matter is unexpected and non-routine

Other Committees

Implementing strategic decisions and executive or administrative matters.

Executive Committee

- Ensures that the corporate culture and values set by the Board are implemented across the Group, that the behaviours expected from associates are clearly communicated and that actual behaviours are in line with the culture and values
- Develops and recommends to the Board the strategy for the Group and responsible for monitoring progress against the strategy
- Develops and recommends Group policies and standards to the Board and ensures that they are implemented, communicated and maintained

Committee membership and biographical details for each member: **www.fergusonplc.com**

Treasury Committee

- Considers treasury policy including financial structures and investments, tax and treasury strategy, policies and certain transactions of the Group
- Reviews performance and compliance of the tax and treasury function
- Makes recommendations to the Board in matters such as overall financing and strategy, and currency exposure

Committee membership details: **www.fergusonplc.com**

Disclosure Committee

- Meets as required to deal with all matters relating to public announcements of the Company and the Company's obligations under the Listing and Disclosure and Transparency Rules of the UK Listing Authority and EU Market Abuse Regulation
- Assists in the design, implementation and periodic evaluation of the Company's disclosure controls and procedures

Committee membership details: **www.fergusonplc.com**

Leadership and effectiveness
What the Board has done during the year

The Board has a rolling agenda programme which ensures that items relating to strategy, finance, operations, health and safety, product integrity, corporate governance and compliance are covered in its meetings.

The balance of time spent by the Board on strategic, performance related and governance issues is considered as part of the annual effectiveness review process and, as a result, adjustments are made to the Board's agenda for the following year. The Board receives copies of the minutes of each Board Committee meeting and key issues covered by each Committee are also reported to the subsequent Board meeting.

Principal areas of focus during 2017/18 All

Strategy

- Received reports from the Group Chief Executive and Group Chief Financial Officer on progress with strategy and financial performance at every meeting (for further information please see pages 16 to 20 and 30 to 33)
- Regular reviews and updates on, and approval of, the Group's strategy (for further information please see pages 16 to 20)
- In-depth discussion of the strategy plans of the Group's major businesses (for further information on USA, UK, and Canada and Central Europe operations please see pages 34 to 39)
- Regular discussions on the impact of innovation and disruption within the industry
- In-depth discussion of the Group's IT strategy
- Approved the $675 million (£500 million) share buyback programme (for further information see page 135)
- Recommended the special dividend of $4 per share and accompanying share consolidation (for further information see page 116)
- Reviewed and approved business acquisition and capital investment proposals (for further information see pages 136 and 137)
- Annual budget review and approval
- Approved the Nordic business disposal (for further information see page 138)

Performance

- Reports on health and safety performance reviewed at every meeting (for further information see pages 25, 26, 29 and 42)
- Received regular presentations from management on the performance of the Group and its major business units
- Reviewed and approved full year and half year results and other announcements
- Regular updates on investor relations including detailed feedback from shareholders following investor meetings

Governance

- In-depth discussion on the results of the Board and Committee effectiveness review (for further information see page 58)
- Received reports from the Nominations Committee on succession planning
- Monitored UK corporate governance reform
- Regular reviews of the Group's principal risks and risk appetite (for further information see pages 44 to 49)
- Approved the Group insurance arrangements

Board visit to Miami

In January 2018, the Board and Committee meetings were held in Miami, Florida, USA. Meetings were scheduled to allow the Board to visit Waterworks and Fire and Fabrication job sites where the Directors were able to meet with associates and customers. The Board received in-depth briefings on the US business operations in Florida and on the Waterworks business nationally from local management, enhancing their understanding of operations in Florida and the Waterworks business. The Board also received a presentation from local management on the business's project management capabilities, which enable Ferguson to provide enhanced customer service.

Board visit to Cincinnati

In July 2018, the Board and Committee meetings were held in Cincinnati, Ohio, USA. At the meeting the Board received in-depth briefings on the Group's own brand strategy and capabilities, the Group's global technology strategy, the supply chain capabilities of the US business and the performance of key US health and safety initiatives. The schedule also allowed the Board to visit the Group's US own brand business Signature Hardware, which was acquired in August 2016, and to receive one-to-one tours from associates at a Blended Branch facility in Cincinnati. During these visits the Board were able to meet a wide range of associates and gain greater insight into the passion and enthusiasm they bring to customer service.

How the Board operates

Scheduled Board and Committee meetings 2017/18 attendance (eligibility)

	Board	Committees		
		Audit	Rem	Nom
Chairman				
Gareth Davis	6 (6)			4 (4)
Executive Directors				
John Martin	6 (6)			
Kevin Murphy	6 (6)			
Mike Powell	6 (6)			
Non Executive Directors				
Tessa Bamford	6 (6)	4 (4)	5 (5)	4 (4)
Alan Murray	6 (6)	4 (4)	5 (5)	4 (4)
Darren Shapland	6 (6)	4 (4)	5 (5)	4 (4)
Nadia Shouraboura	6 (6)	4 (4)	5 (5)	4 (4)
Jacky Simmonds	6 (6)	4 (4)	5 (5)	4 (4)
Directors who left during the year				
John Daly[1]	5 (5)	3 (3)	4 (4)	3 (3)
Pilar López[2,3]	6 (6)	3 (4)	4 (5)	4 (4)

The Major Announcements Committee meets as required and was not required to meet during the year. In addition to the members detailed on pages 52 and 53 Mary Ann Lemere, Group General Counsel, and Mark Fearon, Group Director of Communications and Investor Relations, are members of that Committee. Richard Shoylekov was also a member of the Major Announcements Committee until he stepped down as Group General Counsel on 31 January 2018.

Ferguson plc is registered in Jersey and is tax resident in Switzerland. During the year, all meetings of the Board, Committees of the Board and all other meetings requiring decisions of a strategic or substantive nature were held outside the UK.

1. John Daly stepped down as a Non Executive Director on 31 May 2018.
2. Pilar López was unable to attend Audit and Remuneration Committee meetings in September 2017 due to an unavoidable scheduling conflict.
3. Pilar López stepped down as a Non Executive Director on 31 July 2018.

Board and Committee meetings

During 2017/18 the Board held six meetings, with Board and Committee meetings scheduled over one-, two- or three-day periods with meetings structured to allow open discussion.

Each Director is required to attend all meetings of the Board and Committees of which they are a member. In addition, senior management from across the Group and advisers attend some of the meetings for the discussion of specific items in greater depth.

Board decision-making

The Board provides strong leadership to the Company and the Non Executive Directors play an essential role in setting the Company's strategic direction and ensuring that appropriate progress implementing the strategy is being made. The new Directors who joined the Board last year have settled in well and the Board continues to have a strong culture of open debate where all Directors are actively encouraged to challenge existing assumptions and to raise difficult questions.

Certain strategic decisions and authorities of the Company are reserved as matters for the Board with other matters, responsibilities and authorities delegated to its Committees as detailed in the Ferguson governance structure on page 54. A formal schedule of matters reserved for the Board is reviewed annually in July, a summary of which can be found at **www.fergusonplc.com** together with the terms of reference of each of the Audit, Remuneration and Nominations Committees.

Board composition and independence

As at the date of this report, the Board consists of nine members including the Chairman, three Executive Directors and five Non Executive Directors. One-third of the Directors are female. The biographies of the Directors (set out on pages 52 and 53) demonstrate the strong and diverse experience possessed by the members of the Board.

The composition of the Board is kept under regular review by the Nominations Committee to ensure that there is an appropriate balance of skills, experience, independence and knowledge to support the successful execution of the Group's long-term strategy. Following changes to the Board during the year, the Nominations Committee is in the process of identifying suitable candidates for nomination to the Board. Further information on the Nominations Committee's work on Board succession planning and Non Executive Director recruitment is provided on page 60.

The Board reviews the independence of the Non Executive Directors as part of its annual Board effectiveness review. Each of the Non Executive Directors and the Chairman are considered by the Board to be independent and free of any relationship which could materially interfere with the exercise of their independent judgement. The Code suggests that length of tenure is a factor to consider when determining the independence of the Non Executive Directors. Each Non Executive Director has served for six years or less with the exception of Tessa Bamford. As required by the Code, Ms Bamford's re-appointment for a third three-year term in March 2017 was subject to a particularly rigorous review, which took into account the need for progressive refreshing of the Board. The Board remains satisfied that each Non Executive Director continues to demonstrate independence of thought and expertise in meetings, and to support the senior management in an objective manner.

"The Board provides strong leadership to the Company and the Non Executive Directors play an essential role in setting the Company's strategic direction."

Division of responsibilities

The effective working of the Board is crucial to the long-term prospects and strategic aims of the Company. This is achieved through strong and open working relationships between the Directors and, in particular, the Chairman, Group Chief Executive and Senior Independent Director, whose roles are agreed and set out in writing. A summary of their roles and division of responsibilities is set out below.

Gareth Davis
Chairman

- Overall leadership and governance of the Board (including induction, development and performance evaluation)
- Provides the Board with insight into the views of the Company's major shareholders
- Promotes a culture of challenge and debate at Board and Committee meetings

John Martin
Group Chief Executive

- Effective leadership of the Company, implementing strategy and objectives agreed by the Board
- Management and development of the Group's operations and business models
- Working closely with the Group Chief Financial Officer to ensure prudent financial controls
- Developing and implementing policies integral to improving the business, including in relation to health and safety and sustainability

Alan Murray
Senior Independent Director

- Available to investors and shareholders, where communications through the Chairman or Executive Directors may not seem appropriate
- A sounding board for the Chairman and an intermediary for the other Directors when necessary
- Chairs the Board in the absence of the Chairman
- Holds informal discussion with the Non Executive Directors, with and without the presence of the Chairman

Information and support

In advance of each set of meetings, papers and relevant information are delivered so that each Director is provided with the necessary resources to fulfil their duties. The information is published via a secure web portal which also provides access to a library of relevant information about the Company, the Group and Board procedures. Meeting support is provided by the Company Secretariat department. The Group Company Secretary is responsible for ensuring that all Directors have full and timely access to all relevant information.

The Board has an established procedure for Directors, if necessary, to take independent professional advice at the Company's expense in furtherance of their duties. This is in addition to the direct access that every Director has to the Group Company Secretary for his advice and services.

Induction

Upon appointment, all new Directors follow a comprehensive induction programme designed to ensure they develop an understanding and awareness of our businesses, people and processes, and of their roles and responsibilities as a director of a public company. The programme is structured to reflect best practice and includes the provision of current and historical information about the Company, visits to operations around the Group, induction briefings from function leaders and meetings with Directors, senior executives, the Group Company Secretary and the Company's advisers.

Development of the Board

All Directors are provided opportunities for further development and training and, during the year, the Chairman discusses development with each Director. In addition to regular updates on governance, legal and regulatory matters, the Board also receives detailed briefings from advisers on a variety of topics that are relevant to the Group and its strategy. During 2017/18 these included a detailed briefing to the Board from Deloitte on proposed changes to the UK corporate governance regime and an in-depth briefing on remuneration trends to the Remuneration Committee from Kepler, the Committee's remuneration adviser.

The annual Board and Committee effectiveness review provides the Directors with an opportunity to assess their effectiveness and that of the Board as a whole. During the 2016/17 effectiveness review the Board identified increased opportunities to meet with US management and further their understanding of the Group's US operations and market environment as an area for development. Two Board meetings were held in the USA during 2017/18, each of which enabled the Board to further develop their knowledge of the Group's US business. Further details of these meetings are provided on page 55. Continued focus on succession planning at Board and Executive Committee level was also identified as an area for further development during the 2016/17 effectiveness review. Board composition has been the major focus of the Nominations Committee this year, further details can be found on page 60. Changes to the membership of the Executive Committee reviewed by the Nominations Committee in July 2017 were implemented during the year and new appointments were approved by the Board.

Evaluating the performance of the Board of Directors

Board and Committee effectiveness review 2018

The Board undertakes a formal review of its performance and that of its Committees each year, with an external evaluation every three years. It is expected that the Board and Committee effectiveness review in 2018/19 will be internally facilitated and that the next externally-facilitated effectiveness review will be conducted during the year ending 31 July 2021.

During the year ended 31 July 2018, the Company engaged the services of Lintstock Limited ("Lintstock"), a London-based corporate advisory firm that provides objective and independent counsel to leading European companies, to conduct an externally facilitated Board and Committee effectiveness review which included feedback on individual Board members. Lintstock supplies software and services to the Group Company Secretariat for Board evaluation questionnaires and for the management of insider lists but has no other commercial relationship with the Company.

This year's Board and Committee effectiveness review included individual Director interviews conducted by Lintstock, who also observed the Board and Committee meetings held in March 2018. A partner from Lintstock presented their report and facilitated a discussion of the outcome of the review at the May Board meeting.

Overall the Board was considered to be inclusive, diverse and inquisitive, with a good understanding of the Group's culture. The boardroom atmosphere was collegiate and open, and Board members were seen to be able to express their views candidly in a supportive environment. The results of the effectiveness review, including suggested areas for development, were discussed by the Board and priority actions for further enhancements to the Board's effectiveness were identified. Following consideration of the findings of the 2018 Board and Committee effectiveness review, the Directors remain satisfied that the Board and each of the Committees of the Board are operating effectively.

An overview of some of the areas of focus, key findings and improvement actions for the Board identified by the 2018 effectiveness review is detailed below.

Areas of focus and key findings	Improvement actions
Boardroom atmosphere and Director contribution The review found that the Board dynamics are positive, support direct and robust dialogue and the atmosphere in the boardroom was seen as a key strength. The Group Chief Executive and Executives were seen to have enhanced the ability of the Board to engage in candid discussion and critical thinking. The Chairman was commended for his effectiveness in encouraging all Directors to contribute to all discussions.	The Chairman to develop further opportunities for Non Executive Directors to contribute to the Board's agenda planning.
Board understanding of market dynamics and stakeholders views The Board's understanding of the views and requirements in the regions in which the Company operates was rated highly as was the Board's understanding of the views and requirements of major shareholders. The Board viewed customer service as a key strength of the culture in the Group and identified opportunities to further improve their understanding of customer sentiment.	Management to provide enhanced focus on associates, customers, suppliers and the business's markets in Board presentations. The Group Company Secretary to ensure that the programme for Board visits to the USA continues to include opportunities for Directors to engage with US associates (see page 55 as an example of how this occurred this year).
Board visibility of digital and technological developments, capability and performance The Board's understanding of digital and technological developments relevant to Ferguson was seen as being good and it was noted that the Board has recently bolstered the Non Executive Director representation in this area. The review saw the Board as offering healthy challenge to the Group on its digital preparedness.	The Group Chief Executive to ensure a continued increase in focus on innovation, disruption and digital transformation (see the Group CEO review on pages 16 to 20, which provides details of a new priority to accelerate innovation across the Group).

Chairman effectiveness review

During the year the Non Executive Directors led by the Senior Independent Director, undertook the performance evaluation of the Chairman. The evaluation, which took into account the views of the Executive Directors, concluded that the Chairman performed strongly and is highly effective in his role. Board meetings were considered to be well chaired. The Chairman continued to devote sufficient time and attention to his role and had made himself available to Directors whenever necessary outside of Board meetings.

Individual Non Executive Director effectiveness review

In addition to the effectiveness review undertaken by Lintstock, the Chairman maintains frequent contact with all Directors and constantly monitors whether they are able to devote sufficient time to their respective roles, and he is satisfied that each Director has been able to do so. The Chairman also has regular meetings, outside of Board and Committee meetings, with the Group Chief Executive and other executives to keep up to date with material developments in the business and discussed Board composition and succession planning at his meetings with shareholders. During the financial year, each Director attended all scheduled Board meetings. The Board continues to consider each of the Directors to be effective and to demonstrate commitment to his or her role.

Actions taken following the 2017 effectiveness review

Progress against the priorities and action points identified following the internally-facilitated review undertaken in 2017 is outlined on page 57.

Relations with shareholders and other stakeholders

Ferguson's shareholder engagement programme

The Board is fully committed to engaging with all shareholders, including employee shareholders. The Company maintains an active dialogue with shareholders throughout the year through a planned programme of communications and investor relations activities.

Our Group Director of Communications and Investor Relations is the senior executive who has day-to-day responsibility for all investor relations matters and for contact with shareholders (institutional and private), as well as with financial analysts and the media. He reports to the Group Chief Financial Officer and Group Chief Executive and regularly provides the Board with details of feedback received from institutional shareholders and any key issues raised.

Regular dialogue with institutional shareholders and financial analysts based in Europe and North America is maintained through:

- meetings and conversations involving the Group Chief Executive, Group Chief Financial Officer and Investor Relations team;
- release of updates on the financial performance of the Group incorporating revenue, profitability by region, net debt and appropriate commentary on key business trends; and
- the Chairman regularly engaging with larger institutional shareholders to discuss matters including the Board, strategy, remuneration and corporate governance.

In order to engage with private shareholders, periodic meetings are arranged with the UK Shareholders' Association and all communications from individual shareholders receive a response. In an effort to ensure that all shareholders have equal access to information we make all documents presented at investor events available on **www.fergusonplc.com**. There is also a shareholder information section on **www.fergusonplc.com** and at the end of this report on pages 154 to 156.

Plans for engagement in 2018/19

A similar investor relations programme will be run during the 2018/19 financial year.

AGM

The AGM is held in Switzerland with an audio-visual link to London so that shareholders in London are able to participate and can question the Board during the meeting. All Directors attended the 2017 AGM. During the AGM, the Board answered a wide range of questions from shareholders. Details of the 2018 AGM are contained in the Notice of AGM and are available on **www.fergusonplc.com**.

Additionally, the Group Chief Executive and Director of Communications and Investor Relations will make themselves available to answer questions from individual shareholders in advance of the AGM at a meeting hosted by the UK Shareholders' Association at the offices of Bank of America Merrill Lynch, 2 King Edward St, London EC1A 1HQ on 21 November 2018.

Overview of how Ferguson engaged with shareholders in 2017/18

October 2017	– Roadshows in London, New York, Boston and Chicago	**April 2018**	– Roadshows in New York, Boston, Chicago and London
November 2017	– Roadshows in Toronto and Edinburgh – Baird Global Investors Conference in Chicago – UK Shareholders Association meeting in London – Ferguson plc Annual General Meeting	**May 2018**	– Roadshows in Edinburgh, Frankfurt, Toronto, New York, Kansas and Denver – Ferguson plc General Meeting to approve the special dividend and accompanying share consolidation
January 2018	– Roadshows in San Francisco, Los Angeles and Santa Fe	**June 2018**	– Business Services, Transport & Leisure Investor Conference with Goldman Sachs in London
March 2018	– Roadshow in London	**July 2018**	– Chairman's meeting in London – Investor meetings at Ferguson Enterprises in Newport News

Engagement with other stakeholders

Engagement with associates

A healthy and highly engaged body of associates is fundamental to the success of the Company. During the year the Board has sought to engage directly with and understand the views of the Company's associates by meeting with associates during site visits. The Board receives reports on health and safety at every Board meeting, and the Group Chief Executive reports on health and safety in his monthly Board reports. Additionally, the Group Chief Executive regularly engages with senior associates on performance and strategy. See pages 55, 25 and 26 for further information.

Engagement with suppliers

The Board understands the importance of the Company's relationships with its suppliers and has continued to develop its understanding of the supply chain during the year through regular reports on the Group's Product Integrity programme and other management reports. Additionally, the Board reviewed and approved the Company's Modern Slavery Act statement. See pages 42 and 43 for further information.

Engagement with customers

At Ferguson, our excellent service ethic is underpinned by the way our associates create partnerships with our customers and understanding the wants and needs of our customers is a key part of the Board's role in setting the Group's strategic direction. During the year the Directors met with customers during their visits to the USA and improved their understanding of the role of digital technology in the customer experience through regular discussion and management presentations. See page 55 for further information.

Engagement with the communities in which we operate

We operate our business responsibly and contribute actively to the communities in which we operate. Our active corporate citizen programme along with ethical behaviour and human rights, product quality and integrity, responsible sourcing, promoting eco products and environmental efficiency are all pillars of our "Better Business" framework. Please see pages 40 and 41 for further information.

Nominations Committee

Senior leadership succession, Board composition and diversity continue to be priorities.

Gareth Davis
Nominations Committee Chairman

Nominations Committee members

Membership	Year of appointment	Meetings attended
Gareth Davis (Chairman)	2011[1]	4 (4)
Tessa Bamford	2011	4 (4)
Alan Murray	2013	4 (4)
Darren Shapland	2014	4 (4)
Nadia Shouraboura	2017	4 (4)
Jacky Simmonds	2014	4 (4)
Members who left during the year		
John Daly	2014	3 (3)
Pilar López	2013	4 (4)

1. Year of appointment as Chairman.

2018 focus All

– Senior leadership succession

– Board composition

– Diversity

– Review of Committee effectiveness

Dear Shareholder

Board and senior leadership succession planning is of critical importance. It continues to be a priority for the Board and is something the Nominations Committee keeps under continuous review.

How the Committee operates

As at 1 October 2018, the Committee was made up of myself and five Non Executive Directors as set out in the table above. During the year ended 31 July 2018, John Daly and Pilar López also served as members of the Committee until stepping down as Non Executive Directors on 31 May 2018 and 31 July 2018 respectively, each as a result of their respective increasing business commitments. I would like to thank John and Pilar for their considerable contributions to the Board and the Company whilst they were Directors and wish them well for the future.

The Nominations Committee met on four occasions during the financial year. Attendance at those meetings is set out in the table above and an overview of the Committee's area of responsibility is set out on page 54. The Committee's Terms of Reference are available at **www.fergusonplc.com**.

Succession planning All

Last year I highlighted continued focus on Board and senior leadership succession as a key priority for the Committee. Ensuring that the business has the appropriate mix of skills and experience at Board and senior leadership levels to match the development of the Group and the markets in which it operates is crucial to ensuring the Company's long-term success. From our first meeting in the year, the future composition of the Board was a principal area of focus for the Committee. Over a series of meetings we undertook a detailed review of the skills and experience of the current Directors and potential additional skills that would benefit the Board and the Company in the future. The Committee took into account factors such as the increasing size of the Group's US business and the potential value of having more Board members with extensive business experience with companies having a US or international presence. Skills and experience in areas such as innovation, distribution, data and technology, customer service, e-commerce and disruption were highlighted as areas in which the Company would benefit from having additional Board experience.

Our succession planning for Non Executive Directors was well advanced when we announced that John Daly and Pilar López were standing down from the Board, which has enabled us to commence a well-informed and structured recruitment process. As at the date of this report, the process is ongoing and we will update shareholders once any appointments are made.

The Committee also reviewed succession plans for other non-Board senior leadership roles during the year. Both I and the Committee are pleased to see that the new Executive Committee members appointed during the year are contributing so well to the success of the Company.

Board composition

As at the date of this Report, the Board comprises the Chairman, three Executive Directors and five Non Executive Directors. The biographies of all members of the Board, which outline the skills and experience they bring to their roles, are set out on pages 52 and 53. The Committee believes that the Board and its Committees continue to have a balance of experience and skills which is appropriate for an international specialist distribution company, which will be further enhanced on conclusion of the recruitment process referred to above.

External search advisor

Korn Ferry, an external search advisor, has been engaged to assist the Nominations Committee with the recruitment of new Non Executive Directors. Korn Ferry has no other connections with the Company except in relation to other senior executive search mandates. The Company does not use open advertising to search for suitable candidates for Director positions, as we believe that the optimal way of recruiting for these positions is to use targeted recruitment based on the skills and experience required.

Diversity

Valuing our people remains one of Ferguson's core values. We believe that well trained, highly engaged associates deliver better customer service. This is one of the Group's drivers of profitable growth, set out in the Group Chief Executive's review on page 16, and you will find further information on how we have sustained our commitment to maintaining a well-trained and highly engaged workforce on pages 24 and 25.

Ferguson is committed to developing a diverse workforce and an inclusive working environment in all of the global communities where the Company has a presence, and the Committee will carry on monitoring and reviewing the Company's progress as it continues to deliver improvements in workforce diversity. We believe that a diverse and inclusive organisation that reflects our communities provides us with different perspectives that give us our competitive advantage. In order to achieve our objectives, people decisions at Ferguson are based on merit, where the best candidate is hired and promoted within the organisation and associates are encouraged to reach their full potential, irrespective of race, colour, religion, gender, age, sexual orientation, marital status, disability or any other characteristic that makes them unique. To ensure success we are committed to creating an environment free from discrimination and harassment, where all associates are treated with dignity and respect. Details of our current gender diversity statistics are set out on page 42 and further information on diversity is detailed on page 25.

The Board takes diversity seriously and has, for the past five years, met the gender diversity recommendations set out in Lord Davies original report, "Women on Boards", which were re-affirmed by the Hampton-Alexander Review. The Board has also taken note of the additional recommendations of the Hampton-Alexander Review on the gender diversity of senior leadership and the Parker Review's recommendations on increasing the ethnic diversity of Boards.

We remain supportive of the voluntary approach as an effective way to encourage companies to improve gender diversity in boardrooms and during the year the Board formalised its approach to Board diversity by adopting a Board Diversity Policy. The Board Diversity Policy reflects the Company's commitment to providing an inclusive work environment and codifies the Board's belief that diversity in the boardroom makes business sense as it allows the Board to harness the benefit of differences in skills, experience, background, personality, culture and work style.

The Board Diversity Policy establishes the Nominations Committee as the body responsible for monitoring progress against diversity objectives. The Board endorsed the diversity objectives detailed in the table above during the year. Progress against the objectives is also detailed in the table.

Objective	Status	Progress in 2017/18
To achieve a minimum 30 per cent female representation on the Board by 2020.	Achieved for 2017/18	As of the date of this report 33 per cent of the Board is female (36 per cent in 2016/17).
To achieve a minimum 30 per cent female representation amongst the Executive Committee and their direct reports by 2020.	Ongoing	As at the date of this report 22.2 per cent of the Executive Committee and their direct reports are female (19.7 per cent in 2016/17). During the year, the Group Chief Executive, supported by the Board, joined the 30% Club (for further information see page 51).
To only engage executive search firms that have signed up to the standard voluntary code of conduct for executive search firms (or US equivalent).	Achieved for 2017/18	Korn Ferry has been engaged to conduct a search for new Non Executive Directors. Korn Ferry are signatories to the Voluntary Code of Conduct. No other executive search firms were engaged by the Nominations Committee during the year.

Nominations Committee effectiveness review

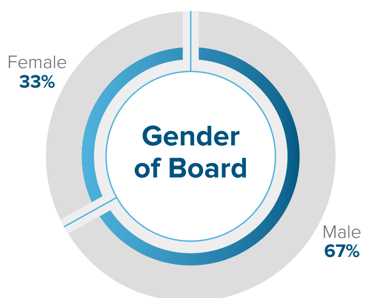
This year, the review of the effectiveness of the Committee was conducted by Lintstock within the framework of the externally-facilitated Board and Committee effectiveness review detailed on page 58. The performance of the Committee was highly rated overall. Committee members were satisfied with the succession planning for Executive and Non Executive Directors. The review also prioritised greater engagement with the succession plans for senior management positions. Monitoring and enhancing processes to improve diversity at all levels continued to be an area of important focus. This is reflected in the Board Diversity Policy and related objectives summarised above.

Nominations Committee priorities for 2018/19 All

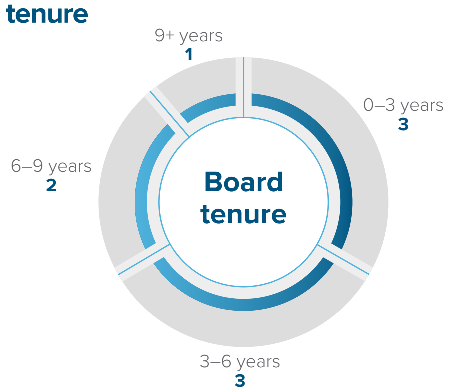
- A continuing focus on Board composition and succession, and enhanced engagement on succession plans for senior managers.
- Continuing to monitor diversity and inclusion.

Gareth Davis
on behalf of the Nominations Committee

Gender diversity



Board tenure



Audit Committee

Provides independent assessment of the Company's financial affairs and statements, and oversees the risk process.

Darren Shapland
Audit Committee Chairman

Audit Committee members

Membership	Year of appointment	Meetings attended
Darren Shapland (Chairman)	2014	4 (4)
Tessa Bamford	2011	4 (4)
Alan Murray	2013	4 (4)
Nadia Shouraboura	2017	4 (4)
Jacky Simmonds	2014	4 (4)
Members who left during the year		
John Daly	2014	3 (3)
Pilar López	2013	3 (4)

2018 focus

– Review financial results
– Monitor control environment
– Assess approach to risk
– Receive reports form internal and external auditors
– Review effectiveness of the Committee
– Review continuing effectiveness of Group functions that transferred to the USA during 2017/18

Dear Shareholder

I am pleased to present the report of the Audit Committee for 2017/18. This report provides an insight into the activities of the Committee during the year and how the Committee plays an oversight role for the Board. I will be available at the 2018 AGM, to respond to any questions shareholders have on this report or any of the Committee's activities.

As at 1 October 2018, the Committee was made up of five Non Executive Directors as set out in the table above. During the year ended 31 July 2018, John Daly and Pilar López also served as members of the Committee until stepping down as Non Executive Directors on 31 May 2018 and 31 July 2018 respectively.

How the Committee operates

The Committee met on four occasions during the financial year. Meetings are scheduled to coincide with key dates in the financial reporting cycle. Attendance at those meetings is set out in the table above and an overview of the Committee's area of responsibility is set out on page 54. The Committee's Terms of Reference are available at **www.fergusonplc.com**. In 2018/19 the Committee will increase the frequency of its meetings and meet on five occasions in order to ensure a more even spread of the Committee's workload.

The Board considers that the Committee has recent and relevant financial experience in its membership and that each member of the Committee is independent within the definition set out in the Code. Members of the Committee between them possess significant international, commercial, retail, financial and human resource skills and expertise which are relevant to an international specialist distribution company. In addition to me, Alan Murray and Pilar López (who served as a member of the Committee until stepping down on 31 July 2018) have served as the Chief Financial Officer of large international businesses during their careers. This provides the Board with assurance that the Audit Committee meets the relevant regulatory requirements relating to independence, financial experience and sectoral competence. The key strengths and experience of each member of the Committee are summarised on pages 52 and 53.

In addition to the members of the Committee, the Chairman, Group Chief Executive, Group Chief Financial Officer, Group Financial Controller and the Head of Internal Audit, together with senior representatives of Deloitte LLP ("Deloitte"), the Company's external auditors, attended and received papers for each meeting.

A private session for Committee members is held before every meeting to enable the Committee members to discuss agenda items and Audit Committee business without management present. The Committee also holds private sessions with the Group Chief Financial Officer, Head of Internal Audit and Deloitte periodically. Other senior executives are also invited to attend and provide updates to the Committee as required. An overview of the Committee's principal areas of focus during 2017/18 is provided on page 64.

Audit Committee effectiveness review

This year, the Committee's effectiveness review was conducted by Lintstock who undertook a survey of Committee members and attendees and conducted follow-up interviews that used the answers to the survey questions as a framework. Overall the Committee was rated as highly effective. The review identified a few opportunities for further improvement and these are reflected in the Committee's 2018/19 priorities, which are outlined below.

Audit Committee priorities for 2018/19

– Continued review of cyber security, with a particular focus on prioritising areas of protection.
– Conduct a benchmarking exercise for Internal Audit and identify opportunities to enhance the performance of the function.
– Review and assess the continued effectiveness of the Group's control framework, including enhancing the Committee's oversight of the IT control environment.

Financial reporting and significant financial judgements

The Committee considered the issues summarised below as significant in the context of the 2017/18 financial statements. These were discussed and reviewed with management and the external auditors and the Committee challenged judgements and sought clarification where necessary. The Committee received a report from the external auditors on the work they had performed to arrive at their conclusions and discussed in detail all material findings contained within the report.

Item	Audit Committee review	Conclusions
Completeness of supplier rebates (recurring item)	The Committee reviewed the recognition of supplier rebates which are significant to the Group and are an area of inherent risk due to the number and complexity of the arrangements. In addition, the majority of the supplier rebate arrangements cover a calendar year and therefore do not end at the same time as the Group's accounting year-end. Where the rebate arrangements are calculated at a flat rate there is limited judgement. However, for tiered rebates, judgements are required to forecast the expected level of volumes purchased to determine the appropriate rate at which a rebate is earned. This review covered the processes and controls in place during the year and the level of adherence to the Group's accounting policies and procedures. For further information please see note 1 of the consolidated financial statements on page 102.	As a result of the review process, which included consideration of the external audit findings, the Committee concluded that the level of rebate income and rebate receivable as at 31 July 2018 was properly reflected in the consolidated financial statements.
Inventory valuation (recurring item)	Judgement is applied in determining the appropriate values for slow-moving or obsolete inventory. The provisions are predominantly system-generated calculations, comparing inventory on hand against expected future sales using historic experience as the basis for provisioning, along with the results of physical stock-counts. The Committee considered the level of provisions and ensured the policy was consistently applied across the Group in the current and previous financial periods. The Committee also sought the views of the auditors. For further information please see note 1 of the consolidated financial statements on page 102.	Following their review, which included consideration of the external audit findings, the Committee concluded that provisions for obsolete and slow moving inventory are fairly stated in the consolidated financial statements.
Nordic business disposal (one-off item)	The Committee reviewed the accounting for the disposal of the Nordic business including a review of the profit on disposal calculation, the recycling of foreign exchange in reserves, the separation of the properties and the profit on disposal of properties sold in the year. The review included information about the proceeds received, the assets disposed of, any associated disposal costs and the judgements taken in relation to the recycling of foreign exchange in reserves. For further information please see note 29 of the consolidated financial statements on page 138.	Following the review and consideration of the external audit findings, the Committee concluded that the disposal of the Nordic business had been properly reflected in the consolidated financial statements.
Carrying value of interests in associates (one-off item)	The Committee reviewed the carrying value of the interests in associates for impairment, including a review of the assumptions underlying the value in use calculations and a review of other valuation models. The Committee considered the judgements used to determine the appropriate carrying value. For further information see note 15 of the consolidated financial statements on page 121.	The Committee agreed with management's assessment that an impairment charge had arisen relating to the Group's Swiss associate due to reduced expectations of profitability and the temporary suspension of dividends indicated to the market in a number of public announcements.

FRC Corporate Reporting Review team request[1]

In April 2018, the Company received a letter from the FRC's Corporate Reporting Review team in relation to its regular review and assessment of the quality of corporate reporting in the UK. The letter requested further information on the Company's approach to judgements and estimates and inventory provision in its 2017 Annual Report and Accounts as well as providing commentary on certain other disclosures. The points raised in the letter were reviewed by management, the Chairman and the Audit Committee Chairman and discussed with Deloitte and a response to the requests for further information was provided. The Corporate Reporting Review team subsequently confirmed in writing that, as a result of the response provided, it had closed its enquiries. The Committee confirms that the points raised were considered in the preparation of the 2018 Annual Report and Accounts and have been appropriately reflected.

1. We note the inherent limitations of the FRC's review. The FRC stated that the scope of its review was based on the Company's 2017 Annual Report and Accounts and was conducted by FRC staff who have an understanding of the relevant legal and accounting framework. The review did not benefit from detailed knowledge of the Company's business or an understanding of the underlying transactions entered into. The FRC's review only covered specific disclosures and does not provide assurance that the Company's 2017 Annual Report and Accounts are correct in all material respects.

Principal areas of focus

The Committee has a rolling programme of agenda items to ensure that relevant matters are properly considered. Some of the key items which were discussed by the Committee during 2017/18, and how they were presented to the Committee, are summarised below.

Financial results

Detailed reports were presented to the Committee ahead of the full and half-year results announcements. Reports relevant to the assessment of the Company's financial statements were received from the Group Chief Financial Officer, Group Financial Controller, Head of Group Financial Reporting, Deloitte, Group General Counsel and Group Company Secretary. Previews of accounting matters were also received from the Group Chief Financial Officer and discussed by the Committee well in advance of the review and approval of the half and full-year financial statements.

Internal audit

Reports presented at each Committee meeting by the Group Head of Internal Audit on the results of audits performed by the Internal Audit function, testing of the internal control environment and progress against any improvement actions previously identified. Briefings at each meeting also covered the performance and effectiveness of the Internal Audit function with particular focus on the transfer of Group Internal Audit roles from the UK to the USA and progress against areas identified for improvement in the 2017 Internal Audit effectiveness review. Further information on the Internal Audit function's activity is provided on pages 65 and 66.

Presentations from the Group Chief Financial Officer

The Committee received presentations from the Group Chief Financial Officer at each meeting on topics that included the Company's financial results, key half-year and year-end accounting topics, the operation of the Group's base financial control framework, the structure and strength of the Group finance team and the effectiveness of the Company's external auditor.

Presentations from business Chief Financial Officers

Presentations from Chief Financial Officers from Group businesses were received by the Committee. These presentations included the structure and strength of their respective finance teams, the implementation of financial systems and the effectiveness of the financial control environment.

Review of internal controls

The Committee received reports from a number of key areas of the business to gain an appropriate level of assurance. In addition to the Internal Audit reports on the control environment, the Committee received reports from the Group General Counsel on the implementation of the Group's anti-bribery and corruption programme and from the Group Head of Risk on the significant risks facing the Group and the mitigating controls in place (for further information on the Committee's oversight of risk see page 66). Reports were also received from the Group Chief Information Officer and Group General Counsel on the strength and performance of the Group's information security systems. The updates covered progress reports, opportunities for enhancement, the nature and level of the cyber security threats facing the Group and analysis provided by an independent specialist IT security consultancy. The Group Chief Information Officer and Group Head of Internal Audit reported to the Committee on IT controls and assurance activities. The updates focused on the results of IT general controls testing and improvements to the IT general controls environment.

Forward planning

The Committee reviewed and approved the plan for and scope of the external audit and agreed the fees of the external auditor. The Internal Audit plan for 2018/19, including the Internal Audit budget and resourcing plan, was reviewed by the Committee and approved. The Internal Audit charter, which sets out the purpose, structure and governance framework for the internal audit function, was updated and approved.

Audit Committee key achievements – 2017/18

An overview of the Committee's 2017/18 objectives and how the Committee has achieved them is set out below:

2017/18 objectives	Achievements
Continue to review and monitor the approach to risk management and the level of risk driven through changes to the operating model, industry changes and technological developments	– Reviews undertaken in March and September of key risks and their management – The Group's adequacy of the controls in place to mitigate the Group's principal risks were considered in detail – Feedback provided to management as part of this review process
Continued increase in focus on the Group's approach to information security	– The Committee has continued to monitor information security and maintained its increased focus on this area – Information security programme updates were presented to the Committee at six-monthly intervals – Reviews of the IT controls environment were presented to the Committee at six-monthly intervals
Continue to monitor finance systems transformation to ensure that the associated projects are effectively completed	– Reports received from management and reviewed by the Committee as well as reports from internal and external auditors
Review and assess the continued effectiveness of the Group's control framework and base financial controls including their continued effective operation following the transfer of certain functions from the UK to the USA	– Group control framework and base financial controls regularly reviewed by the Committee – Regular reports on the control framework and testing of base financial controls received from Internal Audit

External audit

Auditor reappointment

The Committee reviews the external auditor appointment and the need to tender the audit annually. The Company confirms that it complied with the provisions of the Code and the Competition and Markets Authority Order for the financial year under review.

Following an external tender process, Deloitte was first appointed as the Company's external auditor for the 2015/16 audit and has served as the Company's auditor for three years. Deloitte's reappointment was approved by shareholders at the 2017 Annual General Meeting. Ian Waller has served as lead audit partner since Deloitte's appointment. In line with the Audit Practices Board Ethical Standard 3 the lead audit partner is due to be rotated following the 2019/20 audit.

For the financial year ending 31 July 2019, the Committee has recommended to the Board that Deloitte be reappointed as the external auditor and the Directors will be proposing the reappointment of Deloitte at the 2018 Annual General Meeting. The Committee confirms that the Company complied with the provisions of the Statutory Audit Services Order 2014 during the financial year ended 31 July 2018.

Assessing auditor effectiveness, auditor independence and objectivity and non-audit services

During the year, the lead audit partner, together with other relevant and appropriate Deloitte partners, attended all the Audit Committee meetings. They provided the Committee with information and advice including detailed reports on the financial statements, critical accounting judgements and estimates and the internal control environment.

The terms, areas of responsibility and scope of Deloitte's 2017/18 audit were reviewed and approved by the Committee. During the year, Deloitte provided external audit services for regulatory and statutory reporting. Deloitte are expected to report to the Committee any material departures from Group accounting policies and procedures that are identified during the course of their audit work. Deloitte's 2017/18 external audit plan has been successfully completed at the date of this report. No material items were found or reported in the financial year.

The Committee conducts an annual review of external auditor effectiveness. The review survey is completed by each operating business, as well as the Group Finance, Internal Audit, Insurance, Treasury and Tax teams and the Chief Information Officer. It is designed to take into consideration relevant professional and regulatory requirements, requires respondents to rate the performance of the external auditor against a range of measures, including the adequacy of planning, sufficiency of resource, thoroughness of review and testing, the thoroughness and robustness of audit challenge, adequacy and application of knowledge of the Group, usefulness of feedback and the quality of reporting. The Committee discussed auditor effectiveness, taking into account the results of the survey, and provided feedback to Deloitte.

Deloitte's performance in 2016/17 was highly rated, and opportunities to further enhance their service were discussed and agreed with the Committee. The Committee was satisfied that Deloitte provided an effective audit service in 2016/17. A review of the effectiveness of the audit for the year ended 31 July 2018 will be conducted during 2018/19.

The Company has policies and procedures in place to ensure that the independence and objectivity of the external auditor are not impaired. These include restrictions on the types of services which the external auditor can provide, in line with the Audit Practices Board Ethical Standards on Auditing. Details of the services that the external auditors cannot be engaged to perform are provided at **www.fergusonplc.com**.

Deloitte also provides specific assurance to the Committee on the arrangements and safeguards it has in place to maintain its independence and objectivity, including an internal process to pre-approve provision of non-audit services and the use of separate teams where non-audit services are being provided to the Group. This internal process requires all proposed audit and non-audit services to receive approval from the lead audit partner before commencing any work and includes assessment of the proposed services against the Ethical Standard.

The Committee believes that the safeguards in place are robust and continues to be satisfied with the independence and objectivity of Deloitte.

When considering the award of non-audit work to the external auditor, an assessment is made to consider if it is more effective for the work to be carried out by the external auditor who has existing knowledge of the Company and all appointments are made on a case-by-case basis. The prior consent of the Committee Chairman is required before the Company's external auditor is appointed to undertake non-audit work where such work is expected to exceed $65,000. Where the fee for non-audit work is expected to be less than $65,000, the Committee Chairman must be notified that the external auditors are to be engaged to provide a non-audit service but approval is not required in advance. The external auditor will not be appointed to provide non-audit services where the Chairman or the Committee considers it might impair their independence or objectivity in carrying out the audit. At each meeting the Committee reviews any new non-audit engagement of the Company's external auditor and reviews the level of fees for all non-audit work.

Audit and non-audit fees

During the year, Deloitte was appointed to undertake non-audit work. Fees for non-audit work performed by Deloitte as a percentage of audit fees for the year ended 31 July 2018 were 13 per cent (2017: 23 per cent). Further disclosure of the non-audit fees incurred during the year ended 31 July 2018, can be found in note 4 to the consolidated financial statements on page 113. Non-audit services related mainly to entity changes required in preparation for the disposal of Silvan A/S and the disposal of some Nordic property companies and assets. It was considered to be in the best interests of the Group to use Deloitte due to efficiencies gained from their existing knowledge of the Company. In addition, Deloitte were appointed by Lone Star Funds, a global private equity firm, in relation to their purchase of Stark Group to provide audit and review assurance on certain financial statements. Fees for this work, which are detailed on page 113, were paid by Ferguson and recharged to Lone Star so are not included within the disclosure of non-audit fees paid to the auditor. The Committee believes that Deloitte's continued objectivity and independence was unaffected due to the nature and scale of the work undertaken.

Internal audit

The scope of activity of internal audit is monitored and reviewed at each Committee meeting. An annual plan was agreed by the Committee in July 2018 which covers the activities to July 2019. During the year, the Head of Internal Audit attended all Committee meetings and provided the Committee with a detailed report on internal audit activities which the Committee reviewed and discussed in detail. The Committee considered the matters raised and the adequacy of management's response to them, including the time taken to resolve any such matters. During 2018, certain Group Services functions (including Internal Audit) transferred to the USA, reflecting the increasing size and importance to the Group of its largest operation, the US business. As a consequence, the role of

Head of Internal Audit also transferred to the USA and a new Head of Internal Audit was appointed in November 2017. The appointment was made by the Committee and the Head of Internal Audit continues to report to the Committee Chairman.

Throughout the year the Committee reviewed progress against the opportunities for improvement identified during last year's Internal Audit effectiveness review and satisfied itself that the improvements had been implemented. During the year the new Head of Internal Audit presented updates on the effectiveness of the function and identified and suggested areas where improvements to the function's effectiveness could be made. The Committee reviewed and discussed the new Head of Internal Audit's plans for continuing to improve the effectiveness of the Internal Audit function, including enhancing in-house IT audit capabilities, implementing an ongoing quality assurance improvement programme, a slight increase in headcount for more effective audit coverage, and training and development programmes.

Based on its ongoing review of the function, the Committee was satisfied with the effectiveness of the Group's Internal Audit function.

Risk

Risk management and viability statement

Risk management reports prepared by the Group Head of Risk were submitted to the Committee in March and September 2018. These reports summarise submissions from all areas of the business which the Executive Committee and senior management have reviewed. Risks relating to material joint ventures and associates are considered as part of this process. The six-monthly reports identify the significant risks to the Group, the controls in place and highlight the tolerance levels that the Executive Committee and, ultimately, the Board are prepared to accept. The Audit Committee reviewed the effectiveness of the Company's overall risk management framework, including the generic procedures for risk identification, assessment, mitigation, monitoring and reporting and was satisfied with their effectiveness.

The Committee also reviewed management's work in conducting a robust assessment of those risks which would threaten the future performance or liquidity of the Company, including its resilience to the threats of viability posed by certain of those risks in severe but plausible scenarios. These assessments included the stress testing of a series of cash flow projections to evaluate the impact of a number of unlikely, but realistic, worst-case scenarios. The Company's Viability Statement can be found on page 45.

Internal controls

During the year, the Committee monitored and reviewed the effectiveness of the Group's internal control systems, accounting policies and practices, standards of risk management and risk management procedures and compliance controls, as well as the Company's statements on internal controls, before they were agreed by the Board for this Annual Report and Accounts.

The Group's internal control systems are designed to manage rather than eliminate business risk. Such systems are necessary to safeguard shareholders' investment and the Company's assets and depend on regular evaluation of the extent of the risks to which the Company is exposed. The Committee receives regular reports throughout the year to assure itself that the Company's systems comply with the requirements of the Code. The Committee can confirm that the Company's systems have been in place for the full financial year and up to the date on which the financial statements were approved, that they are effective and that they are regularly reviewed by the Committee on behalf of the Board. The Committee is of the view that the Company has a well-designed system of internal control. These systems can only provide reasonable, but not absolute, assurance that risks are managed to an acceptable level.

In relation to the financial reporting process, at the business level, line management is required to implement base financial and other controls in line with a clear set of detailed policies relating to financial reporting and other accounting matters and act in accordance with the Group Code of Conduct. At Group level, the Group finance function oversees the financial reporting process through setting the policies and requiring a bi-annual self-certification of implementation by the businesses. At a further level, assurance functions (Internal and External Audits) test various aspects of the processes and report to the Committee.

The Chairman of the Committee reports any matters arising from the Committee's review to the Board following each meeting. This update covers the way in which the risk management and internal control processes are applied and any significant failings or weaknesses in, or exceptions to, these processes. There were no significant failings or weaknesses identified. These processes have been in place throughout the year ended 31 July 2018 and have continued to the date of this report.

Further information on the Company's risk management systems is set out in the section on Principal risks and their management on pages 44 to 49.

Whistleblowing and fraud

The Group's whistleblowing policy, which supports the Group-wide Code of Conduct, is monitored by the Committee. A summary of the Group's Code of Conduct is available at **www.fergusonplc.com**. The Committee received reports at each Committee meeting providing details of matters reported through the Group's international confidential telephone reporting lines and secure website reporting facility, which are operated on its behalf by an independent third party. All matters reported are investigated by the relevant operating company and reported to the Committee, together with details of any corrective action taken. The Committee also received reports at Committee meetings providing details of fraud losses on a half-yearly basis.

Fair, balanced and understandable assessment

At the request of the Board, the Committee assessed whether the content of the 2017/18 Annual Report and Accounts, taken as a whole, was fair, balanced and understandable. In order to make this declaration, a formal process was followed to ensure the Committee has access to all relevant information including a report from management detailing the approach taken in the preparation of the Annual Report and Accounts to ensure compliance. The Committee and all Board members received drafts of the Annual Report and Accounts in sufficient time to allow them to challenge the disclosures where necessary. During this process the Committee also reviewed the use of alternative performance measures in this Annual Report and Accounts and the underlying methodology used, and were satisfied that they enhance understanding of the performance of the business. The Committee advised the Board it was satisfied that, taken as a whole, the 2017/18 Annual Report and Accounts was fair, balanced and understandable and provided the necessary information for shareholders to assess the Company's position and performance, business model and strategy. The Directors' responsibilities statement can be found on page 69.

Darren Shapland
on behalf of the Audit Committee

Accountability

Directors' Report – other disclosures

Articles of Association

The Company's Articles of Association may be amended by a special resolution of the shareholders.

Appointment and removal of Directors

The Board may exercise all powers of the Company, subject to the limitations of the law and the Company's Articles of Association. The Board may appoint a person who is willing to act as a Director, either to fill a vacancy or as an additional Director. Under the Articles of Association any such Director shall hold office only until the next Annual General Meeting ("AGM") and shall then be eligible for election. In addition, the Articles require that at each AGM at least one-third of the current Directors must retire as Directors by rotation. All those Directors who have been in office for three years or more since their last appointment shall retire at that AGM. Any Director may at any AGM retire from office and stand for re-election. However, in accordance with the provisions of the Code, the Board has agreed that all continuing Directors will stand for annual election at the 2018 AGM.

Authority to allot shares

At the 2017 AGM, authority was given to the Directors to allot new ordinary shares up to a nominal value of £18,147,602. The Directors intend to propose at the 2018 AGM to seek authority to allot and grant rights to subscribe for or to convert securities into shares up to an aggregate nominal amount representing approximately two-thirds of the Company's issued share capital (excluding Treasury shares), calculated at the latest practicable date prior to publication of the Notice of AGM, but of that amount only one-third of the Company's issued share capital (excluding Treasury shares), calculated at the latest practicable date prior to publication of the Notice of AGM, may be allotted pursuant to a fully pre-emptive rights issue ("Allotment Authority"). If approved, the Allotment Authority will expire at the conclusion of the 2019 AGM.

Subject to the terms of the authority noted above, the Directors will also recommend that they be empowered to allot equity securities for cash or to sell or transfer shares out of Treasury other than pro rata to existing shareholders, until the 2019 AGM ("Authority to Disapply Pre-Emption"). This authority shall be limited to the allotment of equity securities for cash up to an aggregate nominal amount of no more than approximately 5 per cent of the issued ordinary share capital calculated at the latest practicable date prior to publication of the Notice of AGM as well as an additional 5 per cent, which may only be used for an acquisition or specified capital investment which is announced contemporaneously with the issue or which has taken place in the preceding six-month period and is disclosed in the announcement of the issue (in accordance with the Pre-Emption Group's Statement of Principles).

Authority to purchase shares

At the 2017 AGM, authority was given to the Directors to purchase the Company's ordinary shares. As a result of the share consolidation approved at the General Meeting on 23 May 2018, this authority was renewed and the Directors were given authority to purchase up to 23,479,800 of the Company's ordinary shares of $11\frac{227}{563}$ pence (with such purchases being subject to minimum and maximum price conditions). This authority to purchase the Company's shares will expire at the 2018 AGM.

On 3 October 2017, the Company announced a £500 million ($675 million) share repurchase programme (the "Buyback Programme"). The purpose of the Buyback Programme was to reduce the issued capital of Ferguson plc. The Buyback Programme was completed during the year. From 5 October 2017 to 14 June 2018, 8,807,827 ordinary shares of $10\frac{53}{66}$ pence and 370,382 $11\frac{227}{563}$ pence were purchased for a combined consideration of £500 million ($675 million) representing 3.63 per cent of the issued share capital of the Company as at 31 July 2018. All shares purchased were held in Treasury. Five shares held in Treasury were cancelled as part of the share consolidation referred to in the Share capital and voting rights section on page 68. Additional details concerning the Buyback Programme can be found in note 26 to the consolidated financial statements. Details of shares that were acquired by the Company in previous financial years that were held or disposed of during the financial year ended 31 July 2018 are provided in note 26 to the consolidated financial statements on page 135.

In certain circumstances, it may be advantageous for the Company to purchase its own ordinary shares and the Company seeks authority on an annual basis to renew the Directors' limited authority to purchase the Company's ordinary shares in the market pursuant to Article 57 of the Companies (Jersey) Law 1991. It is intended that a special resolution will be proposed at the 2018 AGM to grant authority for the Company to purchase up to approximately 10 per cent of the Company's issued share capital, calculated at the latest practicable date prior to the publication of the Notice of AGM. The special resolution will set the minimum and maximum prices which may be paid. The Directors have no present intention of exercising this authority to purchase the Company's shares but will keep the matter under review. The Directors will use this authority only after careful consideration, taking into account market conditions, other investment opportunities, appropriate gearing levels and the overall financial position of the Company. The authority will enable the Directors to continue to be able to respond promptly should circumstances arise in which they consider that such a purchase would result in an increase in earnings per share and would be in the best interests of the Company. In accordance with the Company's Articles of Association, the Company is allowed to hold shares purchased by it as Treasury shares that may be cancelled, sold for cash or used for the purpose of employee share plans. The Allotment Authority and Authority to Disapply Pre-Emption apply equally to shares to be held by the Company as Treasury shares and to the sale of Treasury shares. The Directors consider it desirable for these general authorities to be available to provide flexibility in the management of the Company's capital resources.

Capitalised interest

The Group does not have capitalised interest of any significance on its balance sheet.

Change of control (significant agreements)

The Company is not party to any significant agreements that take effect, alter or terminate upon a change of control following a takeover except for the $450 million US Private Placement Bonds issued on 30 November 2017, $800 million US Private Placement Bonds issued on 1 September 2015, the £800 million multi-currency revolving credit facility agreement dated 3 June 2015, the $290 million multi-currency revolving credit facility agreement dated 2 December 2016, the amended $600 million receivables facility agreement originally entered into on 31 July 2013 and the $281 million US Private Placement Bonds issued on 16 November 2005 which could become repayable following a relevant change of control. There are no agreements between the Company and any Director that would provide compensation for loss of office or employment resulting from a change of control following a takeover bid, except that provisions of the Company's share plans may cause options and awards granted under such plans to vest in those circumstances. All of the Company's share plans contain provisions relating to a change of control. Outstanding options and awards would normally vest and become exercisable for a limited period of time upon a change of control following a takeover, reconstruction or winding up of the Company (not being an internal reorganisation), subject at that time to rules concerning the satisfaction of any performance conditions.

Conflicts of interest

Processes and procedures are in place which require the Directors to identify and declare actual or potential conflicts of interest, whether matter-specific or situational. These notifications are made by a Director prior to or at a Board meeting, or in writing. All Directors have a continuing duty to update any changes. The Board may authorise potential conflicts which can be limited in scope, in accordance with the Company's Articles of Association. These authorisations are regularly reviewed. During the year, all conflict management procedures were adhered to and operated efficiently.

Disclosures required by Listing Rule 9.8.4R

The relevant disclosures concerning capitalised interest and dividend waiver can be found on pages 67 and 96 of this Annual Report and Accounts respectively. The remaining disclosures required by the above Listing Rule are not applicable to the Company.

Employees

The Group actively encourages employee involvement in driving our current and future success and places particular importance on keeping employees regularly informed about the Group's activities and financial performance and on matters affecting them individually and the business generally. This can be through informal bulletins, in-house publications and briefings, as well as via the Group's intranet sites. Group companies regularly engage with employees through consultation forums and the annual engagement survey. Further information on how the Group engages with employees can be found on page 25.

All employees are offered a range of benefits depending on their local environment. Where possible, they are encouraged to build a stake in the Company through the ownership of shares through participation in the Company's all-employee share plans.

Employment policies

Our employment policies aim to attract the very best people and we believe that a diverse and inclusive culture is a key factor in being a successful business. For more information on this, see pages 25 and 42.

The Group also has policies in place relating to the continuation of employment of, and appropriate retraining for, employees who become disabled, for giving full and fair consideration to applications for employment by disabled persons, having regard to their particular attributes and abilities, and for the training, career development and promotion of disabled employees.

Going concern statement

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.

Indemnities and insurance

The Company indemnifies the Directors in respect of liabilities incurred as a result of their office in accordance with its Articles of Association and to the maximum extent permitted by Jersey law.

Qualifying third-party indemnity provisions (to the maximum extent permitted by English law) were granted to all Directors in office by the then holding company (now known as Wolseley Limited) and these remain in force as at the date of this report. When Ferguson plc (registered in Jersey) became the new holding company, additional third-party indemnity provisions were granted by the Company, and it has granted indemnities in accordance with Jersey law to all Directors and the Company Secretary appointed since November 2010.

There is appropriate insurance coverage in respect of legal action against the Directors and officers. Neither the Company's indemnities nor insurance would provide any coverage to the extent that a Director is proved to have acted fraudulently or dishonestly.

Independent Auditors and audit information

In respect of the consolidated financial statements for the financial year ended 31 July 2018, the Directors in office at the date of this report confirm that, so far as they are each aware, there is no relevant audit information of which Deloitte LLP ("Deloitte") are unaware and each Director has taken all the steps that ought to have been taken as a Director to be aware of any relevant audit information and to establish that Deloitte are aware of that information.

Deloitte is willing to act as auditors of the Company, and resolutions concerning their appointment and the determination of their remuneration will be proposed at the 2018 Annual General Meeting.

Political donations

No political donations or contributions to political parties under the Companies Act 2006 have been made during the financial year. The Group policy is that no political donations be made or political expenditure be incurred.

Restrictions on transfer of shares

There are no restrictions on the voting rights attached to the Company's ordinary shares or on the transfer of securities in the Company. No person holds securities in the Company carrying special rights with regard to control of the Company. The Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or on voting rights with the exception of any awards granted under the Long Term Incentive Plan 2015 to Executive Directors. Such awards must be held for a two-year period following vesting.

Share capital and voting rights

On 11 June 2018, following a shareholder vote, the shares of Ferguson plc were consolidated on a 18 for 19 basis. Details of the authorised and issued share capital, together with any movements in the issued share capital during the year, are shown in note 26 to the consolidated financial statements on page 135.

Subject to the provisions of the Companies (Jersey) Law 1991 and without prejudice to any rights attached to any existing shares or class of shares, any share may be issued with such rights and restrictions as the Company may by ordinary resolution determine or as the Board shall determine. Copies of the Company's Articles of Association can be obtained from Companies Registry, Jersey, or by writing to the Group Company Secretary.

The Company also has a Level 1 American Depositary Receipt ("ADR") programme in the USA for which Deutsche Bank Trust Company Americas acts as Depositary. The American Depositary Shares ("ADS") which are evidenced by ADRs are traded on the US over-the-counter market, where each ADS represents one-tenth of a Ferguson plc ordinary share.

Substantial shareholdings

As at 31 July 2018, the Company had received the following notifications (on the dates specified below) pursuant to the Financial Conduct Authority's Disclosure Guidance and Transparency Rule 5 and the Company's Articles of Association. No further notifications were received between 31 July 2018 and the date of this report.

Name of holder	Percentage of issued voting share capital[1]	Date notification received
BlackRock	9.64%	13 December 2013
FIL Limited	4.95%	15 February 2010
Norges Bank	3.61%	10 October 2017

1. As at the date of disclosure. Since the disclosure date, the shareholders' interests in the Company may have changed.

Further disclosures

Further disclosures required under the Companies Act 2006, Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and the FCA's Listing Rules and Disclosure Guidance and Transparency Rules can be found on the following pages of this Annual Report and Accounts and are incorporated into the Directors' Report by reference:

	Page
Details of the Company's proposed final dividend payment for the year ended 31 July 2018	13
Disclosures relating to exposure to price, credit, liquidity and cash flow risks	125 to 129
Disclosures relating to financial risk management objectives and policies, including our policy for hedging	125 to 129
Viability statement	45
Disclosures concerning greenhouse gas emissions	43
The management report for the year	1 to 69
Information concerning post-balance sheet events	139
Future developments within the Group	1 to 49
Details of the Group's profit for the year ended 31 July 2018	30
Shares issued during the year	135

Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and Accounts and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent company financial statements, the Directors are required to:

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

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors of Ferguson plc as at the date of this Annual Report and Accounts are as follows:

Gareth Davis, Chairman
John Martin, Group Chief Executive
Michael Powell, Group Chief Financial Officer
Kevin Murphy, Chief Executive Officer, USA
Alan Murray, Senior Independent Director
Tessa Bamford, Non Executive Director
Darren Shapland, Non Executive Director
Nadia Shouraboura, Non Executive Director
Jacqueline Simmonds, Non Executive Director

Each Director confirms that, to the best of their knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the management report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

The Directors' Report, comprising pages 13 to 96 was approved by the Board and signed on its behalf by:

Graham Middlemiss
Group Company Secretary
1 October 2018

Directors' Remuneration Report

The Remuneration Committee operates the remuneration policy for executive directors, with a focus on fair reward for performance.

Jacky Simmonds
Remuneration Committee Chair

Remuneration Committee members

Membership	Year of appointment	Meetings attended
Jacky Simmonds (Chair)	2014	5 (5)
Tessa Bamford	2011	5 (5)
Alan Murray	2013	5 (5)
Darren Shapland	2014	5 (5)
Nadia Shouraboura	2017	5 (5)
Members who left during the year		
John Daly	2014	4 (4)
Pilar López	2013	4 (5)

2018 focus All

– Full review of the Remuneration Policy and consultation with major shareholders

– Executive remuneration awards and outcomes

– Review of incentive plans for senior executives below Board level

Dear Shareholder

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the year ended 31 July 2018.

Remuneration Policy All

The current Directors' Remuneration Policy ("2015 Policy") was approved at the AGM in December 2015. In line with the requirement to obtain shareholders' approval at least every three years, I am pleased to present details of a revised Directors' Remuneration Policy ("2018 Policy") that will be submitted to shareholders for approval at the AGM in November 2018.

The proposed amendments to the 2015 Policy and the other major decisions taken by the Committee during the year are consistent with the Company's reward principles.

Over the last 12 months, the Committee has conducted a thorough review of the 2015 Policy to ensure it remains fit for purpose, while appropriately reflecting shareholder feedback since the Policy was last approved, market trends and developments in remuneration governance best practice.

The Committee concluded from its review that the 2015 Policy continues to be aligned with the Company's strategy and appropriate for Ferguson; the annual bonus captures appropriate short-term financial and personal objectives, while the LTIP continues to reinforce long-term decision making through a balanced focus on sustainable earnings growth, cumulative cash flow and total shareholder return outperformance of the FTSE 100. The result is that pay outcomes have been closely aligned with Company performance, and over the last three years have underpinned sustained long-term business performance; we have generated $4.443 billion of adjusted OpCF over that period, the Group's TSR (50.4 per cent) has outperformed the FTSE 100 (27.1 per cent), and adjusted EPS has increased by 26.6 per cent.

It is therefore proposed that the 2018 Policy be broadly unchanged from the 2015 Policy, save for a small number of revisions to help ensure that the Policy appropriately reflects the latest investor thinking on remuneration governance. These changes are:

– pension contributions will be reduced for future Executive Director appointments;
– clarifying our policy on tax equalisation;
– aligning the maximum aggregate fees for all Non Executive Directors (including the Chairman) with the limit provided for under the Company's Articles of Association (and for which an increase is being proposed by separate ordinary resolution at the 2018 AGM); and
– the introduction of an Intercontinental Allowance for all Non Executive Directors (including the Chairman) reflecting the international composition of our Board and the significant travel that some of them have to undertake to attend Ferguson Board meetings, which are generally held in Switzerland or the US.

When undertaking the review, the Committee also took the opportunity to review the incentive opportunity limits contained in the 2015 Policy to ensure they provide sufficient headroom to compete effectively in the US for the best talent. Whilst currently not an issue, the Committee concluded that there are significant differences between senior executive pay levels and practices in the USA and the UK, and that the 2018 Policy limits may not be sufficiently flexible enough to enable Ferguson to offer a competitive package, in the event we needed to recruit senior US talent to the Board in the future. Therefore, it is our intention to undertake further work to understand the differences in local market practices and the implications for remuneration at Ferguson. If this results in a need to review our 2018 Policy further, then we will return to consult with shareholders and seek approval for any proposed changes at a future AGM.

The Committee consulted with and received helpful feedback from those of our largest shareholders who responded on these proposed revisions (further detail on the consultation is set out below).

2018 Remuneration Policy – engagement with shareholders

– During the year, the Committee consulted Ferguson's largest shareholders on proposed changes to the 2015 Policy.
– The Committee contacted the Company's 22 largest shareholders (representing 57.3 per cent of Ferguson's issued share capital) as well as shareholder representative bodies. Meetings with the Remuneration Committee Chair and other Company representatives to discuss the proposed changes to the 2015 Policy were also offered to all those contacted.
– The Committee received feedback from four shareholders and two shareholder representative bodies. Overall the feedback received was positive and supportive of the proposed changes.
– Feedback was reviewed and discussed by the Committee and the proposed 2018 Policy was refined as appropriate.

Ferguson's Remuneration Principles

- To provide remuneration packages that fairly reward Executive Directors and senior executives for the contribution they make to the business, having regard to the size and complexity of the Group's business operations and the need to attract, retain and motivate executives of the highest quality;
- to have remuneration packages which comprise salary, short-term bonuses, long-term incentives, benefits-in-kind and pension provision; and
- to aim to provide a total cash award of base salary and bonus around the median of the market, with the opportunity to earn a higher reward for sustained superior financial and individual performance.

Company performance All

Company performance for the year ended 31 July 2018 again saw strong trading performance in the USA and Canada and, on 29 March 2018, we successfully completed the sale of our Nordic business, Stark Group, to Lone Star Funds, whilst the UK business continues its restructuring programme. Specifically:

- the strong US and Canadian trading performance translated into strong profit performance for the Group with both the gross profit and trading profit bonus targets being achieved at maximum level, whilst cash-to-cash days performance was above threshold for the year;
- over the performance period 2015-2018 for the LTIP, TSR was 50.4 per cent and as a result the Company achieved a ranking of 28th against our FTSE 100 comparator group;
- adjusted EPS growth was 17.7 per cent above UK RPI, and above the threshold level set by the Committee; and
- three-year cumulative adjusted OpCF was $4.443 billion, above maximum.

Taking account of this strong performance, the Committee has confirmed:

- bonus payments to the Executive Directors for the year ended 31 July 2018 ranging from 93 per cent to 98 per cent, averaging 95 per cent of their maximum levels; and
- the LTIP granted for the performance period 2015-2018 will vest overall at 81.57 per cent of maximum.

Looking ahead to the year ending 31 July 2019

In accordance with our Policy, the Committee undertook an annual review of the Executive Directors' base salaries for the coming year. The Committee awarded a salary increase of 2.5 per cent to the Group Chief Executive ("Group CEO"), John Martin, in line with the general level of increases awarded to other associates in the Group. As set out in my report last year, the Committee's intention (consistent with our 2015 Policy) is to appoint Executive Directors on below-market salaries, and increase these on a phased basis over two years subject to their performance, by more than the average salary increase for the relevant general workforce. This policy applies both to our Group Chief Financial Officer ("Group CFO"), Mike Powell, and our Chief Executive Officer, USA, ("CEO, USA") Kevin Murphy, who were appointed in 2017 on salaries below the market median and those of their predecessors.

Reflecting their strong individual performances, as well as their significant contributions to overall Company performance over the last year, the base salaries for Mike Powell and Kevin Murphy have been increased by 7.8 per cent and 8.3 per cent respectively.

In addition, and as permitted under the 2015 Policy, the Committee believes it is appropriate to increase the maximum annual bonus opportunity for Kevin Murphy to 140 per cent of base salary, consistent with his predecessor and to bring his package more into line with competitive practices in the USA, where we compete for the highest calibre of senior talent for this role.

The annual bonus will operate along similar lines as for the year ended 31 July 2018, except that the bonus scorecard of measures will be simplified by removing gross profit and upweighting trading profit. Further details can be found on page 86. The implementation of the LTIP for the coming year remains unchanged, with TSR, EPS and OpCF continuing to apply in equal proportions (as they have done since awards made in 2015/16).

Finally, and on behalf of the Committee, I thank you for your continued support and trust you will find the Directors' Remuneration Report useful and informative, and I look forward to receiving your support at the 2018 AGM, where I will be available to respond to your questions on this report.

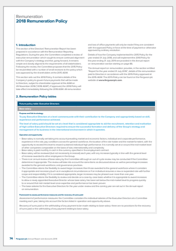
Jacky Simmonds
Chair of the Remuneration Committee

Glossary of terms in Directors' Remuneration Report 2018

AGM	Annual General Meeting
Code	UK Corporate Governance Code
EPS	Headline Earnings Per Share
ESPP	Employee Share Purchase Plan
ISP	International Sharesave Plan
LTIP	Long Term Incentive Plan 2015
LTI plans	Ordinary Share Plan 2011, Revised Ordinary Share Plan 2016, Performance Ordinary Share Plan 2016, Performance Based Buy Out Award and Restricted Share Buy Out Awards
OpCF	Operating cash flow
Policy	Directors' Remuneration Policy
Remuneration Reporting Regulations or Regulations	The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended
Report	Directors' Remuneration Report
TSR	Total Shareholder Return

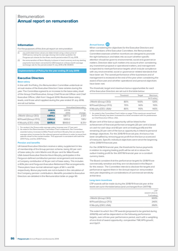
Key elements of this report

2018 Remuneration Policy



+ Pages 74 to 85

Annual report on remuneration



+ Pages 86 to 96

At a glance

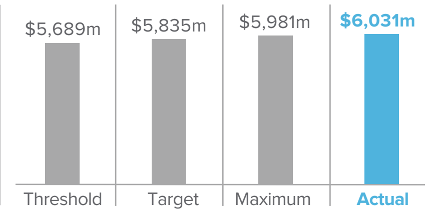
2017/18 performance summary

The performance numbers shown here are those used for remuneration purposes only and are defined and reconciled to the financial statements below.

Adjusted Group ongoing gross profit

Performance

$6,031m
(+10.2%)



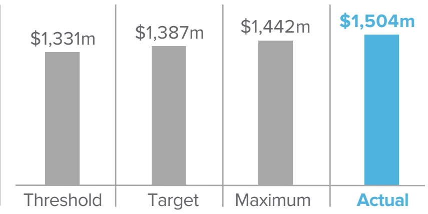
Definition and reconciliation

Ongoing Group gross profit of $6,063 million (see note 2 to the consolidated financial statements on page 108) retranslated at Company budgeted foreign exchange rates for the year ended 31 July 2018.

Adjusted Group ongoing trading profit

Performance

$1,504m
(+14.9%)



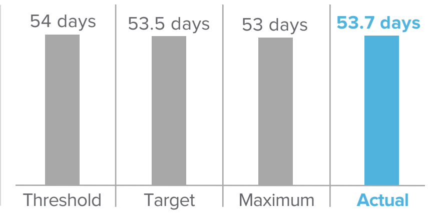
Definition and reconciliation

Ongoing Group trading profit of $1,507 million (see note 2 to the consolidated financial statements on page 108) retranslated at Company budgeted foreign exchange rates for the year ended 31 July 2018.

Adjusted Group ongoing average cash-to-cash days

Performance

53.7 days
(0.3 days improvement)



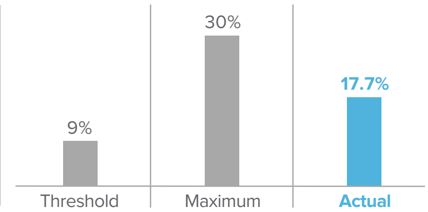
Definition and reconciliation

The 12-month average number of days from payment for items of inventory to receipt of cash from customers for the ongoing business at Company budgeted foreign exchange rates for the year ended 31 July 2018.

Adjusted EPS growth over UK inflation (3 years)

Performance

17.7%



Definition and reconciliation

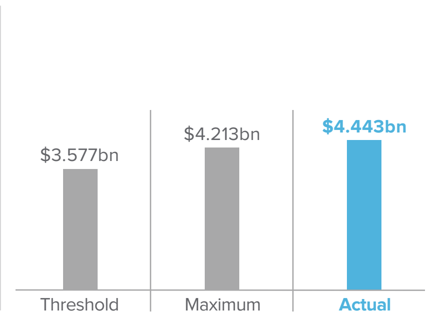
Headline earnings per share of 322.4 cents in 2015 and 444.4 cents in 2018 adjusted to include 36.7 cents in 2015 and 10.2 cents in 2018 relating to the disposed Nordic business.

The growth in adjusted headline earnings per share from 359.1 cents in 2015 to 454.6 cents in 2018 in excess of UK inflation ("RPI") for the same period of 8.9 per cent.

Adjusted OpCF (3 years)

Performance

$4.443bn



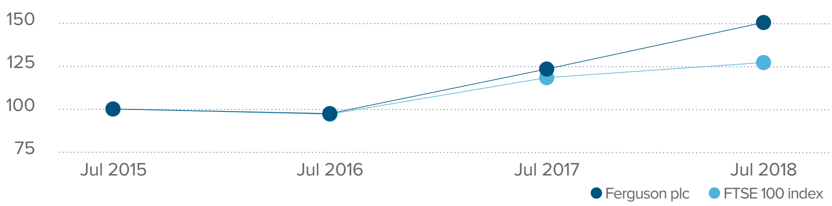
Definition and reconciliation

Cash generated from operations, before interest and tax, of $1,323 million (2016/17: $1,410 million; 2015/16: $1,488 million) adjusted for items which are not considered part of the underlying business performance as agreed by the Remuneration Committee. These adjustments were to add back $31 million (2016/17 and 2015/16: $nil) in relation to the cash flow lost due to the Nordic business being disposed of during the year; $59 million (2016/17: $25 million; 2015/16: $8 million) of cash flow on exceptional items; and $99 million (2016/17 and 2015/16: $nil) in relation to a special funding contribution to the UK defined benefit pension plan.

3-year TSR performance vs FTSE 100

Performance

28th
against FTSE 100

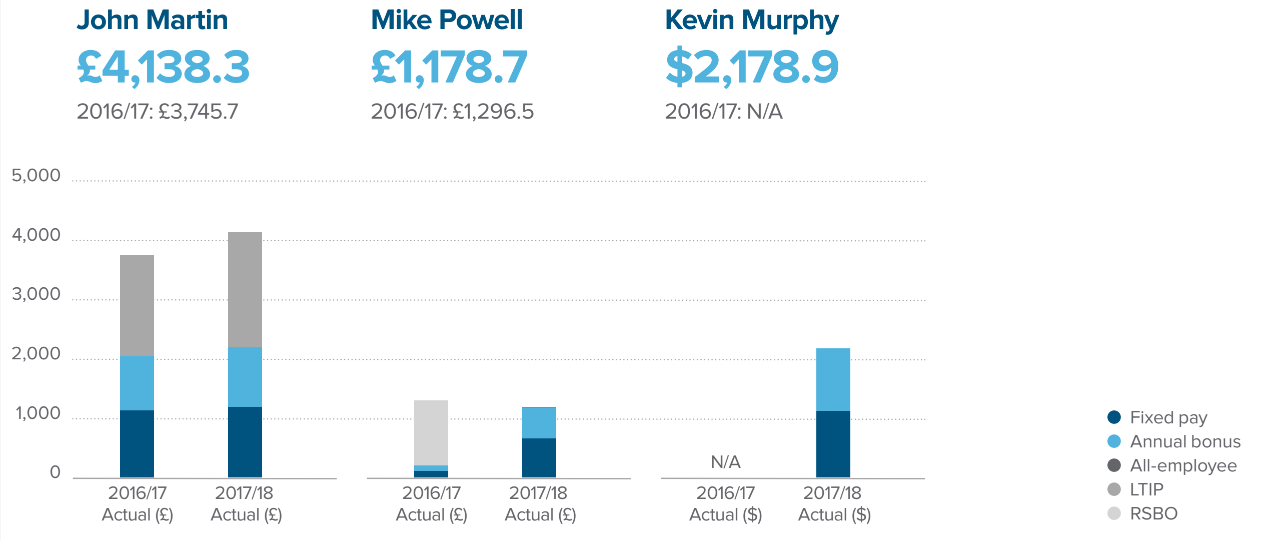


Rewarding 2017/18 performance

The graphs below show total remuneration for Executive Directors in post during 2017/18, as well as amounts received in fixed pay, annual bonus, long-term incentive and other awards.

The "single figure" of total remuneration for each Executive Director who served during the year is set out in the Remuneration table on page 90.

Total remuneration 2017/18 (£000/ $000)



For John Martin, following his promotion to Group Chief Executive on 1 September 2016 total remuneration for the year ended 31 July 2017 reflects: (1) one month's salary at an annualised level of £531,000 and pension contributions of 25 per cent base salary for his services as Group Chief Financial Officer; (2) 11 months' salary at an annualised level of £860,000 with pension contributions of 30 per cent base salary for his services as Group Chief Executive; and (3) an adjusted value for the LTI vesting in November 2017 to reflect the actual value on vesting of £1,699,700.

For Mike Powell, following his appointment as Group Chief Financial Officer on 1 June 2017, total remuneration for the year ended 31 July 2017 reflects the two months' salary, taxable benefits, pension benefits, annual bonus payment and the grant of three Restricted Share Buy Out ("RSBO") awards. The RSBO awards were previously detailed on page 80 of the 2017 Annual Report and Accounts and the face value of those RSBO awards is now shown in the 2016/17 figures for Mr Powell in the Remuneration table on page 90.

For Kevin Murphy, the remuneration (including any vested share plan awards) he received relating to his service in 2016/17, prior to his promotion to Chief Executive Officer, USA and appointment to the Board as an Executive Director on 1 August 2017, is not required to be included in the Remuneration table on page 90 and is therefore not included in the graph above.

2018 Remuneration Policy

1. Introduction

This section of the Directors' Remuneration Report has been prepared in accordance with the Remuneration Reporting Regulations. During the year, the Committee completed a review of executive remuneration which sought to ensure continued alignment with the Company's strategy and that, going forward, it remains simple and closely aligned to the requirements of all stakeholders. Following the review, the Committee proposes that the 2015 Policy be resubmitted with a number of small revisions to the policy which was approved by the shareholders at the 2015 AGM.

This section sets out the 2018 Policy. It contains details of the Company's policy to govern future payments that will be made to Directors, subject to shareholder approval at the AGM on 29 November 2018 ("2018 AGM"). If approved, the 2018 Policy will take effect immediately following the 2018 AGM. All remuneration and loss of office payments will only be made if they are consistent with the approved Policy in force at the time of payment or otherwise approved by ordinary resolution.

Details of how the Company implemented the 2015 Policy for the year ended 31 July 2018, and will implement the 2018 Policy for the year ending 31 July 2019 are provided in the Annual report on remuneration section starting on page 86.

The Annual report on remuneration provides, in the section entitled "Report for the year ended 31 July 2018", details of the remuneration paid to Directors in accordance with the 2015 Policy approved at the 2015 AGM. The 2015 Policy can be found on the Ferguson plc website at **www.fergusonplc.com**.

2. Remuneration Policy tables

Future policy table: Executive Directors

Base salary

Purpose and link to strategy

To pay Executive Directors at a level commensurate with their contribution to the Company and appropriately based on skill, experience and performance achieved.

The level of salary paid should be set at a level that is considered appropriate to aid the recruitment, retention and motivation of high calibre Executive Directors required to ensure the successful formation and delivery of the Group's strategy and management of its business in the international environment in which it operates.

Operation and opportunity

– Base salary is normally set taking into account prevailing market and economic factors, individual and corporate performance, experience in the role, pay conditions across the general workforce, the location of the role holder and the market for talent, with the opportunity to exceed this level to reward sustained individual high performance. It is normally set at or around the mid-market level of other companies comparable on the basis of size, internationality and complexity.
– Base salary is paid monthly in cash in the currency specified in the employment contract.
– Base salary will be reviewed (but not necessarily increased) each year, with any increases typically in line with the general level of increase awarded to other employees in the Group.
– There is an annual review of base salary by the Committee although an out-of-cycle review may be conducted if the Committee determines it appropriate. The review will take into account the same items as discussed above as well as percentage increases awarded to the general workforce, and governance practices.
– The Committee retains the flexibility to award larger increases than those awarded to the general workforce where it considers it appropriate and necessary (such as in exceptional circumstances or if an individual assumes a new or expanded role with further scope and responsibility). If it is considered appropriate, larger increases may be phased over more than one year.
– The Committee retains the flexibility to review and decide on a case-by-case basis whether it is appropriate to award increases to allow a newly appointed Executive Director whose base salary has been set below the mid-market level to progress quickly to or around that mid-market level once expertise and performance has been proven.
– The base salaries for the Executive Directors for the year under review and the coming year are set out in the Annual report on remuneration.

Framework to assess performance measures and for recovery of sums paid

Assessment of performance measures: the Committee considers the individual salaries of the Executive Directors at a Committee meeting each year, taking into account the factors listed in operation and opportunity above.

Recovery of sums paid or the withholding of any payment to be made relating to base salary: there are no provisions for the recovery of sums paid or the withholding of any payment relating to base salary.

Future policy table: Executive Directors

Taxable benefits

Purpose and link to strategy

To provide a range of market competitive benefits to encourage retention and which enable an Executive Director to perform his or her duties effectively.

Operation and opportunity

- A range of benefits are provided that, depending on the location of the individual, may include:
  - life assurance cover;
  - critical illness cover;
  - private medical cover for Executive Directors and their dependants;
  - car, driver, car allowance;
  - professional tax and financial advice (including assistance in relation to tax filings);
  - relocation assistance (where necessary);
  - tax equalisation arrangements in relation to additional international tax and social security contributions, so that the Executive Director is no better or worse off from an individual tax perspective; and
  - other reasonable ancillary benefits, where necessary.
- The travel and other business expenses incurred in relation to their duties as Executive Directors may be reimbursed or paid for by the Company directly, as appropriate (including any relevant tax payable).
- In addition, the Executive Directors have the benefit of Directors' and Officers' Liability Insurance and an indemnity from the Company.
- It is expected that an Executive Director would receive reasonable levels of benefits consistent with those typically offered in his or her country of residence.
- Benefits are typically paid monthly and their value assessed at the end of each financial year for tax purposes.
- Benefits are monitored, controlled and reviewed on a periodic basis.
- The Committee retains the flexibility to offer additional benefits where appropriate. This would be reviewed on a case-by-case basis due to the position and circumstances of the relevant Executive Director (e.g. if asked to relocate, or is recruited, from overseas).
- The benefits for the Executive Directors for the year under review and the coming year are set out in the Annual report on remuneration.

Framework to assess performance measures and for recovery of sums paid

Assessment of performance measures: not applicable.

Recovery of sums paid or the withholding of any payment to be made relating to benefits: consistent with our policy for all employees there are no provisions for the recovery of sums paid or the withholding of any payment relating to benefits.

Pension

Purpose and link to strategy

To provide a market-competitive benefit for retirement which rewards sustained contribution and to encourage the recruitment and retention of high performing Executive Directors.

Operation and opportunity

- Executive Directors are eligible to participate in the relevant pension arrangements offered by the Group or to receive a cash salary supplement in lieu of pension entitlement.
- Pension contribution or cash salary supplement is paid monthly.
- The entitlement is fixed as a percentage of base salary.
- The maximum opportunity, either by way of a Company contribution to a Group pension arrangement or payment of a cash salary supplement, for current Executive Directors will not be increased from the percentage levels set out in the Annual report on remuneration. The maximum opportunity for any new Executive Director who is first appointed as a Director on or after the date of the 2018 AGM is 25% of base salary.

Framework to assess performance measures and for recovery of sums paid

Assessment of performance measures: not applicable.

Recovery of sums paid or the withholding of any payment to be made relating to pension: consistent with our policy for all employees there are no provisions for the recovery of sums paid or the withholding of any payment relating to pension.

Future policy table: Executive Directors

Annual bonus

Purpose and link to strategy

To reward achievement of annual financial and operational goals consistent with the strategic direction of the business.

Operation and opportunity

– Executive Directors are eligible (subject to invitation at the discretion of the Committee in consultation with the Group Chief Executive, other than in relation to his or her own arrangements) to receive an annual bonus which is based on an assessment of financial and personal performance in the relevant financial year.
– The annual bonus earned up to the target level of payout by an Executive Director shall be paid in cash and, if shareholding guidelines have been met at the time the bonus is awarded, any amounts of annual bonus earned in excess of target will also be paid in cash. If shareholding guidelines have not been met, the Deferred Bonus Plan policy on page 77 will apply.
– The annual bonus is not pensionable.
– The annual bonus is normally reviewed annually and the opportunity available may be adjusted each year up to a maximum opportunity of 150 per cent of base salary. The annual bonus opportunities for each of the Executive Directors for the year under review and the coming year are set out in the Annual report on remuneration. Threshold, on-target and maximum performance levels are also set as a percentage of base salary.
– All bonus payments are determined by the Committee.
– Details of the actual vesting, as well as the threshold, on-target and maximum performance percentages for each Executive Director for the current year, as well as details of performance criteria set for the year under review and performance against them, are set out in the Annual report on remuneration.

Framework to assess performance measures and for recovery of sums paid

Assessment of performance measures: financial key performance indicators are used. Performance measures, targets and weightings are reviewed annually. They will be set each year by the Committee with reference to the Group's annual budget, business priorities at the time and also the long-term strategic business plan, as well as market expectations of the Company's future performance. They are intended to align the performance of Executive Directors with the Group's near-term objectives of delivering against its strategy. At least 80 per cent of maximum bonus is weighted to financial performance and not more than 20 per cent of maximum bonus is weighted to personal objectives aimed at driving the strategic objectives of the business.

Recovery of sums paid or the withholding of any payment to be made relating to annual bonus: for bonuses paid for the 2015/16 financial year, and subsequently, recovery and withholding provisions will apply. The Committee has the right to recover from Executive Directors any amount of the bonus paid at any time before the second anniversary of the announcement of the results for the financial year to which the annual bonus relates in the following circumstances: (a) the Committee forms the view that there has been a material financial misstatement of the Company's audited financial accounts (other than as a result of a change in accounting practice) and that such misstatement resulted either directly or indirectly in a higher cash bonus payment being made than would have been the case had that misstatement not been made; and/or (b) it is discovered that, during the financial year in respect of which the bonus is paid, the Executive Director: (i) conducted him/herself in a way which resulted in significant reputational damage to the Company; or (ii) was guilty of negligence or gross misconduct. The Committee also has the right to recover from an Executive Director any amount of the bonus paid in the event a fraud was effected by or with the knowledge of the Executive Director during the financial year in respect of which the bonus was paid. There is no time limit on the application of recovery or withholding provisions in the event of fraud during a year to which a bonus payment relates.

Future policy table: Executive Directors

Deferred Bonus Plan ("DBP")

Purpose and link to strategy

To encourage Executive Directors to build up a shareholding in value equivalent to a set multiple of base salary and to facilitate share ownership to provide further alignment with shareholders.

To align interests of Directors and shareholders in developing the long-term growth of the business and the execution and delivery of the Group's strategy.

Operation and opportunity

– Executive Directors who have not met their shareholding guidelines requirement in any financial year in which an annual bonus is paid will be granted an award under the DBP as set out below.
– In any given year, the annual bonus earned up to the target level of payout by an Executive Director shall be paid in cash. If shareholding guidelines have not been met at the time the bonus is awarded, amounts earned in excess of target by an Executive Director will be deferred into shares and held subject to the terms of the DBP ("DBP shares") and subject to forfeiture for three years (or such other period as the Committee considers appropriate) from the date the bonus is awarded.
– Awards of DBP shares will normally be made in the form of nil-cost options but may be awarded in other forms allowed under the DBP rules (if appropriate).
– Dividend equivalent payments may be made in relation to the DBP shares in cash or shares equal in value to the value of dividends that would have been payable on the DBP shares during the period between grant and vesting of an award.

Framework to assess performance measures and for recovery of sums paid

Assessment of performance measures: not applicable.

Recovery of sums paid or the withholding of any payment to be made relating to DBP: for DBP shares awarded in respect of bonus awards made for the 2015/16 financial year, and subsequently, recovery and withholding provisions will apply. The Committee has the right to recover or withhold from Executive Directors any award of DBP shares at any time before the second anniversary of the date on which they vested in the following circumstances: (a) there has been a material financial misstatement of the Company's audited financial accounts (other than as a result of a change in accounting practice); and/or (b) (i) the Executive Director conducted him/herself in a way which resulted in or was reasonably likely to result in significant reputational damage to the Company; or (ii) was guilty of negligence or gross misconduct. The Committee also has the right to recover from an Executive Director any award of DBP shares in the event a fraud was effected by or with the knowledge of the Executive Director. There is no time limit on the application of recovery or withholding provisions in the event of fraud during a year to which a bonus payment relates.

Future policy table: Executive Directors

LTIP

Purpose and link to strategy

To align the interests of Executive Directors and those of shareholders in developing the long-term sustainable growth of the business and execution and delivery of the Group's strategy.

To facilitate share ownership to provide further alignment with shareholders.

Operation and opportunity

– Executive Directors are eligible to participate (subject to invitation by the Committee) in the LTIP approved by shareholders.
– Awards are typically made annually in each financial year in accordance with the plan rules and are structured as nil cost options, restricted shares, conditional shares or phantom shares. They are not pensionable.
– Vesting of awards is subject to the Company meeting performance targets measured over at least three financial years, typically starting with the financial year in which the grant takes place.
– The Committee retains the discretion to award up to the maximum award that may be granted under the LTIP rules which is 350 per cent of base salary (in shares valued on or around the date of grant), although the Committee will not increase awards for each Executive Director role above any prior year award levels under the LTIP without prior consultation with the Company's major shareholders.
– For each performance element, 25 per cent of the award vests for threshold performance (0 per cent below threshold) increasing pro rata on a straight-line basis to 100 per cent vesting for maximum performance.
– The shareholding guidelines require Executive Directors to retain vested shares (after taking into account any shares sold to pay tax, social security or similar liabilities) received from awards made under the LTIP on or after 1 December 2015 for two years from the vesting date (except in exceptional circumstances and with the approval of the Committee). For awards granted as options, it will be sufficient to hold the vested but unexercised nil cost options for this period.
– Dividend equivalent payments may be made in accordance with the LTIP rules on the shares which are the subject of the award (to the extent they vest) in cash or shares with a value equal to the value of dividends that would have been payable during the period between grant and vesting of an award.
– The LTIP awards granted in the year under review, and those proposed to be granted to the Executive Directors are set out in the Annual report on remuneration.

Framework to assess performance measures and for recovery of sums paid

Assessment of performance measures: metrics will be assessed each year and will be set by the Committee prior to grant to ensure they remain appropriate. The Committee may adjust in limited circumstances the targets or introduce alternative or additional measures to those set out on page 87 of the Annual report on remuneration but would consult with major shareholders before doing so. The Committee may also vary: (i) weightings between measures provided that no single measure will have a weighting of more than 40 per cent; and (ii) the targets after the start of the cycle, although the targets will not be materially less challenging than those originally set.

Recovery of sums paid or the withholding of any payment to be made relating to LTIP: the Committee may, in its discretion, at any time before the fifth anniversary of the date of grant, recover from Executive Directors any vested LTIP shares and/or cash paid and withhold any unvested awards or reduce future grants in any of the following circumstances: (i) a material financial misstatement of the Company's audited financial accounts (other than as a result of a change in accounting practice); (ii) any conduct of the Executive Director which results in or is reasonably likely to result in significant reputational damage to the Company; and (iii) the negligence or gross misconduct of the Executive Director. The Committee may, in its discretion, recover from an Executive Director any vested LTIP shares and/or cash paid and withhold any unvested awards or reduce future grants in the event of a fraud effected by or with the knowledge of the Executive Director. There is no time limit on the application of recovery or withholding provisions in the event of a fraud.

Future policy table: Executive Directors

All-employee share plans

Purpose and link to strategy

To foster wider employee share ownership and to allow Directors to voluntarily invest in the Company.

Operation and opportunity

- Executive Directors are entitled to participate in the Company's all-employee share plan applicable to the jurisdiction in which they are based on the same terms as other eligible employees.
- A North America-based Executive Director may make monthly savings over a period of one year linked to the grant of an option over Ferguson plc shares with an option price at a discount of up to 15 per cent of the market value of the shares at grant. Grants are currently made under the ESPP. A UK or Europe-based Executive Director may make monthly savings over a period of three or five years or other period set by any relevant tax authority linked to the grant of an option over Ferguson plc shares with an option price at a discount of up to 20 per cent of the market value of the shares at grant. Grants are currently made under the ISP.
- The maximum opportunity under the rules of both plans is £500 (or local currency equivalent) per month (being the current maximum permitted by the UK tax authority for UK all-employee share plans) or such other maximum monthly payment mandated by the UK tax authority in respect of UK all-employee share plans. At the time of this Policy, the Board has currently set the savings limit at £250 per month for both ISP and ESPP plans. The savings limit used each year will be reviewed by the Board and set annually at an amount up to, but not exceeding, the maximum opportunity.

Framework to assess performance measures and for recovery of sums paid

Assessment of performance measures: not applicable as these are all-employee share plans (without performance measures) offered to all employees.

Recovery of sums paid or the withholding of any payment to be made relating to all-employee share plans: there are no provisions for the recovery of sums paid or the withholding of any payment relating to all-employee share plans.

Shareholding guidelines

Purpose and link to strategy

To encourage Executive Directors to build up a shareholding, to align interests with those of shareholders in developing the sustainable long-term growth of the business and the execution and delivery of the Group's strategy.

Operation and opportunity

- Executive Directors are required to hold shares equivalent in value to a prescribed percentage of their base salary.
- Executive Directors are advised of the required target percentage, a timeline to achieve the target and requirements for maintaining the shareholding in line with salary increases.
- Share ownership may be achieved by retaining shares received as a result of participating in a Company share plan (after taking into account any shares sold to finance option exercises and/or to pay tax, social security and similar liabilities).
- Executive Directors are also required to retain vested shares (after taking into account any shares sold to pay tax, social security and similar liabilities) received from awards made under the LTIP for two years from the vesting date (except in exceptional circumstances and with the approval of the Committee) and while employed by the Group. For awards granted as options, it will be sufficient to hold the vested but unexercised options for this period.
- Details of the actual guidelines that apply to each Executive Director and their current shareholdings are set out in the Annual report on remuneration.

Framework to assess performance measures and for recovery of sums paid

Assessment of performance measures: not applicable as these are guidelines for holding shares and not a form of remuneration.

Recovery of sums paid or the withholding of any payment to be made relating to shareholding guidelines: there are no provisions for the recovery of sums paid or the withholding of any payment relating to shareholding guidelines.

Future policy table: Non Executive Directors

Fees

Purpose and link to strategy

To remunerate Non Executive Directors to reflect their level of responsibility and time commitments.

Operation and opportunity

– The Chairman is paid a basic fee determined by the Remuneration Committee.
– Non Executive Directors are paid a basic fee. Additional fees are paid for the roles of Senior Independent Director, Chairman of the Audit Committee and Chairman of the Remuneration Committee.
– Fees for Non Executive Directors, other than the Chairman, are determined by the Chairman and the Executive Directors at a Board meeting. Additional fees for Non Executive Directors for duties beyond those stated above may be payable, at the discretion of the Board, from time to time to reflect the additional time commitment and responsibility involved.
– The maximum aggregate fees for all Non Executive Directors, including the Chairman, are set out in the Company's Articles of Association (or such higher amount as the Company may from time to time by ordinary resolution determine).
– The Committee, in relation to the Chairman, and the Board, in relation to the other Non Executive Directors, retain the flexibility to increase fee levels to ensure that they continue to appropriately recognise the experience of the individual, time commitment of the role, and fee levels at comparable companies. Fee increases, if applicable, are normally effective from 1 August each year.
– The fees payable to the Chairman and Non Executive Directors for the year under review and the coming year are set out in the Annual report on remuneration.

Framework to assess performance measures and for recovery of sums paid

Assessment of performance measures: not applicable.

Recovery of sums paid or the withholding of any payment to be made relating to fees: there are no provisions for the recovery of sums paid or the withholding of any payment relating to fees.

Benefits

Purpose and link to strategy

To enable a Non Executive Director to perform his or her duties effectively.

Operation and opportunity

– Non Executive Directors (including the Chairman) do not participate in any incentive plan, nor is any pension payable in respect of their services, and they are not entitled to any benefits, except:
  - they receive assistance with their tax affairs arising from the Company's tax residence in Switzerland;
  - the travel and other business expenses incurred relating to their duties as Non Executive Directors may be reimbursed or paid for by the Company directly, as appropriate (including any relevant tax payable); and
  - a travel allowance of £2,500 (each way), where there would be a need for intercontinental flight in excess of five hours (one way) based on the home location of the Non Executive Director or Chairman and the location of the Board (or Committee) meeting, up to a maximum of £30,000 per annum.

Framework to assess performance measures and for recovery of sums paid

Assessment of performance measures: not applicable.

Recovery of sums paid or the withholding of any payment to be made relating to benefits: there are no provisions for the recovery of sums paid or the withholding of any payment relating to benefits.

Future policy table: Non Executive Directors

Shareholding guidelines

Purpose and link to strategy

To encourage Non Executive Directors to build up a shareholding in value equivalent to a set multiple of their basic fee.

To align interests of Non Executive Directors and shareholders in developing the sustainable long-term growth of the business and overseeing the execution and delivery of the Group's strategy.

Operation and opportunity

– All Non Executive Directors are required to hold shares equivalent in value to a prescribed percentage of their fees.
– All Non Executive Directors are advised of the required target percentage, a timeline to achieve the target and requirements for maintaining the shareholding in line with salary or fees increases.
– Details of the actual guidelines that apply to each Non Executive Director and their current shareholdings are set out in the Annual report on remuneration.

Framework to assess performance measures and for recovery of sums paid

Assessment of performance measures: not applicable as these are guidelines for holding shares and not a form of remuneration.

Recovery of sums paid or the withholding of any payment to be made relating to shareholding guidelines: there are no provisions for the recovery of sums paid or the withholding of any payment relating to shareholding guidelines.

Notes to the policy table

Summary of changes made

Following the review of the 2015 Policy, some minor changes have been proposed to base salary, fees, benefits and pension. The aim and basis of the rationale for those changes is to provide greater transparency on how the Company sets pay and on the benefits offered. If the 2018 Policy is approved at the 2018 AGM, the components of remuneration that will change are as follows:

Base Salary

– The market context for Executive Director pay decisions will be defined by reference to the relevant market for talent, taking into account the residence and location of the role holder;

Fees

– Subject to the approval of a separate ordinary resolution at the 2018 AGM, an increase in the maximum aggregate fees under the Company's Articles of Association for all Non Executive Directors from £1.0 million to £1.5 million per annum to ensure that any future annual increases, in the ordinary course, can be made and to allow for the appointment of additional Non Executive Directors;

Benefits

– Clarity that, in relation to tax equalisation arrangements, an Executive Director should not be better off from an individual tax perspective;

– Introduction of an intercontinental allowance for all Non Executive Directors (including the Chairman) where there would be a need for intercontinental flight in excess of five hours (one way) based on the home location of the Non Executive Director or Chairman and the location of the Board (or Committee) meeting; and

Pensions

– Maintain current levels of pension contributions for current Executive Directors, but set a maximum pension contribution of 25 per cent of base salary for Executive Directors appointed on or after the date of the 2018 AGM.

1. Legacy arrangements

In approving this 2018 Policy, authority is given to the Company for the duration of the 2018 Policy to honour commitments paid, promised to be paid or awarded to: (i) current or former Directors prior to the date of this 2018 Policy being approved (provided that such payments or promises were consistent with any Remuneration Policy of the Company which was approved by shareholders and was in effect at the time they were made); or (ii) an individual (who subsequently is appointed as a Director of the Company) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, was not paid, promised to be paid or awarded as financial consideration of that individual becoming a Director of the Company, even where such commitments are inconsistent with the provisions of the 2018 Policy.

For the avoidance of doubt, this includes: (1) all awards granted under the Ordinary Share Plan 2011 and Performance Ordinary Share Plan 2016 to employees of the Company who were not Directors at the date of grant; and (2) all awards granted to Mike Powell upon joining Ferguson of either the Restricted Share Buy Out Awards or Performance Based Buy Out Award, as well as a Deferred Bonus Plan Award granted to him in November 2017. The 2015 Policy approved by shareholders at the 2015 AGM will continue to apply until this proposed 2018 Policy is approved at the 2018 AGM. If this proposed 2018 Policy is not approved at the 2018 AGM, the 2015 Policy will continue to apply in accordance with its terms.

2. Differences in Remuneration Policy for Executive Directors compared to other employees

The remuneration policy for other senior executives across the Group is broadly consistent with that for the Executive Directors, although there are differences in award opportunities as well as the performance linkage of incentives: executives and senior managers with Group roles participate in long-term incentive arrangements which reflect Group performance (and for some who have regional duties as well would have arrangements to reflect both Group and regional performance), whilst those with regional roles participate in incentives that are linked to regional performance, thereby maximising participant line-of-sight and aligning pay outcome with their contribution to the success of their business area. In addition, the operation of the DBP is not cascaded into the organisation, reflecting local practice in the markets in which many senior executives are based (notably the USA).

Below the executive and senior manager populations, the wider employee population of the Group receives remuneration that is considered to be appropriate for their geographic location, role, level of responsibility and performance.

3. Recruitment policy

Executive Directors

As noted earlier, the Committee will consider the need to attract the best talent whilst aiming to pay no more than is appropriate or necessary in the circumstances. In determining each element of pay and the package as a whole upon recruitment, the Committee will take into account all relevant factors including, but not limited to, the skills and experience of the individual, the market rate for an individual of that experience, as well as the importance of securing the best person for the role.

Fixed pay (base salary, benefits, pension)

A newly appointed Executive Director will be offered a base salary, benefits and pension package in line with the Policy in force at that time. The Committee retains the flexibility to review and decide on a case-by-case basis whether it is appropriate to award increases to allow a newly appointed Executive Director whose base salary has been set below the mid-market level to progress quickly to or around that mid-market level once expertise and performance has been proven. This decision would take into account all relevant factors noted above.

Variable pay (annual bonus and long-term incentive awards)

A newly appointed Executive Director will be offered an annual bonus and long-term incentives in line with the Policy in force at that time. The maximum level of variable remuneration (annual bonus and LTIP awards) which may be awarded to new Executive Directors is limited to 500 per cent of base salary excluding any buy out awards, the policy for which is set out below. The Committee retains the flexibility to vary the weighting between annual bonus and LTIP up to the approved Policy maxima.

Depending on the timing of the appointment, the Committee may set different annual bonus performance criteria for the first year of appointment. Where an appointment is an internal promotion, any variable pay element awarded in respect of the individual's previous role would continue on the original grant terms. In addition, any other ongoing remuneration (including pension) obligations existing prior to the appointment would be able to continue.

One-off "buy out" cash or share award

Where an Executive Director is appointed from outside the Group, the Committee may make a one-off award to the new Executive Director to "buy out" incentives and other remuneration opportunities forfeited on leaving his or her previous employer. The Committee retains the flexibility to make such additional payments in the form of cash and/or shares.

When making such an award, the Committee will, as far as practicable, replicate the structure of the arrangements being forfeited and in doing so will take into account relevant factors including the delivery mechanism, time horizons, attributed expected value and performance conditions of the forfeited award. The Committee will endeavour not to pay more than the expected value of the forfeited award.

The Committee will, where possible, facilitate such awards through the Company's current incentive plans, but it may be necessary to use the exemption permitted within the Listing Rules.

Non Executive Directors

For the appointment of the Chairman or Non Executive Director, fee arrangements will be made in line with the Policy in force at that time.

4. Policy on loss of office

All Directors

In the event of termination of a service contract or letter of appointment of a Director, contractual obligations will be honoured in accordance with the service contract and terms of incentive plans or letter of appointment. The Committee will take into consideration the circumstances and reasons for departure, health, length of service, performance and the duty (where applicable) for Directors to mitigate their own loss. Under this 2018 Policy the Committee may make any statutory payments it is required to make and/or settle claims brought against the Company in relation to a termination. In addition, the Committee may agree to payment of outplacement counselling costs and disbursements (such as legal costs) if considered to be appropriate and dependent on the circumstances of departure.

It is the Company's policy for the period of notice from the Company to the Executive Directors not to exceed 12 months and for Non Executive Directors to the Company not to exceed six months.

There are no pre-determined contractual provisions for Directors regarding compensation in the event of loss of office except those listed in the table below:

Details of provision	Executive Directors	Chairman and Non Executive Directors
Notice period	– 12 months' notice from the Company. – Six months' notice from the Executive.	Six months' notice by either party.
Termination payment	– The Company may terminate an Executive Director's service contract by making a payment in lieu of notice equal to 12 months' base salary and the value of benefits (excluding bonus in respect of the period covered by the payment in lieu of notice). – Any such payment in lieu of notice will be made in monthly instalments subject to mitigation. – No payment will be made to Executive Directors in the event of gross misconduct.	Fees and expenses accrued up to the termination date only.
Post-termination covenants	– Non-compete and non-solicitation covenants apply for a period of six months after the termination date.	Not applicable.

The policy on loss of office and contractual provisions above would be applied to any new Director's service contract or letter of appointment.

Executive Directors

On loss of office, there is no automatic entitlement to a bonus. Executive Directors may receive a bonus in respect of the year of cessation of employment based on, and subject to, performance conditions and pro-rated to reflect the actual period of service in the year of cessation (except pro-ration may not be applied in exceptional circumstances such as death in service or ill-health). The Committee will take into account the reason for the Executive Director's departure and any other relevant factors when considering a bonus payment of a departing Executive Director.

The treatment of leavers under the LTIP or any other awards under LTI plans, together with awards under all-employee plans and, if applicable the DBP, would be determined by the relevant leaver provisions in accordance with the plan rules.

Under the LTIP or any other awards under LTI plans, any unvested awards will lapse at cessation unless the individual has "good leaver" status (namely for reasons of death, redundancy, injury, disability, ill-health, employing business or company sold out of the Group and any other reason at the discretion of the Committee). The Committee retains the discretion to determine when the awards should vest and performance conditions be tested; although this would normally be at the usual vesting date, the Committee may determine in certain circumstances to bring forward the performance test and date of vesting to the date of cessation, e.g. in circumstances such as death in service. In the event of a change of control or takeover, all long-term incentive awards will vest subject to performance conditions being met. In relation to the LTIP, awards would generally be pro-rated to reflect the period of service of the Executive Director; although, if the Committee considers it appropriate, the Committee has the discretion set out in the plan rules not to pro-rate.

Under the all-employee plans, any unvested awards will lapse at cessation unless the individual has a "good leaver" status – for UK Executive Directors this will be specifically as prescribed by HMRC in the SAYE appendix of the relevant plan rules and for Executive Directors in other jurisdictions as set out in the relevant section of the applicable plan rules.

Under the DBP, any unvested awards will be forfeited if an Executive Director ceases to be an employee of the Group by reason of misconduct or if the Company becomes aware, after termination, of facts or circumstances which would have entitled it to dismiss the Executive Director for misconduct. If an Executive Director ceases to be an employee for any other reason, an award shall vest in full at the end of the deferral period unless the reason for cessation is death or other circumstances which the Committee considers sufficiently exceptional, the award shall vest in full at the date of death or cessation of employment.

5. Discretion, flexibility and judgement of the Committee

The Committee operates the annual bonus plan, DBP, LTIP and all-employee plans and other long-term incentive plans, according to their respective rules and in accordance with tax authorities' rules where relevant. To ensure the efficient administration of those plans, the Committee may apply certain operational discretions. These include the following:

- selecting the participants in the plans on an annual basis;
- determining the timing of grants of awards and/or payment;
- determining the quantum of awards and/or payments (within the limits set out in the Policy table above);
- determining the extent of vesting based on the assessment of performance;
- making the appropriate adjustments required in certain circumstances (e.g. change of control, changes to accounting rules, rights issues, corporate restructuring events, and special dividends);
- determining "good leaver" status for the purposes of the LTI plans and applying the appropriate treatment; and
- undertaking the annual review of performance measures and weighting between them (within the limits set out in the Policy table), and setting targets for the annual bonus plan and LTIP from year to year.

If an event occurs which results in the performance conditions and/or targets of the annual bonus plan or LTIP being deemed no longer appropriate (e.g. a material acquisition or divestment), the Committee will have the ability to adjust appropriately the measures and/or targets and alter weightings, provided that the revised conditions or targets are not materially less difficult to satisfy. The use of the discretions referred to in the Remuneration Policy tables and above will be explained as appropriate in the Annual report on remuneration and may, as appropriate, be the subject of consultation with major shareholders.

6. Matters considered when determining the Policy

Shareholder views

The Committee's aim is to have an ongoing and open dialogue with major shareholders. The Chair of the Committee will usually consult with major institutional shareholders and shareholder representative bodies, when required and as appropriate, to discuss the business and executive remuneration more widely. The Committee recognises the importance of understanding shareholders' views and ensuring that they are considered when making decisions regarding the remuneration policy for Directors. Therefore, when any material changes are proposed to a policy, the Chair of the Committee will inform major shareholders in advance, and offer a meeting to discuss the proposed changes. As part of this year's review of remuneration arrangements, a consultation was undertaken with shareholder views given due consideration when finalising the 2018 Policy. The Committee also considers shareholder feedback received in relation to the AGM each year.

Consideration of conditions elsewhere in the Group and other matters determining policy

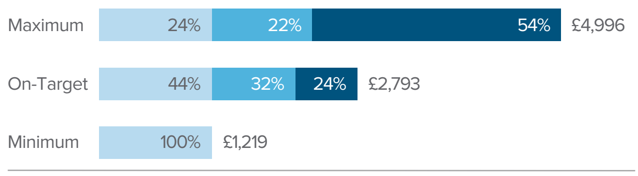
Our policy for all Directors and employees across the Group is to provide remuneration at mid-market levels. On promotion or appointment, senior executives may be initially remunerated below market levels and then increased to mid-market levels over time, once performance has been established. The emphasis on the various elements of pay within the 2018 Policy varies depending on the role of the individual within the Group. Where possible, employees are encouraged to hold shares in Ferguson, thereby providing alignment with shareholders and benefiting from any growth in value of the Group but through different delivery mechanisms. For the Executive Directors, a greater emphasis is placed on performance-related pay.

The Committee does not currently consult with employees when determining the policy. The Committee considers the basic salary increase, remuneration arrangements and employment conditions for the broader employee population when determining the Policy for the Executive Directors. It also takes account of market developments, the wider economic environment, good corporate governance practices, remuneration data and its responsibilities to its shareholders. This information is taken into account by providing context and informing the Committee of the market in which they are making decisions.

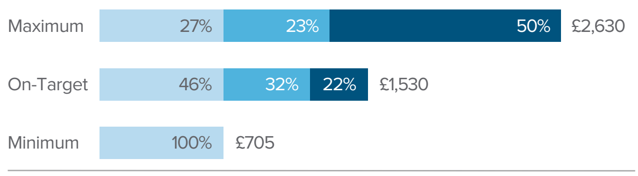
7. Illustrations of the Remuneration Policy (2018/19)

The charts give an indication of the level of remuneration that would be received by each Executive Director in accordance with the 2018 Policy in respect of minimum (fixed pay), on-target and maximum performance. These pay scenario charts are based on the assumptions set out on this page and are presented for illustrative purposes only. In this Report, the assumptions do not incorporate any share price appreciation nor do the illustrations include any all-employee share plan awards for which an Executive Director may be eligible.

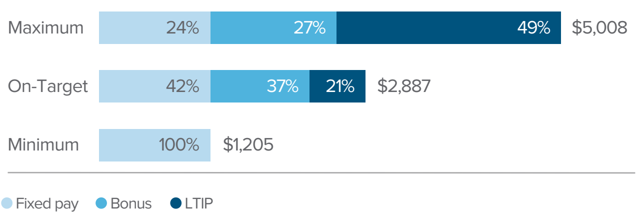
Group CEO
(£000)



Group CFO
(£000)



CEO, USA
($000)



Scenario assumptions

In arriving at the pay scenarios, the following assumptions have been made in relation to the fixed elements of remuneration:

- Base salary for 2018/19.
- Benefits received for 2017/18 (as set out in the Remuneration table on page 90).
- Pension using the 2018 Policy (as set out in the Remuneration Policy table on page 75) and applied to 2018/19 base salary.

For the non-fixed elements of remuneration:

- In relation to the annual bonus, the scenarios are based on bonus opportunity to be made in accordance with implementation of the Policy for 2018/19.
- In relation to long-term incentive awards, the scenarios are based on the awards to be made in accordance with implementation of the Policy for 2018/19.

In each case the assumptions for on-target and maximum performance are applied in the table below.

Annual bonus	LTIP
On-target	
Paid at (as a percentage of base salary): – 100 per cent for John Martin – 90 per cent for Mike Powell – 110 per cent for Kevin Murphy	Threshold vesting, at 25 per cent of an award expressed as a percentage of the base salary[1] used for calculating the award: – 75.0 per cent for John Martin – 60.0 per cent for Mike Powell – 62.5 per cent for Kevin Murphy
Maximum	
Paid at (as a percentage of base salary): – 120 per cent for John Martin – 110 per cent for Mike Powell – 140 per cent for Kevin Murphy	Full vesting at 100 per cent of the award expressed as a percentage of the base salary[1] used for calculating the award: – 300 per cent for John Martin – 240 per cent for Mike Powell – 250 per cent for Kevin Murphy

1. Awards will be granted by reference to a percentage of the Executive Directors' 2018/19 base salary and this table calculates the value of the awards on that basis. These values are used in the scenarios.

Annual report on remuneration

Information

For the purposes of this Annual report on remuneration:

(1) any estimated share values are determined using a share price of 5,941 pence, being the average closing mid-market quotation for Ferguson plc shares for the three-month period ended 31 July 2018.

(2) the remuneration of Kevin Murphy is shown in local currency and any sterling payments have been converted to USD based on a three-month average exchange rate for the period ended 31 July 2018 of $1.3308:£1.

Implementation of Policy for the year ending 31 July 2019

Executive Directors

Base salary

In line with the Policy, the Remuneration Committee undertook an annual review of the Executive Directors' base salaries during the year. The Committee agreed to an increase to the base salary level of the Group Chief Executive, Group Chief Financial Officer and Chief Executive Officer, USA from 1 August 2018. Revised base salary levels, and those which applied during the year ended 31 July 2018, are set out below.

	Annualised base salary		
	2018/19 (000)	2017/18 (000)	% change
J Martin (Group CEO)	**£899.2**	£877.2	2.5%[1]
M Powell (Group CFO)	**£550.0**	£510.0	7.8%[2]
K Murphy (CEO, USA)	**$975.0**	$900.0	8.3%[2]

1. For context, the Group-wide average salary increase was 2.7 per cent.
2. As noted in the Remuneration Committee Chair's statement, the Committee awarded salary increases to Mike Powell and Kevin Murphy that are above the average salary increase for the relevant general workforce in order to move their salaries closer to the market median. This approach is consistent with both the 2015 Policy and the 2018 Policy.

Pension and benefits

UK-based Executive Directors receive a salary supplement in lieu of membership of the Group pension scheme, being 30 per cent of base salary for John Martin and 25 per cent for Mike Powell. USA-based Executive Director Kevin Murphy participates in the Ferguson defined contribution pension arrangement and receives a Company contribution of 16 per cent of base salary. This includes a 401k plan and Ferguson Executive Retirement Plan arrangements. These plans have normal retirement ages of 59 ½ and 55 respectively. Bonus payments are not included in the calculation of the Company pension contributions. Benefits provided to Executive Directors are detailed in the Remuneration table on page 90.

Annual bonus All

When considering the objectives for the Executive Directors and other members of the Executive Committee, the Remuneration Committee assesses whether incentives are designed to promote the right behaviours and takes into account whether specific attention should be given to environmental, social and governance matters. Directors take such matters into account when considering any investment proposal or operational matters, and management is expected to meet performance targets which include compliance with any environmental, social or governance-related standards that have been set. The overall performance of the businesses and of management is reviewed at the end of the year when considering the award of bonuses and whether operational and personal objectives have been met.

The threshold, target and maximum bonus opportunities for each of the Executive Directors are set out in the table below:

	Threshold	Target	Maximum
			As % salary
J Martin (Group CEO)	80%	100%	120%
M Powell (Group CFO)	70%	90%	110%
K Murphy (CEO, USA)[1]	80%	110%	140%

1. As noted in the Committee Chair's letter on page 71 the maximum award level for Kevin Murphy has been increased to a level consistent with his predecessor as Chief Executive Officer, USA.

80 per cent of the bonus opportunity will be linked to the achievement of financial performance targets (20 per cent is based on cash-to-cash days and 60 per cent on trading profit) and the remaining 20 per cent of the bonus opportunity is linked to personal strategic objectives. For the 2018/19 financial year, the bonus has been simplified by removing gross profit from the bonus scorecard of measures. Specific individual objectives were set at the beginning of the 2018/19 financial year.

For the 2018/19 financial year, the threshold for bonus payments in relation to ongoing trading profit will be set at or above the outturn trading profit for the 2017/18 financial year on a constant currency basis.

The Board considers that the performance targets for 2018/19 are commercially sensitive and they are not disclosed in this Report for this reason. The Committee intends to disclose the targets and performance against them in the Annual report on remuneration next year depending on considerations of commercial sensitivity at that time.

Long-term incentives

LTIP awards will be made during the 2018/19 financial year at the levels set out in the table below (and unchanged from 2017/18):

	LTIP (award value as % of salary)
J Martin (Group CEO)	300%
M Powell (Group CFO)	240%
K Murphy (CEO, USA)	250%

The extent to which the LTIP awards (proposed to be granted during 2018/19) vest will be dependent on the following performance targets, over a three-year performance period, each with a weighting of one-third of award opportunity: comparative TSR; EPS growth; and OpCF.

Comparative TSR All

The TSR element of the award will vest as set out in the table below (comprising one-third of the total award opportunity):

Ferguson's TSR position in comparator group[1]	Percentage of award subject to TSR which will vest[2]
Upper quartile	100%
Between median and upper quartile	25%–100%
At median	25%
Below median	0%

1. Full constituent members of the FTSE 100 Index at the beginning of the performance period, with no additions or exclusions.
2. Awards will vest on a straight-line basis between 25 per cent and 100 per cent.

The TSR measure is considered appropriate as it closely aligns the interests of the Executive Directors with those of the Company's shareholders over the long term and incentivises outperformance of the Company relative to its peers. The TSR performance condition supports the achievement of profit growth, cash generation, maximising shareholder value and relative outperformance of its peer group.

EPS growth All

The EPS[1] element of the award will vest as set out in the table below (comprising one-third of the total award opportunity):

Total margin of EPS growth over US inflation ("CPI") after three years	Percentage of award subject to EPS which will vest[2]
30% and above	100%
Between 9% and 30%	25%-100%
9%	25%
Below 9%	0%

1. Headline EPS as presented in the audited Ferguson plc Annual Report and Accounts (subject to such adjustments as the Committee deems appropriate to ensure it reflects underlying business performance).
2. Awards will vest on a straight-line basis between 25 per cent and 100 per cent.

For EPS growth targets, the Committee sets the EPS growth range having due regard to the Group's budget and strategic business plan every year as well as market expectations, the Group's trading environment and the consensus of analysts' forecast trading profit.

The EPS targets are considered appropriate as they require substantial improvement in the Group's financial performance and EPS is a key metric used by investors to assess the Group's performance.

OpCF All

The OpCF element of the award will vest as set out in the table below (comprising one-third of the total award opportunity):

OpCF[1,2]	Percentage of award subject to OpCF which will vest[3]
$4.983 billion	100%
Between $4.423 billion and $4.983 billion	25%–100%
$4.423 billion	25%
Below $4.423 billion	0%

1. Cash generated from operations (before interest and tax) as presented in the audited Group cash flow statement in the Ferguson plc Annual Report and Accounts (subject to such adjustments as the Committee deems appropriate to ensure it reflects underlying business performance).
2. The cumulative three-year figure for adjusted OpCF for the last three years equals $4.443 billion, as set out on page 72.
3. Awards will vest on a straight-line basis between 25 per cent and 100 per cent.

For OpCF generation, the Committee sets the cumulative OpCF target having due regard to the Group's budget and strategic plan every year as well as market expectations and the Group's trading environment.

The OpCF measure is considered appropriate as it encourages long-term generation of cash to fund investment and returns to shareholders.

Non Executive Directors and Chairman

The Company's policy on Non Executive Directors' remuneration is set by the Board with account taken of the time and responsibility involved in each role, including where applicable the Chairmanship of Board Committees.

A summary of current fees is as follows:

	2018/19 (£000)[1,2]	2017/18 (£000
Chairman's fee	**393.0**	383.0
Non Executive Director base fee	**68.5**	66.7
Additional fees:		
Senior Independent Director	**14.0**	13.1
Chairman of Audit Committee	**20.0**	19.3
Chair of Remuneration Committee	**20.0**	16.3

1. All increases to Non Executive Director/Chairman fees were broadly in line with the average salary increase awarded to the general workforce, except for the Chair of the Remuneration Committee whose fee was increased at above this rate in order to reflect the significant increase in workload and responsibilities associated with the role in recent years.
2. As noted in the 2018 Policy, the Non Executive Directors (including the Chairman) will also have the benefit of a travel allowance of £2,500 (each way), where there would be a need for intercontinental flight in excess of five hours (one way) based on the home location of the Non Executive Director or Chairman and the location of the Board (or Committee) meeting, up to a maximum of £30,000 per annum.

Report for the year ended 31 July 2018

Remuneration Committee

The Committee met regularly during the year. There were five meetings in total and details of attendance are shown in the table on page 70.

The activities of the Committee are governed by its terms of reference which were reviewed in July 2018 and can be found on the Ferguson plc website at **www.fergusonplc.com**.

During the year, the members of the Remuneration Committee were Jacky Simmonds (Chair), Tessa Bamford, Alan Murray, Darren Shapland and Nadia Shouraboura. John Daly and Pilar López were also members of the Committee until they stepped down from the Board on 31 May 2018 and 31 July 2018 respectively.

The annual review of the effectiveness of the Committee was conducted during the year and considered at the July 2018 meeting. The review concluded the Committee was working effectively and minor recommendations to improve effectiveness, including continuing to develop its understanding of the global compensation landscape, were identified.

Allocation of time spent during the year All

During 2017/18, the Committee considered the items detailed below at its meetings, as well as other issues as required.

Governance

– 2018 Remuneration Policy Review
– Approval of Directors' Remuneration Report 2017/18
– Annual governance and compliance review
– Review of UK gender pay gap performance

Salary and fees review

– Review of executive pay levels
– Remuneration proposals for existing Executive Directors and new and existing Executive Committee members
– Approval of remuneration packages for senior executives, below Board level
– Review of the Chairman's fees

Incentives

– Assessment of performance against 2017/18 targets and objectives for 2018/19 targets
– Review of bonus structure for financial year 2018/19
– Discretionary share plans and all-employee share plans
– Agree discretionary share plan awards for 2018/19
– Confirmation of vesting of discretionary share plan awards granted in 2014
– Agree process for 2017/18 grants under all-employee share plans

Annual reviews

– Remuneration adviser performance
– Share headroom in accordance with Investment Association guidelines
– Committee effectiveness
– Directors' shareholding guidelines
– Committee's terms of reference

Advisers to the Committee

During the year, the Committee received advice and/or services from various parties. Details are set out below.

Mercer Kepler (which is part of the MMC group of companies) was appointed as the Committee's independent remuneration consultant in 2017 following a competitive tender process led by the Chair of the Committee. Mercer Kepler is a founding member and signatory to the UK Remuneration Consultants Group Code of Conduct which governs standards in the areas of transparency, integrity, objectivity, confidentiality, competence and due care. Mercer Kepler adheres to this Code of Conduct. The Committee has established arrangements to ensure that the advice received from Mercer Kepler is independent of the advice provided to the Company. The Chair of the Committee has direct contact with the lead Mercer Kepler partner to discuss performance. Mercer Kepler is appointed by the Committee and its performance, along with the quality and objectivity of its advice, is reviewed on an annual basis. The Committee reviewed the performance of, and advice provided by, Mercer Kepler in November 2017. Mercer Kepler also provided remuneration consultancy services to the Company during the year. Fees are charged predominantly on a "time spent" basis and the total fees paid to Mercer Kepler for the advice provided to the Committee during the year was £142,283. Fees paid to Mercer Kepler for other remuneration-related services to the Company during the year were £61,600.

Freshfields Bruckhaus Deringer LLP ("Freshfields") provided legal advice to the Committee during the year in connection with the Remuneration Policy and the Company's Remuneration Report. Fees are charged predominantly on a "time spent" basis and the total fees paid to Freshfields for the advice provided to the Committee during the year were £20,834. Freshfields was appointed by the Company and provided other services to the Company during the year. The Committee is satisfied that the services provided to it by Freshfields are of a technical nature and did not create any conflict of interest and therefore the advice received from them was objective and independent. If a conflict of interest were to arise, the Committee would appoint separate legal advisers from those used by the Company.

The Committee also seeks internal support from the Group Chief Human Resources Officer, the Group Chief Executive and the Group Company Secretary together with other senior Group employees as necessary. Those who attend by invitation do not participate in discussions that relate to the details of their own remuneration.

Statement of shareholder voting

The following table shows the results of the full details of the voting outcomes for the Remuneration Report resolution at the AGM on 28 November 2017 and the Remuneration Policy at the AGM on 1 December 2015:

	Date of vote	Votes for	For %	Votes against	Against %	Total	Votes withheld (abstentions)
Remuneration Report	28 November 2017	190,565,944	98.61	2,685,822	1.39	193,251,766	2,605,522
Remuneration Policy	1 December 2015	195,566,771	97.79	4,428,909	2.21	199,995,680	961,949

Board appointments and service agreements/letters of appointment

All Executive Directors are appointed to the Board from the relevant effective date of appointment set out in their service agreements. Appointment dates for all of the Non Executive Directors are set out in their letters of appointment. Further details are shown in the table below.

Board appointments

Director[1]	Date of service agreement/ letter of appointment	Effective date of appointment	Expiry of current term
Chairman			
G Davis	29 May 2003	1 July 2003	20 January 2020
		20 January 2011 (as Chairman)	
Executive Directors			
J Martin	31 August 2016	1 April 2010	
		1 September 2016 (as Group CEO)	
M Powell	28 February 2017	1 June 2017	
K Murphy	17 July 2017	1 August 2017	
Non Executive Directors[2]			
T Bamford	22 March 2011	22 March 2011	22 March 2020
A Murray	11 December 2012	1 January 2013	1 January 2019
D Shapland	3 April 2014	3 April 2014	1 May 2020
N Shouraboura	7 June 2017	1 July 2017	1 July 2020
J Simmonds	21 May 2014	21 May 2014	21 May 2020

1. Details of all Directors can be found on pages 52 and 53. It remains the Board's policy that Non Executive Directors are appointed for an initial term of three years, which is then reviewed and, if appropriate, extended for a further three-year period. All Directors are proposed for re-election annually in accordance with the Code.
2. During the year, John Daly and Pilar López served as Non Executive Directors until stepping down from the Board on 31 May 2018 and 31 July 2018 respectively.

Availability of documents

Copies of service agreements and letters of appointment are available for review upon request at the Company's registered office in Jersey. They are also available at the Corporate Head Office in Switzerland and the Group Services Office in the UK, and will be available for inspection at the 2018 AGM.

Remuneration table (showing single total figure of pay for year) (Audited)

The table below sets out in a single figure the total amount of remuneration, including each element, earned by each of the Executive Directors for the year ended 31 July 2018.

	Year	Salary (000)	Taxable benefits[6] (000)	Bonuses (000)	Value of LTI vesting[7,8,9] (000)	Other[10] (000)	Pension benefits[11] (000)	Total remuneration (000)
Executive Directors								
J Martin[1]	**2017/18**	**£877.2**	**£48.2**	**£1,003.5**	**£1,942.5**	**£3.7**	**£263.2**	**£4,138.3**
	2016/17	£832.6	£50.6	£915.2	£1,699.7	–	£247.6	£3,745.7
M Powell[2]	**2017/18**	**£510.0**	**£17.7**	**£521.2**	**–**	**£2.2**	**£127.5**	**£1,178.7**
	2016/17	£85.0	£3.1	£91.4	–	£1,095.7	£21.3	£1,296.5
K Murphy[3]	**2017/18**	**$900.0**	**$74.0**	**$1,060.2**	**–**	**$0.7**	**$144.0**	**$2,178.9**
	2016/17	–	–	–	–	–	–	–
Total[4]	**2017/18**	**£2,063.5**	**£121.5**	**£2,321.4**	**£1,942.5**	**£6.5**	**£498.9**	**£6,954.3**
	2016/17	£917.6	£53.7	£1,006.6	£1,699.7	£1,095.7	£268.9	£5,042.2
Total for 2016/17 for all Executive Directors who served in that year[5]	2016/17	£1,870.5	£164.9	£2,050.9	£5,718.3	£1,095.7	£494.5	£11,394.8

1. John Martin was promoted to Group Chief Executive with effect from 1 September 2016 having previously served as Group Chief Financial Officer. During 2016/17, Mr Martin received one month's salary at an annualised level of £531,000 and pension contributions of 25 per cent base salary for his services as Group Chief Financial Officer and 11 months' salary at an annualised level of £860,000 with pension contributions of 30 per cent base salary for his services as Group Chief Executive.
2. Mike Powell was appointed as Group Chief Financial Officer on 1 June 2017. During 2016/17, Mr Powell received two months' salary, taxable benefits, pension, annual bonus payment and three RSBO awards (previously detailed on page 80 of the 2017 Annual Report and Accounts). The face value of those RSBO awards is now shown in the 2016/17 figures. His annual bonus payments for both 2016/17 and 2017/18 are shown as gross amounts due to him. For 2016/17, amounts in excess of target were deferred into a nil cost option award of 284 shares in accordance with the terms of the DBP as he had not met his shareholding guideline target. Deferral is expected to apply again in 2017/18 if he has not met his shareholding guideline target prior to payment of his bonus.
3. Kevin Murphy was appointed as an Executive Director on 1 August 2017 and the remuneration (including any vested share plan awards) he received relating to his service in 2016/17 prior to his promotion is not required to be included.
4. For the purposes of the total remuneration figures shown for 2017/18, payments made to Kevin Murphy shown in USD have been converted back into pounds sterling using the three-month average exchange rate for the period ended 31 July 2018 shown on page 86.
5. This total is provided for information only. It includes remuneration paid to Ian Meakins and Frank Roach. The overall figure of £9,357,300 reported in last year's Annual Report and Accounts is reconciled with the inclusion of Mike Powell's RSBO awards (£1,095,700) and the actual LTI vesting adjustment for John Martin, Ian Meakins and Frank Roach (£941,800 in total for all three Directors).
6. These are pre-tax figures. Benefits comprise private health insurance, car benefit (car allowance, car, driver), tax and financial advice and tax gross up arrangements.
7. The LTIP grant made to John Martin in January 2016 will vest overall at 81.57 per cent in January 2019. Details of a grant made to Kevin Murphy in 2015 (before he was appointed as an Executive Director) are not required to be included. Further details of that grant are provided on page 93.
8. The figure for total remuneration includes share price appreciation for the value of LTI vesting and the value of dividend equivalents on vested LTI awards.
9. Value shown for 2017/18 represents estimated value of LTIP awards granted in 2016 that are expected to vest in January 2019. The estimate assumes 81.57 per cent overall vesting of LTIP awards using the three-month average share price for the period ended 31 July 2018 of 5,941 pence. Value shown for 2016/17 represents the actual vesting of the ESOP and LTIP awards which vested in November 2017, using the share price of 5,368 pence on the date of vesting (7 November 2017).
10. Each of the Executive Directors were granted shares in all-employee share plans in the year. John Martin, Mike Powell and Kevin Murphy entered into a five year sharesave contract, three year sharesave contract and a one year ESPP savings contract, respectively. The value shown for 2017/18 represents the gain, calculated being the difference between the option price and the share price at the date the option price was set, on the maximum number of shares granted.
11. Kevin Murphy participates in the defined contribution pension arrangements of Ferguson Enterprises, Inc. receiving contributions of 16 per cent of base salary from Ferguson Enterprises Inc. The cost of employer's contributions during the year was $144,000. During the year ended 31 July 2018, John Martin and Mike Powell received salary supplements in lieu of Group pension scheme membership.

The table below sets out in a single figure the total amount of remuneration received by each of the Chairman and the Non Executive Directors who served during the year ended 31 July 2018.

Chairman and Non Executive Directors	**Fees (£000) 2017/18**	Fees (£000) 2016/17
G Davis	**383.0**	375.4
Non Executive Directors (current as at the date of this report)		
T Bamford	**66.7**	65.3
A Murray	**79.8**	78.1
D Shapland	**86.0**	84.2
N Shouraboura	**66.7**	5.4
J Simmonds	**83.0**	81.2
Non Executive Directors who stepped down during the year		
J Daly	**55.6[1]**	65.3
P López	**66.7**	65.3
Total remuneration	**887.5**	820.2

1. The annual fee amount received by John Daly for the year ended 31 July 2018 covers the period up to 31 May 2018, being the date on which he stepped down from the Board.

Additional disclosures in respect of the Remuneration table (Audited)

Annual bonus All

The annual bonuses awarded to Executive Directors for the year ended 31 July 2018 are shown in the Remuneration table on page 90 and the bonuses are calculated as follows:

		Target Performance				Actual performance (as % of salary)			
Director	Measure	Threshold	Target	Maximum	Actual Performance[1]	Threshold	Target	Maximum	Maximum opportunity (% of salary)
J Martin	Group ongoing trading profit	$1,331.0m	$1,387.0m	$1,442.0m	$1,504.0m			36.00%	36.0%
	Group ongoing gross profit	$5,689.0m	$5,835.0m	$5,981.0m	$6,031.0m			36.00%	36.0%
	Group ongoing average cash-to-cash days	54.0	53.5	53.0	53.7	18.40%			24.0%
	Personal objectives[2,5]	1/20	–	20/20	20/20			24.00%	24.0%
						Total Achieved: 114.40%			120.0%
M Powell	Group ongoing trading profit	$1,331.0m	$1,387.0m	$1,442.0m	$1,504.0m			33.00%	33.0%
	Group ongoing gross profit	$5,689.0m	$5,835.0m	$5,981.0m	$6,031.0m			33.00%	33.0%
	Group ongoing average cash-to-cash days	54.0	53.5	53.0	53.7	16.40%			22.0%
	Personal objectives[3,5]	1/20	–	20/20	18/20			19.80%	22.0%
						Total Achieved: 102.20%			110.0%
K Murphy	Group ongoing trading profit	$1,331.0m	$1,387.0m	$1,442.0m	$1,504.0m			7.20%	7.2%
	USA ongoing trading profit	$1,206.1m	$1,303.9m	$1,401.7m	$1,406.0m			28.80%	28.8%
	Group ongoing gross profit	$5,689.0m	$5,835.0m	$5,981.0m	$6,031.0m			7.20%	7.2%
	USA ongoing gross profit	$4,667.5m	$4,836.8m	$5,006.1m	$5,046.3m			28.80%	28.8%
	Group ongoing average cash-to-cash days	54.0	53.5	53.0	53.7	3.68%			4.8%
	USA ongoing average cash-to-cash days	55.9	55.4	54.9	54.6			19.20%	19.2%
	Personal objectives[4,5]	1/20	–	20/20	19.1/20			22.92%	24.0%
						Total Achieved: 117.80%			120.0%

1. Actual performance figures are adjusted, definitions and reconciliations are provided on page 72.
2. John Martin's personal objectives were based on supporting the new Chief Executive Officer, USA, reshaping the UK business leadership team to execute the turnaround strategy, reviewing the Executive Committee composition and the subsequent recruitment and appointment of individuals to the Executive Committee and reviewing the US business disruption team to complement the acceleration of innovation in the Group.
3. Mike Powell's personal objectives included recruiting and appointing a new Group Head of Internal Audit, ensuring strong financial leadership for the UK business, executing the Group Services Office relocation and enhancing financial reporting to the Board.
4. Kevin Murphy's personal objectives were based on improving the Ferguson associate engagement score, launching and embedding a new US business disruption team and recruiting and appointing individuals to the US leadership team.
5. The specific targets set for personal objectives are considered to be commercially sensitive as they relate to internal operational and strategic measures which could be used by competitors to gain an advantage if disclosed. The Committee intends to disclose further details of these targets in next year's Report.

Following a review, the Committee considers that Executive Directors' personal objectives for 2016/17 are no longer commercially sensitive and has approved the following disclosure:

Executive Director	**Objective**	**Assessment**	**Payout of element**
John Martin	– Like-for-like revenue growth of at least 2% above market	– Like-for-like revenue growth was 2.7% above market	50%
	– Meet material year-one milestones for the UK strategy review	– Good progress made with most milestones met	20%
	– Execute review of Nordics operating strategy and implementation plan	– Review completed; Silvan business sold; good progress on disposing of Stark Group and implementing other priorities	25%
			Total: 95%
Frank Roach	– Deliver against trading profit targets set for the US CMRO business[1]	– Trading profit performance exceeded maximum performance level set	50%
	– Deliver against Net Promoter Score targets set for the US CMRO business[1]	– Net Promoter Score performance was below Threshold	0%
			Total: 50%
Mike Powell (from 1 June 2017)	Mike Powell joined Ferguson shortly before the end of the financial year. Specific objectives were not set for this period, which was spent primarily on completing his induction, reporting of the Group's results for 2016/17 and financial year 2017/18 budget reviews.	Performance was assessed from 1 June 2017 to the year end. The Committee agreed that Mr Powell had made a strong initial contribution. He successfully embedded in the Group's leadership team, oversaw the reporting of the Group's results for 2016/17 and gained approval of the 2017/18 budget.	**Total: 100%**

1. These targets remain commercially sensitive and will not be reported; performance of this business is not reported externally.

Long-term incentives All

Long-term incentives awarded to Executive Directors under the LTIP in January 2016 will vest in January 2019. The vesting of those awards is subject to the performance conditions shown in the tables that follow. In relation to those awards, the Committee reviewed the EPS and OpCF measures and considered it appropriate to adjust for the impact of the Nordic business disposal (EPS and OpCF) and for the impact of a special pension funding contribution to the UK defined benefit pension plan as well as exceptional cash flow (OpCF only).

LTIP

Vested awards

The performance conditions which applied to the awards made in January 2016 ended on 31 July 2018 and actual performance achieved is detailed below.

		Performance required		
Performance level	% of award vesting	TSR relative to FTSE 100 at date of grant	Total margin of adjusted EPS growth over UK inflation after three years ("RPI")	Adjusted OpCF
Below threshold	0%	Below median	Below 9%	Below $3.577 billion
Threshold	25%	At median	9%	$3.577 billion
Between threshold and maximum	25% – 100%	Between median and upper quartile	Between 9% and 30%	Between $3.577 billion and $4.213 billion
Maximum or above	100%	Upper quartile	30% and above	$4.213 billion
Actual performance achieved		28th	17.7%	$4.443 billion
% of award subject to each performance condition vesting		88.6%	56.1%	100.0%
				Total percentage vesting: 81.57%

Accordingly, the total percentage of shares vesting is set out below:

	Total number of shares granted	Percentage of award vesting	Number of shares vesting	Value of shares vesting (£000)[4,5]
J Martin[1]	37,847	81.57%	30,870	1,943
Past Directors				
I Meakins[2]	25,537	81.57%	20,829	1,311
F Roach[3]	38,200	81.57%	31,158	1,961

1. In accordance with shareholding guideline requirements, John Martin will retain vested shares or hold vested but unexercised nil cost options for a holding period of two years from the vesting date.
2. As detailed on page 66 of the Company's 2016 Annual Report and Accounts, Ian Meakins' awards reflect the completed financial years served prior to his retirement on 31 August 2016, in line with the Committee's exercise of discretion. His original award was 76,611 nil cost options.
3. As detailed on page 78 of the Company's 2017 Annual Report and Accounts, Frank Roach's awards reflect the completed financial years served prior to his retirement on 31 July 2017, in line with the Committee's exercise of discretion. His original award was 57,301 conditional shares.
4. Value determined using the share price noted on page 86 under the heading "Information".
5. Dividend equivalents have accrued on the 2015 share awards and will be paid out in cash after vesting of the awards. The value above includes an approximate value of the cash payment estimated to be 351.52 pence per share.

Unvested awards

The following tables set out the performance conditions and indicative vesting percentages for the relative TSR, EPS and OpCF elements of unvested awards under the LTIP made in 2016/17 and 2017/18 respectively. Calculations for TSR are independently carried out and verified before being approved by the Committee. Calculations for EPS and OpCF are performed and verified internally.

2016/17 Award

		Performance required		
Performance level	% of award that would vest[1]	TSR relative to FTSE 100 at date of grant	Total margin of adjusted EPS growth over UK inflation after three years ("RPI")[2]	Adjusted OpCF[3]
Below threshold	0%	Below median	Below 9%	Below $3.875 billion
Threshold	25%	At median	9%	$3.875 billion
Between threshold and maximum	25% – 100%	Between median and upper quartile	Between 9% and 30%	Between $3.875 billion and $4.495 billion
Maximum or above	100%	Upper quartile	30% and above	$4.495 billion
Indicative vesting % based on performance as at 31 July 2018		100.0%	100.0%	100.0%

1. Awards will vest on a straight-line basis between 25 per cent and 100 per cent.
2. Headline EPS as presented in the audited Ferguson plc Annual Report and Accounts (subject to such adjustments as the Committee deems appropriate to ensure it reflects underlying business performance).
3. Cash generated from operations (before interest and tax) as presented in the audited annual Group cash flow statement in the Company's Annual Report and Accounts (subject to such adjustments as the Committee deems appropriate to ensure it reflects underlying business performance and would be adjusted to reflect the impact on OpCF following the disposal of the Nordic business). As described on page 79 of the Company's 2017 Annual Report and Accounts, these targets have been restated into US dollars using a £1:$1.55 exchange rate, being the average exchange rate for the three-year period preceding the grant of the 2016/17 award.

2017/18 Award

Performance level	% of award that would vest[1]	Performance required TSR relative to FTSE 100 at date of grant	Total margin of adjusted EPS growth over US inflation after three years ("CPI")[2]	Adjusted OpCF[3]
Below threshold	0%	Below median	Below 9%	Below $4.400 billion
Threshold	25%	At median	9%	$4.400 billion
Between threshold and maximum	25% – 100%	Between median and upper quartile	Between 9% and 30%	Between $4.400 billion and $4.900 billion
Maximum or above	100%	Upper quartile	30% and above	$4.900 billion
Indicative vesting % based on performance as at 31 July 2018		88.3%	100.0%	87.1%

1. Awards will vest on a straight-line basis between 25 per cent and 100 per cent.
2. Headline EPS as presented in the audited Ferguson plc Annual Report and Accounts (subject to such adjustments as the Committee deems appropriate to ensure it reflects underlying business performance).
3. Cash generated from operations (before interest and tax) as presented in the audited annual Group cash flow statement in the Company's Annual Report and Accounts (subject to such adjustments as the Committee deems appropriate to ensure it reflects underlying business performance, and would be adjusted to reflect the impact on OpCF following the disposal of the Nordic business).

Performance Based Buy Out Award

Unvested award

The Performance Based Buy Out Award of 18,859 Conditional Shares granted to Mike Powell in June 2017 will normally vest in November 2019. The performance conditions that apply to the Performance Based Buy Out Award are the same as those applied to the LTIP award made in 2016/17, detailed on page 92.

Restricted Share Buy Out Award

Vested award

The Restricted Share Buy Out Award of 14,026 Conditional Shares granted to Mike Powell in June 2017 vested in full on 28 March 2018. This award was not subject to performance conditions. The value of this award is included below the Share awards exercised during the year table and the face value of this award is now included in the "Other" column for 2016/17 in the Remuneration table on page 90.

Unvested awards

Restricted Share Buy Out Awards of 5,695 and 2,439 Conditional Shares granted to Mike Powell in June 2017 will normally vest in March 2019 and April 2020 respectively. These awards are not subject to performance conditions and will vest in full subject to continued employment. The face value of these awards is now included in the "Other" column for 2016/17 in the Remuneration table on page 90.

Deferred Bonus Plan Award

Unvested award

The Deferred Bonus Plan Award of 284 nil cost options granted to Mike Powell on 30 October 2017 will normally vest in August 2020. This award is not subject to performance conditions and will vest in full subject to continued employment. The face value of this award is captured in the Annual Bonus figure for 2016/17 in the Remuneration Table.

Ordinary Share Plan Award

Unvested awards

The Ordinary Share Plan Awards of 8,234 and 5,574 Conditional Shares granted to Kevin Murphy in November 2015 and November 2016 respectively will normally vest in November 2018 and November 2019 respectively. The awards (granted before Kevin Murphy was promoted to the Board) are not subject to performance conditions and will vest in full subject to continued employment.

Performance Ordinary Share Plan Award

Unvested award

The Performance Ordinary Share Plan Award of 13,936 Conditional Shares granted to Kevin Murphy in November 2016 will normally vest in November 2019. The performance condition that applies to the award (which was granted before Kevin Murphy was promoted to the Board) is based on trading profit growth of the Group's US business over a three-year period ending 31 July 2019.

Share awards exercised during the year

Details of the share awards exercised during the year are set out below:

Director	All employee	LTIP	ESOP	OSP	RSBO	Total[1,2]
J Martin	957	17,561	35,113	–	–	53,631
M Powell	–	–	–	–	14,026	14,026
K Murphy	65	–	–	9,048	–	9,113

1. The aggregate gain made on the exercise of options during the year by John Martin and Kevin Murphy was £1,687,038 and £1,011 respectively.
2. The aggregate value of assets received or receivable by Mike Powell and Kevin Murphy during the year was £754,318 and £485,663 respectively.

Directors' shareholdings (Audited) All

All Directors are required to hold shares equivalent in value to a minimum percentage of their salary or fees as set out in the table below. The Directors' interests in the Company's shares (both held individually and by their connected persons) as at 31 July 2018 are set out below and there has been no change in interests since that date and up to the date of this Report.

	Shares beneficially owned as at 31 July 2018[1]	Shareholding guideline (as a multiple of salary/fees)[2,3]	Vested (unexercised) share awards[4,5]	Unvested share awards: With performance conditions LTIP[6]	PBBO[6]	POSP[6]	Without performance conditions RSBO[6]	DBP[6]	OSP[6]	All employee[6]
Executive Directors										
J Martin	**107,227**	2.5	–	146,702	–	–	–	–	–	344
M Powell	**7,020**	2	–	23,254	18,859	–	8,134	284	–	206
K Murphy	**24,233**	2	–	32,915	–	13,936	–	–	13,808	64
Chairman and Non Executive Directors										
G Davis	**14,538**	1	–	–	–	–	–	–	–	–
T Bamford	**1,940**	1	–	–	–	–	–	–	–	–
A Murray	**2,368**	1	–	–	–	–	–	–	–	–
D Shapland	**1,989**	1	–	–	–	–	–	–	–	–
N Shouraboura	**–**	1	–	–	–	–	–	–	–	–
J Simmonds	**1,894**	1	–	–	–	–	–	–	–	–
Directors who stepped down during the year										
J Daly	**1,942**	1	–	–	–	–	–	–	–	–
P López	**2,465**	1	–	–	–	–	–	–	–	–

1. Following the special dividend and share consolidation effected on 11 June 2018, Directors' shareholdings reduced as they received 18 New Ordinary Shares of 11 227⁄563 pence for every Old Ordinary Share of 10 53⁄66 pence owned.
2. All Directors have a five-year time period from the date of appointment or promotion to meet the shareholding target. If not met within that timeframe the individual Director would discuss plans with the Committee to ensure that the target is met over an acceptable timeframe. Under the Policy, Executive Directors would defer amounts in excess of target bonus into shares under the Deferred Bonus Plan if on the date a relevant bonus was paid the guideline target had not been met. Beneficially owned shares count towards the guideline whilst unvested awards of shares or share options do not. Vested share awards do not count towards the guideline until exercised.
3. As at 31 July 2018, all Directors had met their shareholding guideline targets set for 2017/18, with the exception of Mike Powell and Nadia Shouraboura. Shareholding guideline targets for Mike Powell and Nadia Shouraboura were set on 1 August 2017 and they have until 1 June 2022 and 1 July 2022 respectively to meet their shareholding target. Shareholding guideline targets are first set by reference to the salary or fees of a Director as at 1 August in the financial year following appointment to the Board and calculated using the average share price for the two months ended 31 July of the financial year in which the appointment was made and are re-tested annually until met. Once met, the target is re-tested at least annually on the same basis and set at the number of shares resulting from the re-test or, if lower, the existing target increased in line with any base salary or fee increases.
4. There were no vested but unexercised awards held by Executive Directors under any of the share plans.
5. Details of share awards exercised in the year are detailed in the Share awards exercised during the year table at the bottom of page 93.
6. LTIP, POSP and PBBO awards are subject to performance conditions but RSBO, DBP, OSP and All employee awards are not. LTIP awards are awarded in the form of nil cost options to John Martin and Mike Powell and in the form of conditional share awards to Kevin Murphy. PBBO and RSBO awards were awarded to Mike Powell in the form of conditional share awards. The DBP award was awarded to Mike Powell in the form of nil cost options and the OSP award was awarded to Kevin Murphy in the form of conditional share awards. Further details of the performance conditions which apply to the LTIP, POSP and PBBO awards are set out on pages 92 and 93.

Scheme interests awarded during the financial year (Audited) All

Awards under the LTIP were made on 30 October 2017. Awards are based on a percentage of salary determined by the Committee. The Committee considers annually the size of each grant, determined by individual performance, the ability of each individual to contribute to the achievement of the performance conditions, and market levels of remuneration. The maximum vesting is 100 per cent of the award granted. Details of performance conditions for awards which were granted during the year are set out on page 93.

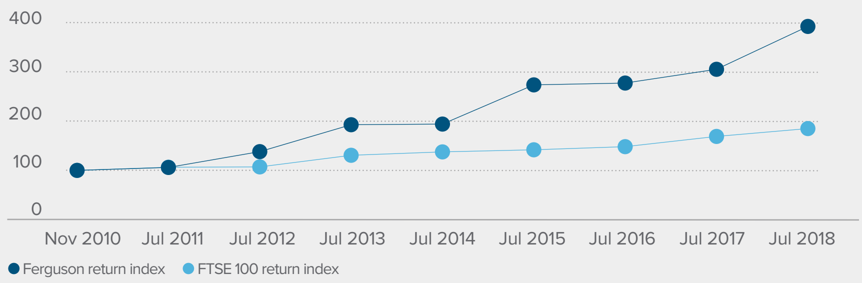
The scheme interests awarded during 2017/18 are summarised below:

Director	Award	Type of award	Number of shares[1]	Face value[2,3] of award (£000)	Performance criteria period	Threshold performance	Performance conditions
J Martin	LTIP	Nil cost options	49,997	2,631.6	1 August 2018 – 31 July 2021	25% of award vesting	EPS TSR Cumulative OpCF
M Powell	LTIP	Nil cost options	23,254	1,224.0			
K Murphy	LTIP	Conditional shares	32,915	1,732.5			
M Powell	DBP	Nil cost options	284	14.9	N/A[4]	N/A	N/A

1. John Martin, Mike Powell and Kevin Murphy's LTIP awards granted during the financial year were based on a percentage of salary as follows: John Martin (300 per cent); Mike Powell (240 per cent); and Kevin Murphy (250 per cent). The DBP award granted to Mike Powell during the year was based on the amount of annual bonus earned in 2016/17 that exceeded target.
2. The share price used to calculate the face value of the LTIP share awards granted on 30 October 2017 was 5,263.5 pence which was the average share price over a 10-dealing-day period immediately preceding the date of grant. The LTIP awards made to John Martin and Mike Powell were in the form of nil cost options. At vesting, the exercise price per share will be nil. The LTIP award made to Kevin Murphy was a conditional share award and there is no exercise price. The share price used to calculate the face value of the DBP share award granted on 30 October 2017 was 5,263.5 pence which was the average share price over a 10-dealing-day period preceding the date of grant. The DBP award made to Mike Powell was in the form of nil cost options. At vesting, the exercise price per share will be nil. Face value is calculated as required by the Regulations as the maximum number of shares at full vesting multiplied by either the share price at date of grant or the average share price used to determine the number of shares awarded. Dividend equivalents also accrue on the LTIP and DBP awards and the amount which may be due to an Executive Director is not included in the calculation of face value.
3. The maximum dilution which may arise through issue of shares to satisfy the entitlement to these LTIP and DBP scheme interests would be 0.00042 per cent calculated as at 31 July 2018.
4. Mike Powell's DBP award will normally vest on 30 October 2020 subject to Mr Powell's continued employment with the Company.

Ferguson TSR performance and Group CEO remuneration comparison

The graph opposite shows Ferguson's TSR performance against the performance of the FTSE 100 Index from the creation of the new holding company, which was created at the time of the redomiciliation to Switzerland in November 2010, to 31 July 2018. The FTSE 100 Index has been chosen as being a broad equity market index consisting of companies comparable in size and complexity to Ferguson.



The table below shows the total remuneration of the Group Chief Executive[1] for the nine-year period from 1 August 2009 to 31 July 2018.

	Group CEO[1]		2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Single figure of total remuneration (£000)[2]	I Meakins		1,943	2,011	5,603	5,109	5,890	3,901	3,375	1,768[3]	–
	J Martin		–	–	–	–	–	–	–	3,746[3]	4,138
Annual bonus award rates against maximum opportunity	I Meakins		96%	98%	85%	84%	97%	85%	55%	–	–
	J Martin		–	–	–	–	–	–	–	97%	95%
Long-term incentive vesting rates against maximum opportunity	I Meakins	LTIP	0%	0%	76%	100%	88%	75%	47%	72%	–
		ESOP	0%	0%	100%	100%	100%	100%	100%	100%	–
	J Martin	LTIP	–	–	–	–	–	–	–	72%	82%
		ESOP	–	–	–	–	–	–	–	100%	–

1. During the nine-year period, Ian Meakins was the Group Chief Executive until his retirement on 31 August 2016. Since 1 September 2016, John Martin has served as Group Chief Executive. The single figure total shown for Mr Martin in the 2016/17 financial year includes one month's pay as Group Chief Financial Officer.
2. The single figure for all nine years is calculated on the same basis as that used in the Remuneration table on page 90.
3. The single figure of total remuneration for John Martin and Ian Meakins for the year ended 31 July 2017 has been adjusted respectively from the value of £3.458 million and £2.023 million estimated in that year's report to reflect the actual value of LTI at the date of vesting in November 2017.

Payments for loss of office and to past Directors (Audited)

No payments for loss of office were made during the financial year. Payments to John Daly and Pilar López, who stepped down from the Board during the year, are set out in the Non Executive Directors' remuneration table on page 90. Payments made to past Executive Directors Ian Meakins and Frank Roach in relation to LTIP awards granted on 19 January 2016 are disclosed on page 92. No payments have been made to past Directors other than a payment of $94,588 to Frank Roach in lieu of accrued holiday, and those payments detailed above.

Relative importance of spend on pay

The following table sets out the amounts and percentage change in total employee remuneration costs, dividends and returns of capital for the year ended 31 July 2018 compared to the year ended 31 July 2017.

	Year ended 31 July 2018 $m[1]	Year ended 31 July 2017 $m[1]	Percentage change
Total employee remuneration costs[2]	**2,913**	2,710	+7.5%
Ordinary dividends paid[2]	**390**	328	+18.9%
Special dividends paid[2]	**974**	–	N/A
Share buyback[2]	**675**	–	N/A

1. This table is now reported in USD following the change in presentational currency in 2017.
2. Further details on employee remuneration, dividends paid and the share buyback programme can be found in note 11, note 9 and note 26 of the consolidated financial statements on pages 116, 115 and 133 respectively.

Change in Group Chief Executive pay for the year compared to that of Ferguson employees

The table below shows the percentage year-on-year change in base salary, benefits and annual bonus between the year ended 31 July 2018 and the previous financial year for the Group Chief Executive compared to the average for UK-based employees[1].

	% change in salary	% change in benefits	% change in annual bonus[2]
Group Chief Executive[3,4]	+2.0%	-33.6%	+15.3%
Average for all UK-based employees	+4.2%	+21.4%	-3.0%

1. Although the Group Chief Executive has a global role and responsibilities, UK-based employees were chosen as a suitable comparator group as he is based in the UK (except to attend Board and Committee meetings in Switzerland or other worldwide locations outside of the UK). Also pay structures and changes to pay vary widely across the Group, depending on the local market conditions.
2. The Group Chief Executive's bonus is determined by both his performance and the performance of the whole of the Ferguson Group, whereas employees' bonuses are based on their performance and the performance of the businesses in the countries in which they work. The percentage change in annual bonus for UK-based employees is based on the best available estimates at time of publication.
3. During the year ended 31 July 2017, which forms the basis for the comparison for the percentage changes to Group Chief Executive remuneration, John Martin replaced Ian Meakins as Group Chief Executive on 1 September 2016. Group Chief Executive pay during that year has been calculated using the sum of Mr Meakins and Mr Martin's salary, benefits and bonus for their respective one and 11 months of service as Group Chief Executive during 2016/17. Mr Meakins did not receive an annual bonus for the year ended 31 July 2017.
4. The calculation of the change in benefits for the Group Chief Executive, is based on figures from 2016/17, described above in note 3, that include a tax gross up payment made to Ian Meakins in August 2016 that relates to the previous tax year and a tax gross up payment made to John Martin in September 2016 that relates to the previous tax year. **The change in benefits without this duplication would have been –4.8 per cent.**

Further information

External Directorships

Executive Directors are permitted to take on external Non Executive Directorships. In order to avoid any conflicts of interest, all such appointments are subject to the approval of the Nominations Committee. The Nominations Committee believes that taking up an external non executive appointment helps bring a wider perspective to the Company and also assists in the development of business skills and experience.

During the year, Mike Powell was a Non Executive Director and Audit Committee Chairman of Low & Bonar plc and received an annualised fee of £48,250 per annum for his services. The Company allowed Mr Powell to retain the fees paid to him during the year.

Detail of Employee Benefit Trusts

The Ferguson plc 2011 Employee Benefit Trust ("Jersey Trust") and Ferguson plc US Trust ("US Trust") (together, "the Trusts") were established in connection with the obligation to satisfy historical and future share awards under the LTI plans and any other employee incentive plans ("Share Awards").

The trustees of each of the Trusts have waived their rights to receive dividends on any shares held by them. As at 31 July 2018, the Jersey Trust held 298,567 ordinary shares of 11 $^{227}/_{563}$ pence and £7,011 in cash; and the US Trust held 1,128,038 ordinary shares of 11 $^{227}/_{563}$ pence. The number of shares held by the Trusts represented 0.56 per cent of the Company's issued share capital at 31 July 2018.

During the year, shares were purchased by the Trusts to ensure that they continue to have sufficient shares to satisfy share awards. The Jersey Trust purchased 87,275 ordinary shares and paid £4.6 million and the US Trust purchased 478,053 ordinary shares and paid £25.6 million . The Company provided funds to the Trusts to enable them to make the purchases. All purchases took place prior to the share consolidation, which took place on 11 June 2018. The number of shares purchased represented 0.21 per cent of the Company's issued share capital prior to the share consolidation.

Detail of all-employee share plans

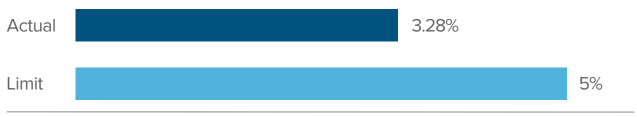
The Company operates two all-employee share plans which Executive Directors can participate in. In the USA and Canada, the ESPP operates as a one-year savings contract plan. In all other business units, employees may participate in the ISP for a savings period of three or five years.

Dilution

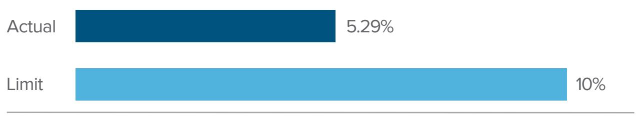
Awards under the LTIP, historical executive share option plans and all-employee plans may be met by the issue of new shares when options are exercised, by the use of Treasury Shares or by shares purchased in the market. Awards under the LTI plans are met by market purchases of shares or from the Trusts. The Company monitors the number of shares issued under the Plans and any impact on dilution limits.

Compared to the limits set by the Investment Association in respect of new share issues to satisfy options granted for executive share plans (5 per cent in any rolling 10-year period) and all share plans (10 per cent in any rolling 10-year period) as at 31 July 2018 the Company's headroom was 1.72 per cent and 4.71 per cent respectively.

Executive share plans
%

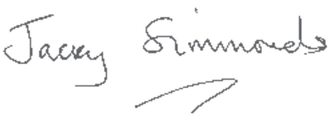


All share plans
%



This Report has been approved by the Board and is signed on its behalf by the Chair of the Remuneration Committee.

On behalf of the Board



Jacky Simmonds
Chair of the Remuneration Committee
1 October 2018

This Report, approved by the Board, has been prepared in accordance with the requirements of the Listing Rules of the Financial Conduct Authority and the Remuneration Reporting Regulations. Furthermore, the Board has also applied the principles of good governance relating to Directors' remuneration contained within the UK Corporate Governance Code updated in April 2016. The Remuneration Committee confirms that throughout the financial year the Company has complied with these governance rules.

Financials

Mike Powell
Group Chief Financial Officer

Group income statement

Year ended 31 July 2018

	Notes	2018 Before exceptional items $m	2018 Exceptional items (note 5) $m	2018 Total $m	Restated[1] 2017 Before exceptional items $m	Restated[1] 2017 Exceptional items (note 5) $m	Restated[1] 2017 Total $m
Revenue	3	**20,752**	**–**	**20,752**	19,284	–	19,284
Cost of sales		**(14,689)**	**(19)**	**(14,708)**	(13,698)	(3)	(13,701)
Gross profit		**6,063**	**(19)**	**6,044**	5,586	(3)	5,583
Operating costs:							
amortisation of acquired intangible assets		**(65)**	**–**	**(65)**	(81)	–	(81)
other		**(4,556)**	**(63)**	**(4,619)**	(4,245)	221	(4,024)
Operating costs		**(4,621)**	**(63)**	**(4,684)**	(4,326)	221	(4,105)
Operating profit	3, 4	**1,442**	**(82)**	**1,360**	1,260	218	1,478
Net finance costs	6	**(53)**	**–**	**(53)**	(54)	–	(54)
Share of profit/(loss) after tax of associates	15	**2**	**–**	**2**	(1)	–	(1)
Impairment of interests in associates	15	**(122)**	**–**	**(122)**	–	–	–
Profit before tax		**1,269**	**(82)**	**1,187**	1,205	218	1,423
Tax	7	**(361)**	**15**	**(346)**	(342)	(28)	(370)
Profit from continuing operations		**908**	**(67)**	**841**	863	190	1,053
Profit/(loss) from discontinued operations	8	**22**	**404**	**426**	(60)	(73)	(133)
Profit for the year attributable to shareholders of the Company		**930**	**337**	**1,267**	803	117	920

	Notes	2018	2017
Earnings per share	10		
Continuing operations and discontinued operations			
Basic earnings per share		**515.7c**	366.1c
Diluted earnings per share		**511.9c**	363.5c
Continuing operations only			
Basic earnings per share		**342.3c**	419.0c
Diluted earnings per share		**339.8c**	416.0c

	Notes	2018	2017
Alternative performance measures			
Trading profit from ongoing operations	2	**1,507**	1,307
Trading profit from non-ongoing operations	2	**–**	34
Trading profit from continuing operations	2, 3	**1,507**	1,341
Adjusted EBITDA	2	**1,687**	1,519
Headline earnings per share	2, 10	**444.4c**	366.1c

1. All comparative information has been restated to be presented in US dollars, see note 1.

Group statement of comprehensive income

Year ended 31 July 2018

	Notes	2018 $m	Restated 2017 $m
Profit for the year		**1,267**	920
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange gain on translation of overseas operations[1]		**7**	58
Exchange loss on translation of borrowings and derivatives designated as hedges of overseas operations[1]		**(11)**	(8)
Cumulative currency translation differences on disposals[1]		**194**	11
Tax credit on items that may be reclassified to profit or loss[2]	7	**–**	1
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gain/(loss) on retirement benefit plans[2]	25	**104**	(2)
Tax charge on items that will not be reclassified to profit or loss[2]	7, 25	**(17)**	(1)
Other comprehensive income for the year		**277**	59
Total comprehensive income for the year		**1,544**	979
Total comprehensive income/(expense) attributable to:			
Continuing operations		**926**	1,106
Discontinued operations		**618**	(127)
Total comprehensive income for the year attributable to shareholders of the Company		**1,544**	979

1. Impacting the translation reserve.
2. Impacting retained earnings.

Group statement of changes in equity

	Notes	Share capital $m	Share premium $m	Reserves: Translation reserve $m	Treasury shares $m	Own shares $m	Retained earnings $m	Non-controlling interest $m	Total equity $m
At 1 August 2016 restated		45	67	(807)	(792)	(92)	5,419	(3)	3,837
Profit for the year		–	–	–	–	–	920	–	920
Other comprehensive income/(expense)		–	–	61	–	–	(2)	–	59
Total comprehensive income		–	–	61	–	–	918	–	979
Purchase of own shares by Employee Benefit Trusts	26	–	–	–	–	(8)	–	–	(8)
Issue of own shares by Employee Benefit Trusts	26	–	–	–	–	24	(24)	–	–
Credit to equity for share-based payments		–	–	–	–	–	28	–	28
Tax relating to share-based payments	7	–	–	–	–	–	5	–	5
Disposal of Treasury shares	26	–	–	–	49	–	(22)	–	27
Dividends paid	9	–	–	–	–	–	(328)	–	(328)
At 31 July 2017 restated		**45**	**67**	**(746)**	**(743)**	**(76)**	**5,996**	**(3)**	**4,540**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**1,267**	**–**	**1,267**
Other comprehensive income		**–**	**–**	**190**	**–**	**–**	**87**	**–**	**277**
Total comprehensive income		**–**	**–**	**190**	**–**	**–**	**1,354**	**–**	**1,544**
Purchase of own shares by Employee Benefit Trusts	26	**–**	**–**	**–**	**–**	**(41)**	**–**	**–**	**(41)**
Issue of own shares by Employee Benefit Trusts	26	**–**	**–**	**–**	**–**	**27**	**(27)**	**–**	**–**
Credit to equity for share-based payments		**–**	**–**	**–**	**–**	**–**	**35**	**–**	**35**
Tax relating to share-based payments	7	**–**	**–**	**–**	**–**	**–**	**8**	**–**	**8**
Adjustment arising from change in non-controlling interest		**–**	**–**	**–**	**–**	**–**	**(16)**	**2**	**(14)**
Purchase of Treasury shares	26	**–**	**–**	**–**	**(675)**	**–**	**–**	**–**	**(675)**
Disposal of Treasury shares	26	**–**	**–**	**–**	**38**	**–**	**(14)**	**–**	**24**
Dividends paid	9	**–**	**–**	**–**	**–**	**–**	**(1,364)**	**–**	**(1,364)**
At 31 July 2018		**45**	**67**	**(556)**	**(1,380)**	**(90)**	**5,972**	**(1)**	**4,057**

Group balance sheet

As at 31 July 2018

	Notes	2018 $m	Restated 2017 $m	Restated 2016 $m
Assets				
Non-current assets				
Intangible assets: goodwill	12	**1,408**	1,173	1,193
Intangible assets: other	13	**308**	240	267
Property, plant and equipment	14	**1,086**	1,068	1,897
Interests in associates	15	**64**	164	–
Financial assets		**11**	15	30
Retirement benefit assets	25	**193**	4	–
Deferred tax assets	16	**130**	160	168
Trade and other receivables	18	**328**	299	280
Derivative financial assets	23	**17**	19	26
		3,545	3,142	3,861
Current assets				
Inventories	17	**2,516**	2,399	2,668
Trade and other receivables	18	**3,094**	2,766	2,920
Current tax receivable		**10**	3	–
Derivative financial assets	23	**–**	7	15
Cash and cash equivalents	19	**833**	2,525	1,243
		6,453	7,700	6,846
Assets held for sale	20	**151**	1,715	74
Total assets		**10,149**	12,557	10,781
Liabilities				
Current liabilities				
Trade and other payables	21	**3,341**	3,011	3,483
Current tax payable		**188**	116	134
Derivative financial liabilities	23	**2**	–	–
Bank loans and overdrafts	22	**383**	2,150	927
Obligations under finance leases		**3**	4	5
Provisions	24	**95**	107	116
Retirement benefit obligations	25	**4**	11	12
		4,016	5,399	4,677
Non-current liabilities				
Trade and other payables	21	**298**	238	216
Derivative financial liabilities	23	**17**	–	–
Bank loans	22	**1,522**	1,098	1,554
Obligations under finance leases		**3**	5	36
Deferred tax liabilities	16	**42**	12	86
Provisions	24	**179**	159	176
Retirement benefit obligations	25	**15**	21	183
		2,076	1,533	2,251
Liabilities held for sale	20	**–**	1,085	16
Total liabilities		**6,092**	8,017	6,944
Net assets		**4,057**	4,540	3,837
Equity				
Share capital	26	**45**	45	45
Share premium		**67**	67	67
Reserves		**3,946**	4,431	3,728
Equity attributable to shareholders of the Company		**4,058**	4,543	3,840
Non-controlling interest		**(1)**	(3)	(3)
Total equity		**4,057**	4,540	3,837

The accompanying notes are an integral part of these consolidated financial statements. The consolidated financial statements on pages 98 to 139 were approved and authorised for issue by the Board of Directors on 1 October 2018 and were signed on its behalf by:

John Martin

John Martin
Group Chief Executive

Mike Powell

Mike Powell
Group Chief Financial Officer

Group cash flow statement

Year ended 31 July 2018

	Notes	2018 $m	Restated 2017 $m
Cash flows from operating activities			
Cash generated from operations	27	**1,323**	1,410
Interest received		**9**	4
Interest paid		**(62)**	(71)
Tax paid		**(234)**	(393)
Net cash generated from operating activities		**1,036**	950
Cash flows from investing activities			
Acquisition of businesses (net of cash acquired)	28	**(416)**	(331)
Disposals of businesses (net of cash disposed of)	29	**1,320**	300
Purchases of property, plant and equipment		**(265)**	(192)
Proceeds from sale of property, plant and equipment and assets held for sale		**120**	24
Purchases of intangible assets		**(34)**	(32)
Disposals of financial assets		**–**	22
Acquisition of associates		**(35)**	–
Dividends received from associates		**10**	–
Net cash generated from/(used in) investing activities		**700**	(209)
Cash flows from financing activities			
Purchase of own shares by Employee Benefit Trusts	26	**(41)**	(8)
Purchase of Treasury shares	26	**(675)**	–
Proceeds from the sale of Treasury shares	26	**24**	27
Proceeds from borrowings and derivatives	30	**459**	430
Repayments of borrowings	30	**(261)**	(587)
Finance lease capital payments	30	**(4)**	(6)
Dividends paid to shareholders		**(1,359)**	(328)
Net cash used by financing activities		**(1,857)**	(472)
Net cash (used)/generated		**(121)**	269
Effects of exchange rate changes		**(7)**	(13)
Net (decrease)/increase in cash, cash equivalents and bank overdrafts		**(128)**	256
Cash, cash equivalents and bank overdrafts at the beginning of the year		**586**	330
Cash, cash equivalents and bank overdrafts at the end of the year		**458**	586

	Notes	2018 $m	Restated 2017 $m
Cash, cash equivalents and bank overdrafts at the end of the year in the Group balance sheet	30	**458**	543
Cash, cash equivalents and bank overdrafts at the end of the year in assets held for sale	20	**–**	43
Cash, cash equivalents and bank overdrafts at the end of the year		**458**	586

Notes to the consolidated financial statements

Year ended 31 July 2018

1 – Accounting policies

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, including interpretations issued by the International Accounting Standards Board ("IASB") and its committees.

The Group's subsidiary undertakings are set out on pages 152 and 153.

Ferguson plc is a public company limited by shares incorporated in Jersey under the Companies (Jersey) Law 1991 and is headquartered in Switzerland. It operates as the ultimate parent company of the Ferguson Group. Its registered office is 26 New Street, St Helier, Jersey, JE2 3RA, Channel Islands.

The consolidated financial statements have been prepared on a going concern basis (see page 68) and under the historical cost convention as modified by the revaluation of financial assets and liabilities held for trading.

Functional and presentational currency

The functional currency of the Company changed from pounds sterling to US dollars, as this is now the primary currency in which the Company's financing activities and investment returns are denominated. The change was effective from 1 August 2017 and in line with IAS 21 "The Effects of Changes in Foreign Exchange Rates" has been accounted for prospectively from this date.

The Group changed its presentational currency to US dollars, to better align with the Group's operations, which generate the majority of revenue and profit in US dollars, and is expected to reduce the impact of foreign exchange rate movements. The change in presentational currency was effective from 1 August 2017 and, in line with IAS 21, is accounted for retrospectively.

Financial information included in the consolidated financial statements for the years ended 31 July 2017 and 31 July 2016 previously reported in pounds sterling have been restated into US dollars using the procedures outlined below:

– Assets and liabilities denominated in non-US dollar currencies were translated into US dollars at the closing rates of exchange on the relevant balance sheet date;

– Non-US dollar income and expenditure were translated at the average rates of exchange prevailing for the relevant period; and

– Share capital, share premium and the other reserves were translated at the historic rates of exchange prevailing on the date of each transaction. The cumulative translation reserve was set to nil at 1 August 2004, the date of transition to IFRS, and has been restated on the basis that the Group has reported in US dollars since that date.

The exchange rates of US dollar to pounds sterling over the periods presented in this report are as follows:

	2018	2017	2016
US dollar/pounds sterling translation rate			
Income statement	**0.74**	0.79	0.68
Balance sheet	**0.76**	0.76	0.76

Accounting developments and changes

At the time of this report a number of accounting standards have been published and endorsed, but not yet applied.

IFRS 9 "Financial Instruments" will be adopted by the Group on 1 August 2018. The standard makes changes to the classification and measurement of financial assets and liabilities, revises the requirements of hedge accounting and introduces a new impairment model for financial assets.

The Group has completed an assessment of the impact of IFRS 9 and has concluded there will be no material impact on the Group's consolidated financial statements.

IFRS 15 "Revenue from Contracts with Customers" will be adopted by the Group on 1 August 2018. The standard introduces revised principles for the recognition of revenue with a new five-step model that focuses on the transfer of control instead of a risks and rewards approach.

The Group has completed an assessment of the impact of IFRS 15 and as the Group's current revenue recognition is consistent with the passing of control under IFRS 15 it has been concluded that there will be no material impact on the Group's consolidated financial statements.

IFRS 16 "Leases" is effective for the Group for the year ending 31 July 2020. IFRS 16 represents a significant change to the treatment of leases in the lessee's financial results. Lessees will be required to apply a single model to recognise a lease liability and asset for all leases, including those classified as operating leases under current accounting standards (note 32), unless the underlying asset has a low value or the lease term is 12 months or less.

On adoption of IFRS 16 there will be a significant change to the consolidated financial statements, as each lease will give rise to a right of use asset, which will be depreciated on a straight-line basis, and a lease liability, with the related interest charge. This will replace existing lease balances on the balance sheet and charges to the income statement.

The Group continues to assess the full impact of IFRS 16, however the impact will depend on the transition approach and the contracts in effect at the time of adoption. It is therefore not yet practicable to provide a reliable estimate of the financial impact on the Group's consolidated financial statements.

Choices permitted by IFRS

The Group has elected to apply hedge accounting to some of its financial instruments.

Critical accounting judgements

Exceptional Items

Note 2 provides a definition of exceptional items. The classification of exceptional items requires significant management judgement to determine the nature and intentions of a transaction. Note 5 provides further details on exceptional items.

Pensions and other post-retirement benefits

The Group operates defined benefit pension plans in the UK and in a number of overseas locations that are accounted for using methods that rely on actuarial assumptions to estimate costs and liabilities for inclusion in the consolidated financial statements. The Group takes advice from independent actuaries relating to the appropriateness of the assumptions.

The cost of providing benefits is determined annually using the Projected Unit Credit Method, which includes actuarial assumptions for discount rates, expected salary and pension increases, inflation and life expectancy and are disclosed in note 25. The discount rate used is the yield at the valuation date on high quality corporate bonds that have a maturity approximating to the terms of the pension obligations. Significant judgement is required when setting the criteria from which the yield curve is derived.

Sources of estimation uncertainty

In applying the Group's accounting policies, various transactions and balances are valued using estimates or assumptions. Should these estimates or assumptions prove incorrect there may be an impact on the following year's financial statements. The Group believes that the estimates and assumptions that have been applied would not give rise to a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

1 – Accounting policies continued

Accounting policies

A summary of the principal accounting policies applied by the Group in the preparation of the consolidated financial statements is set out below. The accounting policies have been applied consistently throughout the current and preceding year.

Basis of consolidation

The consolidated financial information includes the results of the parent company and entities controlled by the Company (its subsidiary undertakings and controlling interests) and its share of profit/(loss) after tax of its associates.

The financial performance of business operations are included in profit from continuing operations from the date of acquisition and up to the date of classification as a discontinued operation or sale.

Intra-group transactions and balances and any unrealised gains and losses arising from intra-group transactions are eliminated on consolidation, with the exception of gains or losses required under relevant IFRS accounting standards.

Discontinued operations

When the Group has disposed of or intends to dispose of a business component that represents a separate major line of business or geographical area of operations, it classifies such operations as discontinued. The post-tax profit or loss of the discontinued operations is shown as a single line on the face of the income statement, separate from the other results of the Group.

Foreign currencies

Items included in the financial statements of the parent and of each of the Group's subsidiary undertakings are measured using the currency of the primary economic environment in which the subsidiary undertaking operates (the "functional currency"). The consolidated financial statements are presented in US dollars, which is the presentational currency of the Group and the functional currency of the parent company.

The trading results of overseas subsidiary undertakings are translated into US dollars using the average rates of exchange ruling during the relevant financial period. The balance sheets of overseas subsidiary undertakings are translated into US dollars at the rates of exchange ruling at the period end. Exchange differences arising on the translation into US dollars of the net assets of these subsidiary undertakings are recognised in the currency translation reserve.

In the event that a subsidiary undertaking which has a non-US dollar functional currency is disposed of, the gain or loss on disposal recognised in the income statement is determined after taking into account the cumulative currency translation differences that are attributable to the subsidiary undertaking concerned.

Foreign currency transactions entered into during the year are translated into the functional currency of the entity at the rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All currency translation differences are taken to the income statement. Except as noted above, changes in the fair value of derivative financial instruments, entered into to hedge foreign currency net assets and that satisfy the hedging conditions of IAS 39 "Financial Instruments: Recognition and Measurement", are recognised in the currency translation reserve (see the separate accounting policy on derivative financial instruments).

Business combinations

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. Acquisition-related costs are expensed as incurred.

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Group's share of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Interests in associates

Investments in companies where significant influence is exercised are accounted for as interests in associates using the equity method of accounting from the date the investee becomes an associate. The investment is initially recognised at cost and adjusted thereafter for changes in the Group's share in the net assets of the investee. The Group's share of profit or loss after tax is recognised in the Group income statement and share of other comprehensive income or expense is recognised in the Group statement of other comprehensive income.

On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net assets of the investee is recognised as goodwill, which is included within the carrying amount of the investment. The requirements of IAS 36 "Impairment of Assets", are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate.

Revenue

Revenue is the amount receivable for the provision of goods and services falling within the Group's ordinary activities, excluding intra-group sales, estimated and actual sales returns, trade and early settlement discounts, value added tax and similar sales taxes.

The Group acts as principal for direct sales which are delivered directly to the customer by the supplier.

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

Revenue from services is recognised by reference to the stage of completion of the contract.

Revenue from the provision of goods and services is only recognised when the amounts to be recognised are fixed or determinable and collectability is reasonably assured.

Cost of sales

Cost of sales includes purchased goods, the cost of bringing inventory to its present location and condition and labour and overheads attributable to assembly and construction services.

Supplier rebates

In line with industry practice, the Group has agreements ("supplier rebates") with a number of its suppliers whereby volume-based rebates, marketing support and other discounts are received in connection with the purchase of goods for resale from those suppliers. Rebates relating to the purchase of goods for resale are accrued as earned and are recorded initially as a deduction in inventory with a subsequent reduction in cost of sales when the related product is sold.

1 – Accounting policies continued

Accounting policies continued

Volume-based rebates

The majority of volume-based rebates are determined by reference to guaranteed rates of rebate. These are calculated through a mechanical process with minimal judgement required to determine the amount recorded in the income statement.

A small proportion of volume-based rebates are subject to tiered targets where the rebate percentage increases as volumes purchased reach agreed targets within a set period of time. The majority of rebate agreements apply to purchases in a calendar year and therefore, for tiered rebates, judgement is required to estimate the rebate amount recorded in the income statement at the end of the period. The Group assesses the probability that targeted volumes will be achieved in the year based on forecasts which are informed by historical trading patterns, current performance and trends. This judgement is exercised consistently with historically insignificant true ups at the end of the period.

An amount due in respect of supplier rebates is not recognised within the income statement until all the relevant performance criteria, where applicable, have been met and the goods have been sold to a third party.

Other rebates

The Group has also entered into other rebate agreements which represent a smaller element of the Group's overall supplier rebates and which are recognised in the income statement when all performance conditions have been fulfilled.

Supplier rebates receivable

Supplier rebates are offset with amounts owing to each supplier at the balance sheet date and are included within trade payables, where the Group has the legal right to offset and net settles balances. Where the supplier rebates are not offset against amounts owing to a supplier, the outstanding amount is included within prepayments.

Operating leases

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. The cost of operating leases (net of any incentives received from the lessor) is charged to the income statement on a straight-line basis over the period of the leases.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary undertaking at the date of acquisition. Goodwill on acquisitions of subsidiary undertakings is included within intangible assets. Goodwill is allocated to cash generating units or aggregations of cash generating units (together "CGUs") where synergy benefits are expected. CGUs are independent sources of income streams and represent the lowest level within the Group at which the associated goodwill is monitored for management purposes. The Group considers that a CGU is a business unit because independent cash flows cannot be identified below this level.

Goodwill is not amortised but is tested annually for impairment and carried at cost less accumulated impairment losses. For goodwill impairment testing purposes, no CGU is larger than the operating segments determined in accordance with IFRS 8 "Operating Segments". The recoverable amount of goodwill and acquired intangible assets is assessed on the basis of the value in use estimate for CGUs to which they are attributed. Where carrying value exceeds the recoverable amount a provision for the impairment is established with a charge included in the income statement.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Other intangible assets

An intangible asset, which is an identifiable non-monetary asset without physical substance, is recognised to the extent that it is probable that the expected future economic benefits attributable to the asset will flow to the Group and that its cost can be measured reliably. The asset is deemed to be identifiable when it is separable or when it arises from contractual or other legal rights.

Intangible assets, primarily brands, trade names and customer relationships, acquired as part of a business combination are capitalised separately from goodwill and are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the reducing balance method for customer relationships and the straight-line method for other intangible assets.

The cost of the intangible assets is amortised and charged to operating costs in the income statement over their estimated useful lives as follows:

Customer relationships	4–25 years
Trade names and brands	1–15 years
Other	1–4 years

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

Property, plant and equipment ("PPE")

PPE is carried at cost less accumulated depreciation and accumulated impairment losses, except for land and assets in the course of construction, which are not depreciated and are carried at cost less accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. In addition, subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Assets are depreciated to their estimated residual value using the straight-line method over their useful lives as follows:

Freehold buildings and long leaseholds	20–50 years
Operating leasehold improvements	over the period of the lease
Plant and machinery	7–10 years
Computer hardware	3–5 years
Fixtures and fittings	5–7 years
Motor vehicles	4 years

The residual values and useful lives of PPE are reviewed and adjusted if appropriate at each balance sheet date.

Borrowing costs directly attributable to the long-term construction or production of an asset are capitalised as part of the cost of the asset.

1 – Accounting policies continued

Accounting policies continued

Assets and disposal groups held for sale

Assets are classified as held for sale if their carrying amount will be recovered by sale rather than by continuing use in the business. Where a group of assets and their directly associated liabilities are to be disposed of in a single transaction, such disposal groups are also classified as held for sale. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition and management must be committed to and have initiated a plan to sell the asset or disposal group which, when initiated, was expected to result in a completed sale within 12 months. Assets that are classified as held for sale are not depreciated. Assets or disposal groups that are classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Inventories

Inventories, which comprise goods purchased for resale, are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out ("FIFO") method or the average cost method as appropriate to the nature of the transactions in those items of inventory. The cost of goods purchased for resale includes import and custom duties, transport and handling costs, freight and packing costs and other attributable costs less trade discounts, rebates and other subsidies. It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Provisions are made against slow-moving, obsolete and damaged inventories for which the net realisable value is estimated to be less than the cost. The risk of obsolescence of slow-moving inventory is assessed by comparing the level of inventory held to estimated future sales on the basis of historical experience.

Trade receivables

Trade receivables are recognised initially at fair value and measured subsequently at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the loss is recognised in the income statement. Trade receivables are written off against the provision when recoverability is assessed as being remote. Subsequent recoveries of amounts previously written off are credited to the income statement.

Provisions

Provisions for self-insured risks, legal claims, environmental restoration and onerous leases are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Such provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money. Provisions are not recognised for future operating losses.

Retirement benefit obligations

Contributions to defined contribution pension plans and other post-retirement benefits are charged to the income statement as incurred.

For defined benefit pension plans and other retirement benefits, the cost of providing benefits is determined annually using the Projected Unit Credit Method by independent qualified actuaries. The current and past service cost of defined benefit plans is recorded within operating profit.

The net interest amount is calculated by applying the discount rate to the defined benefit net asset or liability at the beginning of the period. The pension plan net interest is presented as finance income or expense.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

The liability/asset recognised in the balance sheet in respect of defined benefit pension plans is the fair value of plan assets less the present value of the defined benefit obligation at the end of the reporting period. Where a plan is in a net asset position the asset is recognised where trustees do not have unilateral power to augment benefits prior to a wind-up.

Tax

Current tax represents the expected tax payable (or recoverable) on the taxable income (or losses) for the year using tax rates enacted or substantively enacted at the balance sheet date and taking into account any adjustments arising from prior years.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Tax provisions

The Group is subject to income taxes in numerous jurisdictions. Judgement is sometimes required in determining the worldwide provision for income taxes. There may be transactions for which the ultimate tax determination is uncertain and may be challenged by the tax authorities. The Group recognises liabilities for anticipated or actual tax audit issues based on estimates of whether additional taxes will be due. Where an outflow of funds to a tax authority is considered probable and the Group can make a reliable estimate of the outcome of the dispute, management calculates the provision using the single best estimate of likely outcome approach. In assessing its uncertain tax provisions, management takes into account the specific facts of each dispute, the likelihood of settlement and professional advice where required. Where the ultimate liability in a dispute varies from the amounts provided, such differences could impact the current and deferred income tax assets and liabilities in the period in which the dispute is concluded.

1 – Accounting policies continued

Accounting policies continued

Share capital

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax.

Where any Group company purchases the Company's equity share capital (Treasury shares), the consideration paid, including any directly attributable incremental costs (net of tax), is deducted from equity attributable to shareholders of the Company until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related tax effects, is included in equity attributable to shareholders of the Company.

Share-based payments

Share-based incentives are provided to employees under the Group's long-term incentive plans and all-employee sharesave plans. The Group recognises a compensation cost in respect of these plans that is based on the fair value of the awards, measured using Binomial and Monte Carlo valuation methodologies. For equity-settled plans, the fair value is determined at the date of grant (including the impact of any non-vesting conditions such as a requirement for employees to save) and is not subsequently remeasured unless the conditions on which the award were granted are modified. For cash-settled plans, the fair value is determined at the date of grant and is remeasured at each balance sheet date until the liability is settled. Generally, the compensation cost is recognised on a straight-line basis over the vesting period. Adjustments are made to reflect expected and actual forfeitures during the vesting period due to the failure to satisfy service conditions or non-market performance conditions.

Dividends payable

Dividends on ordinary shares are recognised in the Group's consolidated financial statements in the period in which the dividends are approved by the shareholders of the Company or paid.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet to the extent that there is no legal right of offset or no practice of net settlement with cash balances.

Cash which is not freely available to the Group is disclosed as restricted cash.

Derivative financial instruments

Derivative financial instruments, in particular interest rate swaps and foreign exchange swaps, are used to manage the financial risks arising from the business activities of the Group and the financing of those activities. There is no trading activity in derivative financial instruments.

At the inception of a hedging transaction involving the use of derivative financial instruments, the Group documents the relationship between the hedged item and the hedging instrument together with its risk management objective and the strategy underlying the proposed transaction. The Group also documents its assessment, both at the inception of the hedging relationship and subsequently on an ongoing basis, of the effectiveness of the hedge in offsetting movements in the fair values or cash flows of the hedged items. Derivative financial instruments are recognised as assets and liabilities measured at their fair values at the balance sheet date. Where derivative financial instruments do not fulfil the criteria for hedge accounting contained in IAS 39, changes in their fair values are recognised in the income statement. When hedge accounting is used, the relevant hedging relationships are classified as fair value hedges, cash flow hedges or net investment hedges.

Where the hedging relationship is classified as a fair value hedge, the carrying amount of the hedged asset or liability is adjusted by the increase or decrease in its fair value attributable to the hedged risk and the resulting gain or loss is recognised in the income statement where, to the extent that the hedge is effective, it will be offset by the change in the fair value of the hedging instrument. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity. Where the hedging relationship is classified as a cash flow hedge or as a net investment hedge, to the extent the hedge is effective, changes in the fair value of the hedging instrument arising from the hedged risk are recognised directly in other comprehensive income.

When the hedged item is recognised in the financial statements, the accumulated gains and losses recognised in equity are either recycled to the income statement or, if the hedged item results in a non-financial asset, are recognised as adjustments to its initial carrying amount. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Borrowings

Borrowings are recognised initially at the fair value of the consideration received net of transaction costs incurred. Borrowings are subsequently stated at amortised cost with any difference between the proceeds (net of transaction costs) and the redemption value being recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2 – Alternative performance measures

The Group uses alternative performance measures ("APMs"), which are not defined or specified under IFRS. These APMs, which are not considered to be a substitute for IFRS measures, provide additional helpful information. APMs are consistent with how business performance is planned, reported and assessed internally by management and the Board and provide comparable information across the Group.

Ongoing and non-ongoing

The Group reports some financial measures net of businesses that have been disposed of, closed or classified as held for sale and uses the following terminology:

Non-ongoing operations are businesses, which do not meet the criteria to be classified as discontinued operations under IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", which have been disposed of, closed or classified as held for sale. In 2017, the Group's Swiss business, Tobler, and a small Industrial business in the USA, Endries, were classified as non-ongoing and subsequently sold during 2017. There are no businesses classified as non-ongoing in 2018.

Ongoing operations are continuing operations excluding non-ongoing operations.

Constant exchange rates

The Group measures some financial metrics on both a reported basis and at constant exchange rates. The constant exchange rate basis re-translates the prior year at the current year exchange rates to eliminate the effect of exchange rate fluctuations when comparing information year-on-year.

Organic revenue growth

Management uses organic revenue growth as it provides a consistent measure of the percentage increase/decrease in revenue year-on-year, excluding the effect of currency exchange rate fluctuations, trading days, acquisitions and disposals.

A reconciliation of revenue using the above APMs to statutory revenue is provided below:

	Ongoing		Non-ongoing	Continuing
Revenue	$m	% growth	$m	$m
Reported 2017 restated	18,845		439	19,284
Impact of exchange rate movements	229		–	229
Reported 2017 at 2018 exchange rates	19,074		439	19,513
Organic growth	1,439	7.5	–	1,439
Acquisitions	239	1.3	–	239
Disposals	–	–	(439)	(439)
Growth at constant exchange rates	1,678	8.8	(439)	1,239
Reported 2018	20,752		–	20,752

Like-for-like revenue growth

To aid understanding of the UK business management reports like-for-like revenue growth, which is organic revenue growth excluding the effect of branch openings and closures and the exit of low margin business.

Exceptional items

Exceptional items are those which are considered significant by virtue of their nature, size or incidence. These items are presented as exceptional within their relevant income statement category to assist in the understanding of the trading and financial results of the Group as these types of cost/credit do not form part of the underlying business.

Examples of items that are considered by the Directors for designation as exceptional items include, but are not limited to:

– restructuring costs within a segment which are both material and incurred as part of a significant change in strategy or due to the closure of a large part of a business and are not expected to be repeated on a regular basis;
– significant costs incurred as part of the integration of an acquired business and which are considered to be material;
– gains or losses on disposals of businesses are considered to be exceptional in nature as they do not reflect the performance of the trading business;
– material costs or credits arising as a result of regulatory and litigation matters;
– gains or losses arising on significant changes to or closures of defined benefit pension plans are considered to be exceptional in nature as they do not reflect the performance of the trading business; and
– other items which are material and considered to be non-recurring in nature and/or are not as a result of the underlying trading activities of the business.

If provisions have been made for exceptional items in previous years, any reversal of these provisions is treated as exceptional.

Exceptional items for the current and prior year are disclosed in note 5.

2 – Alternative performance measures continued

Ongoing gross margin

The ratio of ongoing gross profit, excluding exceptional items, to ongoing revenue. Ongoing gross margin is used by management for assessing business unit performance and it is a key performance indicator for the Group (see page 28). A reconciliation of ongoing gross margin is provided below:

	2018			Restated 2017		
	Gross profit $m	**Revenue $m**	**Ongoing gross margin %**	Gross profit $m	Revenue $m	Ongoing gross margin %
Continuing	**6,044**	**20,752**		5,583	19,284	
Non-ongoing	**–**	**–**		(138)	(439)	
Exceptional items	**19**	**–**		3	–	
Ongoing	**6,063**	**20,752**	**29.2**	5,448	18,845	28.9

Trading profit and ongoing trading margin

Trading profit is defined as operating profit before exceptional items and the amortisation and impairment of acquired intangible assets. Trading profit is used as a performance measure because it excludes costs and other items that do not form part of the underlying trading business.

The ongoing trading margin is the ratio of ongoing trading profit to ongoing revenue and is used to assess business unit profitability and is a key performance indicator for the Group (see page 28).

A reconciliation of trading profit to statutory operating profit and the calculation of ongoing trading margin are provided below:

	2018				Restated 2017		
		Ongoing	**Non-ongoing**	**Continuing**	Ongoing	Non-ongoing	Continuing
	$m	**growth %**	**$m**	**$m**	$m	$m	$m
Trading profit 2017	**1,307**		**34**	**1,341**			
Impact of exchange rate movements	**7**		**–**	**7**			
Trading profit 2017 at 2018 exchange rates	**1,314**		**34**	**1,348**			
Growth at constant exchange rates	**193**	**14.7**	**(34)**	**159**			
Trading profit	**1,507**		**–**	**1,507**	1,307	34	1,341
Amortisation of acquired intangible assets	**(65)**		**–**	**(65)**	(81)	–	(81)
Exceptional items	**(82)**		**–**	**(82)**	(47)	265	218
Operating profit	**1,360**		**–**	**1,360**	1,179	299	1,478

Revenue, trading profit and trading margin by reportable segment are shown below. For information on our reportable segments see note 3.

	Revenue		Trading profit		Trading margin	
	2018 $m	Restated 2017 $m	**2018 $m**	Restated 2017 $m	**2018 %**	Restated 2017 %
USA	**16,670**	14,977	**1,406**	1,204	**8.4**	8.0
UK	**2,568**	2,548	**73**	96	**2.8**	3.8
Canada and Central Europe	**1,514**	1,320	**83**	57	**5.5**	4.3
Central and other costs	**–**	–	**(55)**	(50)	**–**	–
Total ongoing operations	**20,752**	18,845	**1,507**	1,307	**7.3**	6.9
USA	**–**	216	**–**	20		
Canada and Central Europe	**–**	223	**–**	14		
Total non-ongoing operations	**–**	439	**–**	34		
Continuing operations	**20,752**	19,284	**1,507**	1,341		

2 – Alternative performance measures continued

Adjusted EBITDA

Adjusted EBITDA is operating profit before charges/credits relating to depreciation, amortisation, impairment and exceptional items. Adjusted EBITDA is used in the net debt to adjusted EBITDA ratio to assess the appropriateness of the Group's financial gearing. A reconciliation of statutory operating profit to adjusted EBITDA is provided below:

			2018			Restated 2017
	Continuing $m	**Discontinued $m**	**Group $m**	Continuing $m	Discontinued $m	Group $m
Operating profit	**1,360**	**461**	**1,821**	1,478	(141)	1,337
Exceptional items	**82**	**(402)**	**(320)**	(218)	86	(132)
Amortisation and impairment of goodwill and acquired intangible assets	**65**	**–**	**65**	81	135	216
Trading profit	**1,507**	**59**	**1,566**	1,341	80	1,421
Depreciation and impairment of property, plant and equipment	**152**	**–**	**152**	151	29	180
Amortisation and impairment of non-acquired intangible assets	**28**	**–**	**28**	27	4	31
Adjusted EBITDA	**1,687**	**59**	**1,746**	1,519	113	1,632

Ongoing effective tax rate

The ongoing effective tax rate is the ratio of the ongoing tax charge to ongoing profit before tax and is used as a measure of the tax rate of the ongoing business. See reconciliation in note 7.

Headline profit after tax and headline earnings per share

Headline profit after tax is calculated as the profit from continuing operations after tax, before charges for amortisation and impairment of acquired intangible assets and impairment of interests in associates net of tax, exceptional items net of tax and non-recurring tax relating to changes in tax rates and other adjustments. The Group excludes amortisation and impairment of acquired intangible assets to improve the comparability between acquired and organically grown operations, as the latter cannot recognise internally generated intangible assets.

Headline earnings per share is the ratio of headline profit after tax to the weighted average number of ordinary shares in issue during the year, excluding those held by the Employee Benefit Trusts and those held by the Company as Treasury shares. Headline earnings per share is used for the purpose of setting remuneration targets for executive directors and other senior executives. See reconciliation in note 10.

Net debt

Net debt comprises cash and cash equivalents and liabilities from financing activities, including bank overdrafts, bank loans, derivative financial instruments and obligations under finance leases. Net debt is a good indicator of the strength of the Group's balance sheet position and is widely used by credit rating agencies. See note 30 for a reconciliation.

Return on gross capital employed

Return on gross capital employed is the ratio of the Group's trading profit to the average year-end shareholders' equity, adjusted net debt and accumulated amortisation and impairment of goodwill and acquired intangible assets. Return on gross capital employed is a key performance indicator (see page 29). The calculation of return on gross capital employed is shown below:

	2018 $m	Restated 2017 $m
Net debt (note 30)	**1,080**	706
Cash and cash equivalents in assets held for sale (note 20)	**–**	(43)
Bank loans in assets held for sale (note 20)	**–**	105
Adjusted net debt	**1,080**	768
Accumulated impairment losses of goodwill (note 12)[1]	**197**	1,330
Accumulated amortisation and impairment losses of acquired intangible assets (note 13)[2]	**586**	1,231
Shareholders' equity	**4,058**	4,543
Gross capital employed	**5,921**	7,872
Average gross capital employed[3]	**6,897**	7,643
Group trading profit[4]	**1,566**	1,421
Return on gross capital employed %	**22.7**	18.6

1. In 2017 includes $1,131 million reclassified as held for sale.
2. Excludes software and in 2017 includes $708 million reclassified as held for sale.
3. Gross capital employed in 2016 was $7,414 million.
4. Reconciliation provided above under adjusted EBITDA.

3 – Segmental analysis

The Group's operating segments are established on the basis of the operating businesses overseen by distinct divisional management teams responsible for their performance. These operating businesses are managed on a geographical basis and are regularly reviewed by the chief operating decision maker in deciding how to allocate resources and assess the performance of the businesses. All operating segments derive their revenue from a single business activity, the distribution of plumbing and heating products. Revenue is attributed to a country based on the location of the Group company reporting the revenue.

The Group has combined the Canada and Central Europe operating segments into one reportable segment as individually they do not meet the quantitative thresholds set out in IFRS 8 "Operating Segments" to be separately disclosed.

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

The changes in revenue and trading profit for continuing operations between the years ended 31 July 2017 and 31 July 2018 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.

An analysis of the change in revenue by reportable segment for continuing operations is as follows:

	Restated 2017 $m	Exchange $m	Disposals $m	Acquisitions $m	Organic change $m	**2018 $m**
USA	15,193	–	(216)	205	1,488	**16,670**
UK	2,548	163	–	–	(143)	**2,568**
Canada and Central Europe	1,543	66	(223)	34	94	**1,514**
Continuing operations	19,284	229	(439)	239	1,439	**20,752**

An analysis of the change in trading profit/(loss) (note 2) by reportable segment for continuing operations is as follows:

	Restated 2017 $m	Exchange $m	Disposals $m	Acquisitions $m	Organic change $m	**2018 $m**
USA	1,224	–	(20)	4	198	**1,406**
UK	96	6	–	–	(29)	**73**
Canada and Central Europe	71	3	(14)	4	19	**83**
Central and other costs	(50)	(2)	–	–	(3)	**(55)**
Continuing operations	1,341	7	(34)	8	185	**1,507**

3 – Segmental analysis continued

The reconciliation between trading profit/(loss) (note 2) and operating profit/(loss) by reportable segment for continuing operations is as follows:

	2018				Restated 2017			
	Trading profit/(loss) $m	Exceptional items $m	Amortisation of acquired intangible assets $m	Operating profit/(loss) $m	Trading profit/(loss) $m	Exceptional items $m	Amortisation of acquired intangible assets $m	Operating profit/(loss) $m
USA	**1,406**	**(5)**	**(58)**	**1,343**	1,224	86	(79)	1,231
UK	**73**	**(70)**	**–**	**3**	96	(35)	–	61
Canada and Central Europe	**83**	**–**	**(7)**	**76**	71	176	(2)	245
Central and other costs	**(55)**	**(7)**	**–**	**(62)**	(50)	(9)	–	(59)
Group	**1,507**	**(82)**	**(65)**	**1,360**	1,341	218	(81)	1,478
Net finance costs				**(53)**				(54)
Share of profit/(loss) after tax of associates				**2**				(1)
Impairment of interests in associates				**(122)**				–
Profit before tax				**1,187**				1,423

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

	2018			Restated 2017		
	Segment assets $m	Segment liabilities $m	Segment net assets/ (liabilities) $m	Segment assets $m	Segment liabilities $m	Segment net assets/ (liabilities) $m
USA	**6,964**	**(2,772)**	**4,192**	6,187	(2,475)	3,712
UK	**1,301**	**(656)**	**645**	1,122	(650)	472
Canada and Central Europe	**690**	**(297)**	**393**	626	(258)	368
Central and other costs[1]	**88**	**(141)**	**(53)**	185	(125)	60
Discontinued	**116**	**(66)**	**50**	1,723	(1,124)	599
Total	**9,159**	**(3,932)**	**5,227**	9,843	(4,632)	5,211
Tax assets/(liabilities)	**140**	**(230)**	**(90)**	163	(128)	35
Net cash/(debt)	**850**	**(1,930)**	**(1,080)**	2,551	(3,257)	(706)
Group assets/(liabilities)	**10,149**	**(6,092)**	**4,057**	12,557	(8,017)	4,540

1. Segmental assets include $64 million (2017: $164 million) relating to interests in associates.

Geographical information of non-current assets is set out in the table below. Non-current assets includes goodwill, other intangible assets, property, plant and equipment and interests in associates.

	2018 $m	Restated 2017 $m
USA	**2,343**	2,012
UK	**258**	272
Canada and Central Europe	**265**	361
Group	**2,866**	2,645

3 – Segmental analysis continued

	2018				Restated 2017			
	Additions to goodwill $m	Additions to other acquired intangible assets and interests in associates $m	Additions to non-acquired intangible assets $m	Additions to property, plant and equipment $m	Additions to goodwill $m	Additions to other acquired intangible assets and interests in associates $m	Additions to non-acquired intangible assets $m	Additions to property, plant and equipment $m
USA	**208**	**120**	**8**	**182**	178	102	15	102
UK	**–**	**–**	**16**	**32**	–	–	10	27
Canada and Central Europe	**33**	**10**	**5**	**13**	–	–	4	11
Central and other costs	**–**	**35**	**1**	**1**	–	162	1	–
Discontinued	**–**	**–**	**–**	**–**	3	2	2	58
Group	**241**	**165**	**30**	**228**	181	266	32	198

	2018				Restated 2017			
	Impairment of goodwill, other acquired intangible assets and interests in associates $m	Amortisation of other acquired intangible assets $m	Amortisation and impairment of non-acquired intangible assets $m	Depreciation and impairment of property, plant and equipment $m	Impairment of goodwill, other acquired intangible assets and interests in associates $m	Amortisation of other acquired intangible assets $m	Amortisation and impairment of non-acquired intangible assets $m	Depreciation and impairment of property, plant and equipment $m
USA	**–**	**58**	**15**	**113**	–	79	15	117
UK	**–**	**–**	**10**	**30**	–	–	6	22
Canada and Central Europe	**–**	**7**	**2**	**8**	–	2	2	10
Central and other costs	**122**	**–**	**1**	**1**	–	–	4	2
Discontinued	**–**	**–**	**–**	**–**	129	6	4	29
Group	**122**	**65**	**28**	**152**	129	87	31	180

4 – Operating profit

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

	Notes	2018 $m	Restated 2017 $m
Amortisation of acquired intangible assets	13	65	81
Amortisation of non-acquired intangible assets	13	26	24
Impairment of non-acquired intangible assets	13	2	3
Depreciation of property, plant and equipment	14	145	150
Impairment of property, plant and equipment	14	7	1
Gain on disposal of businesses		–	(265)
Amounts included in costs of sales with respect to inventory		14,618	13,627
Staff costs	11	2,913	2,710
Operating lease rentals: land and buildings		240	236
Operating lease rentals: plant and machinery		85	75
Trade receivables impairment		13	12

During the year, the Group obtained the following services from the Company's auditor and its associates:

	2018 $m	Restated 2017 $m
Fees for the audit of the Company and consolidated financial statements	1.4	1.2
Fees for the audit of the Company's subsidiaries pursuant to legislation	2.6	3.1
Total audit fees	4.0	4.3
Audit related assurance services	0.3	0.6
Other assurance services	–	0.1
Other services	0.2	0.3
Total non-audit fees	0.5	1.0
Total fees payable to the auditor	4.5	5.3

During the year fees of $1 million were paid to the auditor in relation to the purchase of Stark Group by Lone Star Funds. These fees were paid by the Group and recharged to Lone Star Funds so are not included in the above analysis.

Details of the Company's policy on the use of the auditor for non-audit services, the reasons why the auditor was used and how the auditor's independence and objectivity were safeguarded are set out in the Audit Committee Report on pages 62 to 66. No services were provided pursuant to contingent fee arrangements.

5 – Exceptional items

Exceptional items (charged)/credited to operating profit from continuing operations are analysed by purpose as follows:

	2018 $m	Restated 2017 $m
Gain on disposal of businesses	–	265
Business restructuring	(72)	(51)
Other exceptional items	(10)	4
Total included in operating profit	(82)	218

For the year ended 31 July 2018, business restructuring comprises costs incurred in the UK in respect of its business transformation strategy and includes $19 million (2017: $3 million) charged to cost of sales for inventory write downs.

Other exceptional items include a $5 million settlement cost on the closure of a defined benefit pension plan in the USA.

The net cash outflow from exceptional items, excluding the gain on disposal of businesses, was $59 million (2017: $25 million).

Exceptional items relating to discontinued operations are disclosed in note 8.

6 – Net finance costs

	2018 $m	Restated 2017 $m
Interest receivable	**8**	–
Interest payable		
– Bank loans and overdrafts	**(65)**	(60)
– Unwind of fair value adjustment to senior unsecured loan notes	**7**	10
– Finance lease charges	**(1)**	(1)
	(59)	(51)
Net interest expense on defined benefit obligation (note 25)	**(1)**	(3)
Valuation losses on financial instruments	**(1)**	–
Total net finance costs	**(53)**	(54)

Finance costs relating to discontinued operations are detailed in note 8.

7 – Tax

The tax charge for the year comprises:

	2018 $m	Restated 2017 $m
Current year tax charge	**297**	373
Adjustments to tax charge in respect of prior years	**7**	1
Total current tax charge	**304**	374
Deferred tax charge/(credit): origination and reversal of temporary differences	**42**	(4)
Total tax charge	**346**	370

An exceptional tax credit of $15 million was recorded against exceptional items (2017: charge $28 million). The deferred tax charge of $42 million (2017: credit $4 million) includes a credit of $8 million (2017: charge $13 million) resulting from changes in tax rates.

Tax on items (charged)/credited to the Group statement of comprehensive income:

	2018 $m	Restated 2017 $m
Deferred tax charge on actuarial loss on retirement benefits	**(17)**	(4)
Current tax credit on actuarial loss on retirement benefits	**–**	3
Deferred tax credit on losses	**–**	1
Total tax on items charged to the Group statement of comprehensive income	**(17)**	–

Tax on items credited to equity:

	2018 $m	Restated 2017 $m
Current tax credit on share-based payments	**7**	4
Deferred tax credit on share-based payments	**1**	1
Total tax on items credited to equity	**8**	5

The tax charge in the statement of changes in equity relating to tax rate changes is $3 million (2017: $nil).

The Group has made provisions for the liabilities likely to arise from open audits and assessments. At 31 July 2018, the Group has recognised provisions of $237 million in respect of its uncertain tax positions (2017: $214 million). The total provision has increased by $23 million in the year due primarily to increases related to certain cross border transfer pricing risks, partly offset by the settlement of a transfer pricing enquiry through a Mutual Agreement Procedure between the US Internal Revenue Service and HM Revenue & Customs. The remaining open significant tax issues relate predominantly to cross border transfer pricing risks. Although there is uncertainty regarding the timing of the resolution of these matters, management do not believe that the Group's uncertain tax provisions constitute a major source of estimation uncertainty as they consider that there is no significant risk of a material change to its estimate of these provisions within the next 12 months.

7 – Tax continued

Tax reconciliation:	Ongoing profit/tax[7] $m	Ongoing profit/tax[7] %	Non-ongoing and other profit/tax[8] $m	Non-ongoing and other profit/tax[8] %	Total profit/tax from continuing operations $m	Total profit/tax from continuing operations %
	2018					
Profit before tax	**1,456**		**(269)**		**1,187**	
Expected tax at weighted average tax rate[1]	**(327)**	**22.5**	**59**	**(22.0)**	**(268)**	**22.6**
Adjusted for the effects of:						
over/(under) provisions in respect of prior periods[2]	**11**	**(0.7)**	**(14)**	**5.1**	**(3)**	**0.3**
exceptional items which are (non-tax deductible)/non-taxable	**–**	**–**	**(1)**	**0.5**	**(1)**	**0.1**
current year charge in relation to uncertain tax provisions[4]	**(43)**	**2.9**	**–**	**–**	**(43)**	**3.6**
tax credits and incentives	**5**	**(0.3)**	**–**	**–**	**5**	**(0.4)**
non-tax deductible amortisation/impairment of acquired intangible assets	**–**	**–**	**(24)**	**9.0**	**(24)**	**2.0**
non-taxable income	**7**	**(0.5)**	**–**	**–**	**7**	**(0.6)**
other non-tax deductible expenditure[5]	**(28)**	**1.9**	**–**	**–**	**(28)**	**2.3**
other	**1**	**(0.1)**	**–**	**–**	**1**	**(0.1)**
effect of tax rate changes[6]	**10**	**(0.7)**	**(2)**	**0.7**	**8**	**(0.7)**
Tax (charge)/credit / effective tax rate	**(364)**	**25.0**	**18**	**(6.7)**	**(346)**	**29.1**

Tax reconciliation:	Ongoing profit/tax[7] $m	Ongoing profit/tax[7] %	Non-ongoing and other profit/tax[8] $m	Non-ongoing and other profit/tax[8] %	Total profit/tax from continuing operations $m	Total profit/tax from continuing operations %
	Restated 2017					
Profit before tax	1,253		170		1,423	
Expected tax at weighted average tax rate[1]	(306)	24.4	(52)	30.6	(358)	25.2
Adjusted for the effects of:						
(under)/over provisions in respect of prior periods[2]	(6)	0.5	14	(8.2)	8	(0.6)
exceptional items which are non-taxable/(non-tax deductible)[3]	–	–	19	(11.2)	19	(1.3)
current year charge in relation to uncertain tax provisions[4]	(32)	2.5	–	–	(32)	2.2
tax credits and incentives	4	(0.3)	–	–	4	(0.3)
non-taxable income	10	(0.8)	–	–	10	(0.7)
other non-tax deductible expenditure[5]	(11)	0.9	–	–	(11)	0.8
other	3	(0.2)	–	–	3	(0.2)
effect of tax rate changes	(13)	1.0	–	–	(13)	0.9
Tax charge/effective tax rate	(351)	28.0	(19)	11.2	(370)	26.0

1. This expected weighted average tax rate reflects the applicable statutory corporate tax rates on the accounting profits/losses in the countries in which the Group operates after intra-group financing. The intra-group financing reduces taxable profits in many of the countries and therefore reduces the tax rate. The pre intra-group financing ongoing expected weighted average tax rate is 31.6 per cent (2017: 37.2 per cent) and this is reduced to a post intra-group financing ongoing expected weighted average tax rate of 22.5 per cent (2017: 24.4 per cent). The decrease in the expected weighted average tax rates is primarily due to the reduction in US statutory rate and a change in profit mix.
2. This includes adjustments arising out of movements in uncertain tax provisions regarding prior periods and differences between the final tax liabilities in the tax computations and the tax liabilities provided in the consolidated financial statements.
3. In 2017, this related primarily to non-taxable disposals of businesses.
4. This reflects management's assessment of the potential tax liability for the current year in relation to open tax issues and audits.
5. This relates to certain expenditure for which no tax relief is available such as disallowable business entertaining costs and restrictions on interest deductions.
6. In 2018, this relates to the reduction in the US federal rate of tax from 35 per cent to 21 per cent from 1 January 2018.
7. Ongoing profit means profit before tax, exceptional items, the amortisation and impairment of acquired intangible assets and impairment of interests in associates for ongoing operations as defined in note 2. Ongoing tax is the tax expense arising on ongoing profit.
8. Non-ongoing and other profit or loss is profit or loss from non-ongoing operations as defined in note 2 and from the amortisation and impairment of acquired intangible assets, impairment of interests in associates and exceptional items. Non-ongoing and other tax is the tax expense or credit arising on the non-ongoing and other profit or loss and includes other non-recurring tax items. In 2018, the non-ongoing and other credit of $18 million relates primarily to exceptional UK restructuring costs, an increase in uncertain tax provisions in respect of prior periods and the settlement of a transfer pricing enquiry.

8 – Discontinued operations

The Group disposed of Silvan on 31 August 2017, Stark Group on 29 March 2018 and is in the process of selling its remaining property assets in the Nordic region (together the "disposal group"). In accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", the disposal group has been classified as discontinued and prior periods have been restated to reflect this.

The results from discontinued operations, which have been included in the Group income statement, are set out below:

	2018 Before exceptional items $m	2018 Exceptional items $m	2018 Total $m	Restated 2017 Before exceptional items $m	Restated 2017 Exceptional items $m	Restated 2017 Total $m
Revenue	**1,705**	**–**	**1,705**	2,660	–	2,660
Cost of sales	**(1,280)**	**(5)**	**(1,285)**	(1,982)	(10)	(1,992)
Gross profit	**425**	**(5)**	**420**	678	(10)	668
Operating costs:						
gain on disposal of businesses	**–**	**439**	**439**	–	–	–
amortisation of acquired intangible assets	**–**	**–**	**–**	(6)	–	(6)
impairment of goodwill and acquired intangible assets	**–**	**–**	**–**	(129)	–	(129)
other	**(366)**	**(32)**	**(398)**	(598)	(76)	(674)
Operating income/(costs)	**(366)**	**407**	**41**	(733)	(76)	(809)
Operating profit/(loss)	**59**	**402**	**461**	(55)	(86)	(141)
Net finance (costs)/income	**(6)**	**2**	**(4)**	(5)	10	5
Profit/(loss) before tax	**53**	**404**	**457**	(60)	(76)	(136)
Tax	**(31)**	**–**	**(31)**	–	3	3
Profit/(loss) from discontinued operations	**22**	**404**	**426**	(60)	(73)	(133)
Basic earnings/(loss) per share			**173.4c**			(52.9)c
Diluted earnings/(loss) per share			**172.1c**			(52.5)c

The discontinued exceptional items in 2018 relate predominantly to the disposal of Stark Group (see note 29), gains from the sale of Nordic property assets and an impairment charge for the remaining Nordic properties.

The discontinued exceptional items in 2017 relate predominantly to restructuring activities in the Nordic region.

During the year, discontinued operations used cash of $120 million (2017: generated $66 million) in respect of operating activities, generated $1,368 million (2017: used $36 million) in respect of investing activities and used $99 million (2017: used $68 million) in respect of financing activities.

9 – Dividends

Amounts recognised as distributions to equity shareholders:

	2018 $m	Restated 2017 $m
Final dividend for the year ended 31 July 2016: 66.72 pence per share	**–**	209
Interim dividend for the year ended 31 July 2017: 36.67 pence per share	**–**	119
Final dividend for the year ended 31 July 2017: 73.33 pence per share	**248**	–
Interim dividend for the year ended 31 July 2018: 57.4 cents per share	**142**	–
Special dividend: $4 per share	**974**	–
Dividends paid	**1,364**	328

Since the end of the financial year, the Directors have proposed a final ordinary dividend of $304 million (131.9 cents 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 2018.

The interim dividend for the year ended 31 July 2018 and the special dividend were declared in US dollars and paid in both pounds sterling and US dollars. For those shareholders paid in pounds sterling, the exchange rate used to translate the declared value was set in advance of the payment date. As a result of foreign exchange rate movements between these dates, the total amount paid (shown in the Group cash flow statement) will be different to that stated above.

10 – Earnings per share

	2018			Restated 2017		
	Earnings $m	**Basic earnings per share cents**	**Diluted earnings per share cents**	Earnings $m	Basic earnings per share cents	Diluted earnings per share cents
Profit from continuing and discontinued operations attributable to shareholders of the Company	**1,267**	**515.7**	**511.9**	920	366.1	363.5
(Profit)/loss from discontinued operations	**(426)**	**(173.4)**	**(172.1)**	133	52.9	52.5
Profit from continuing operations	**841**	**342.3**	**339.8**	1,053	419.0	416.0
Non-recurring tax charge relating to changes in tax rates and other adjustments	**16**	**6.4**		–	–	
Amortisation and impairment of acquired intangible assets and impairment of interests in associates (net of tax)	**168**	**68.4**		57	22.7	
Exceptional items (net of tax)	**67**	**27.3**		(190)	(75.6)	
Headline profit after tax from continuing operations	**1,092**	**444.4**		920	366.1	

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 245.7 million (2017: 251.3 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 247.5 million (2017: 253.1 million).

On 11 June 2018, the shares of Ferguson plc were consolidated on an 18 for 19 basis. The impact of the share consolidation on the weighted average number of shares used to calculate basic and diluted earnings per share is 1.9 million. Further details in respect of the share consolidation are given in note 26.

11 – Employee and key management information

	2018 $m	Restated 2017 $m
Wages and salaries	**2,608**	2,449
Social security costs	**183**	170
Pension costs – defined contribution plans	**78**	72
Pension costs/(credit) – defined benefit plans (note 25)	**9**	(9)
Share-based payments	**35**	28
Total staff costs	**2,913**	2,710

The total staff costs, including discontinued operations, was $3,155 million (2017: $3,105 million).

Average number of employees	**2018**	2017
USA	**25,129**	24,086
UK	**5,871**	6,064
Canada and Central Europe	**2,962**	3,257
Central and other	**94**	104
Continuing operations	**34,056**	33,511

The average number of employees including discontinued operations was 37,877 (2017: 39,205).

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any Director of the Company.

The aggregate emoluments for all key management are set out in the following table:

Key management personnel compensation (including Directors)	**2018 $m**	Restated 2017 $m
Salaries, bonuses and other short-term employee benefits	**14**	14
Post-employment benefits	**1**	–
Termination benefits	**4**	–
Share-based payments	**9**	5
Total compensation	**28**	19

Further details of Directors' remuneration and share options are set out in the Remuneration Report on pages 70 to 96.

12 – Intangible assets – goodwill

	2018 $m	Restated 2017 $m
Cost		
At 1 August	**1,372**	2,356
Exchange rate adjustment	**(8)**	71
Acquisitions	**241**	181
Disposal of businesses	**–**	(85)
Reclassification as held for sale	**–**	(1,151)
At 31 July	**1,605**	1,372
Accumulated impairment losses		
At 1 August	**199**	1,163
Exchange rate adjustment	**(2)**	68
Impairment charge for the year	**–**	103
Disposal of businesses	**–**	(4)
Reclassification as held for sale	**–**	(1,131)
At 31 July	**197**	199
Net book value at 31 July	**1,408**	1,173

The impairment charge in 2017 comprises $103 million in respect of discontinued operations.

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 2018.

	2018				Restated 2017			
	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				**442**				432
B2C				**316**				263
Waterworks				**169**				169
Rest of USA				**290**				145
USA	**2.1**	**9.0**	**12.0**	**1,217**	2.3	9.3	15.2	1,009
UK	**2.0**	**7.6**	**9.3**	**43**	2.0	8.1	10.0	43
Canada	**2.0**	**8.4**	**11.5**	**148**	2.0	8.7	11.9	121
Total				**1,408**				1,173

The relevant inputs, including key assumptions, to the value in use calculations of each CGU are set out below.

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 a 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 April 2018.

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 reasonably possible changes in 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. The sensitivity testing identified no reasonably possible changes in key assumptions that would cause the carrying amount of any CGU to exceed its recoverable amount.

13 – Intangible assets – other

		Acquired intangible assets			
	Software $m	Trade names and brands $m	Customer relationships $m	Other $m	Total $m
Cost					
At 1 August 2016 restated	201	425	768	102	1,496
Exchange rate adjustment	2	21	20	–	43
Acquisitions	–	60	31	13	104
Additions	32	–	–	–	32
Disposals	(9)	–	–	–	(9)
Disposal of businesses	(16)	(2)	(26)	(5)	(49)
Reclassification as held for sale	(15)	(382)	(331)	–	(728)
At 31 July 2017 restated	**195**	**122**	**462**	**110**	**889**
Exchange rate adjustment	**(1)**	**–**	**(1)**	**–**	**(2)**
Acquisitions	**–**	**54**	**21**	**55**	**130**
Additions	**30**	**–**	**–**	**–**	**30**
At 31 July 2018	**224**	**176**	**482**	**165**	**1,047**
Accumulated amortisation and impairment losses					
At 1 August 2016 restated	123	381	661	64	1,229
Exchange rate adjustment	1	22	20	–	43
Amortisation charge for the year	28	17	45	25	115
Impairment charge for the year	3	17	9	–	29
Disposals	(9)	–	–	–	(9)
Disposal of businesses	(13)	(2)	(23)	(5)	(43)
Reclassification as held for sale	(7)	(378)	(330)	–	(715)
At 31 July 2017 restated	**126**	**57**	**382**	**84**	**649**
Exchange rate adjustment	**(1)**	**(1)**	**(1)**	**–**	**(3)**
Amortisation charge for the year	**26**	**16**	**39**	**10**	**91**
Impairment charge for the year	**2**	**–**	**–**	**–**	**2**
At 31 July 2018	**153**	**72**	**420**	**94**	**739**
Net book value at 31 July 2018	**71**	**104**	**62**	**71**	**308**
Net book value at 31 July 2017 restated	69	65	80	26	240

The amortisation charge includes $nil (2017: $10 million) in respect of discontinued operations of which $nil (2017: $4 million) relates to software. The impairment charge includes $nil (2017: $26 million) in respect of discontinued operations of which $nil (2017: $nil) relates to software.

14 – Property, plant and equipment

	Land and buildings					
	Freehold $m	Finance leases $m	Operating leasehold improvements $m	Plant and machinery $m	Other equipment $m	Total $m
Cost						
At 1 August 2016 restated	1,798	42	431	768	268	3,307
Exchange rate adjustment	57	(1)	3	6	2	67
Acquisitions	16	–	–	17	–	33
Additions	70	–	31	66	31	198
Disposal of businesses	(15)	(31)	(2)	(39)	(16)	(103)
Disposals and transfers	(9)	(7)	(29)	(56)	(26)	(127)
Reclassification as held for sale	(984)	–	(9)	(99)	(27)	(1,119)
At 31 July 2017 restated	**933**	**3**	**425**	**663**	**232**	**2,256**
Exchange rate adjustment	**–**	**–**	**(2)**	**(2)**	**(1)**	**(5)**
Acquisitions	**9**	**–**	**–**	**3**	**–**	**12**
Additions	**83**	**–**	**49**	**70**	**26**	**228**
Disposals	**(7)**	**–**	**(24)**	**(33)**	**(22)**	**(86)**
Reclassification as held for sale	**(69)**	**–**	**–**	**(21)**	**(3)**	**(93)**
At 31 July 2018	**949**	**3**	**448**	**680**	**232**	**2,312**
Accumulated depreciation and impairment losses						
At 1 August 2016 restated	386	10	295	533	186	1,410
Exchange rate adjustment	11	–	1	3	2	17
Depreciation charge for the year	44	–	31	70	34	179
Impairment charge for the year	1	–	–	–	–	1
Disposal of businesses	(2)	(4)	(2)	(31)	(13)	(52)
Disposals and transfers	(2)	(6)	(9)	(50)	(28)	(95)
Reclassification as held for sale	(188)	–	(8)	(56)	(20)	(272)
At 31 July 2017 restated	**250**	**–**	**308**	**469**	**161**	**1,188**
Exchange rate adjustment	**–**	**–**	**(1)**	**(1)**	**–**	**(2)**
Depreciation charge for the year	**28**	**–**	**31**	**60**	**26**	**145**
Impairment charge for the year	**6**	**–**	**–**	**–**	**1**	**7**
Disposals	**(3)**	**–**	**(16)**	**(27)**	**(21)**	**(67)**
Reclassification as held for sale	**(22)**	**–**	**–**	**(20)**	**(3)**	**(45)**
At 31 July 2018	**259**	**–**	**322**	**481**	**164**	**1,226**
Owned assets	**690**	**–**	**126**	**197**	**65**	**1,078**
Assets under finance leases	**–**	**3**	**–**	**2**	**3**	**8**
Net book value at 31 July 2018	**690**	**3**	**126**	**199**	**68**	**1,086**
Owned assets	683	–	117	194	63	1,057
Assets under finance leases	–	3	–	–	8	11
Net book value at 31 July 2017 restated	683	3	117	194	71	1,068

At 31 July 2018, the book value of property, plant and equipment that had been pledged as security for liabilities was $8 million (2017: $16 million). In addition, $nil (2017: $237 million) of property, plant and equipment included in assets held for sale (note 20) had been pledged as security for liabilities at 31 July 2018.

The depreciation charge for the year includes $nil (2017: $29 million) relating to discontinued operations.

15 – Associates

	2018 $m	Restated 2017 $m
Meier Tobler Group AG	**31**	164
Other associates[1]	**33**	–
Total interests in associates	**64**	164

1. Other associates comprise individually immaterial associates which contributed $nil (2017: $nil) to the Group's share of profit/(loss) from continuing operations and $nil (2017: $nil) to the Group's share of total comprehensive income.

The Group holds a 39.21 per cent share in Meier Tobler Group AG (previously Walter Meier AG), a trading company whose principal place of business is Switzerland and which is engaged in the distribution and maintenance of heating and air conditioning systems.

Meier Tobler Group AG

The investment in Meier Tobler Group AG is accounted for as an associate using the equity method. Meier Tobler Group AG prepares accounts under Swiss GAAP FER with a year-end of 31 December. The Group's accounts have been prepared based on Meier Tobler Group AG's half-year accounts ended 30 June 2018. There were no significant transactions between that date and 31 July 2018.

Summarised financial information from Meier Tobler Group AG's half-year accounts ended 30 June 2018 is set out below. Trading results are for the 12 months ending 30 June 2018 (2017: from date of acquisition) and have been adjusted for IFRS.

	2018 $m	Restated 2017 $m
Non-current assets	**309**	323
Current assets	**180**	182
Current liabilities	**(157)**	(127)
Non-current liabilities	**(174)**	(197)
Net assets	**158**	181
Revenue	**564**	138
Profit/(loss) from continuing operations	**6**	(4)
Other comprehensive income attributable to the owners of the company	**–**	–
Total comprehensive income/(expense)	**6**	(4)

The amount recognised in the Group's consolidated financial statements is as follows:

	2018 $m	Restated 2017 $m
Share of profit/(loss) after tax of associate	**2**	(1)

Dividends received from the associate amount to $10 million (2017: $nil).

The reconciliation of associate net assets to the carrying amount recognised in the Group's consolidated financial statements is as follows:

	%	2018 $m	%	Restated 2017 $m
Net assets of associate		**158**		181
Proportion of the Group's ownership interest in the associate	**39.21**	**62**	39.21	71
Goodwill		**91**		93
Impairment		**(122)**		–
Carrying amount of the Group's interest in the associate		**31**		164

During the period there were a number of public announcements made by Meier Tobler Group AG regarding difficult trading conditions and the temporary suspension of dividends until 2020. This generated a trigger event for management to reassess the recoverability of the carrying value recognised in the Group's consolidated financial statements. Due to the size of the Group's shareholding and the illiquid nature of the shares, it was not appropriate to use the quoted share price for assessing the fair value. This assessment resulted in an impairment charge, as follows:

	Carrying value $m	Impairment $m	Remaining balance $m	Post-tax discount rate %	Pre-tax discount rate %
Meier Tobler Group AG	**153**	**(122)**	**31**	**6.7**	**8.7**

Any change in trading conditions or outlook could result in further impairment or a reversal of part of the recorded impairment. Management does not consider that there is a significant risk that this change could be material.

16 – Deferred tax assets and liabilities

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so, which are shown in the balance sheet after offset as follows:

	2018 $m	Restated 2017 $m
Deferred tax assets	**130**	160
Deferred tax liabilities	**(42)**	(12)
	88	148

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the current and prior reporting year:

	Goodwill and intangible assets $m	Share-based payments $m	Property, plant and equipment $m	Retirement benefit obligations $m	Inventories $m	Tax losses $m	Other $m	Total $m
At 31 July 2016 restated	(69)	24	(9)	111	(103)	67	61	82
Credit/(charge) to income	9	(1)	(5)	(4)	(5)	26	(11)	9
(Charge)/credit to other comprehensive income	–	–	–	(4)	–	1	–	(3)
Credit to equity	–	1	–	–	–	–	–	1
Acquisitions	(7)	–	(4)	–	–	–	–	(11)
Disposal of businesses	–	–	1	(1)	3	–	–	3
Transferred to held for sale	2	(1)	80	(4)	(5)	(8)	3	67
Transfers between categories	–	–	–	–	–	(9)	9	–
Exchange rate adjustment	–	–	(1)	1	(1)	2	(1)	–
At 31 July 2017 restated	**(65)**	**23**	**62**	**99**	**(111)**	**79**	**61**	**148**
Credit/(charge) to income	**17**	**(2)**	**(24)**	**(44)**	**16**	**6**	**(11)**	**(42)**
Charge to other comprehensive income	**–**	**–**	**–**	**(17)**	**–**	**–**	**–**	**(17)**
Credit to equity	**–**	**1**	**–**	**–**	**–**	**–**	**–**	**1**
Acquisitions	**(1)**	**–**	**–**	**–**	**–**	**–**	**–**	**(1)**
Transferred to held for sale	**–**	**–**	**(2)**	**–**	**–**	**–**	**–**	**(2)**
Exchange rate adjustment	**2**	**1**	**(2)**	**(2)**	**–**	**2**	**–**	**1**
At 31 July 2018	**(47)**	**23**	**34**	**36**	**(95)**	**87**	**50**	**88**

Legislation has been enacted in the US to reduce the US federal corporate income tax rate, effective 1 January 2018. Accordingly, the US deferred tax assets and liabilities have predominately been calculated based on a 26 per cent tax rate (combined federal and state rates) which materially reflects the rate for the period in which the deferred tax assets and liabilities are expected to reverse.

Legislation has been enacted in the UK to reduce the standard rate of UK corporation tax from 19 per cent to 17 per cent with effect from 1 April 2020. Accordingly, the UK deferred tax assets and liabilities have predominantly been calculated based on a 17 per cent tax rate which materially reflects the rate for the period in which the deferred tax assets and liabilities are expected to reverse.

Net deferred tax assets have been recognised on the basis that sufficient taxable profits are forecast to be available in the future to enable them to be utilised.

In addition, the Group has unrecognised gross tax losses totalling $469 million (2017: $433 million) that have not been recognised on the basis that their future economic benefit is uncertain. These losses have no expiry date and relate predominantly to capital losses.

No deferred tax liability has been recognised in respect of temporary differences associated with unremitted earnings from its investments in subsidiaries. However, tax may arise on $408 million (2017: $375 million) of temporary differences but the Group is in a position to control the timing of their reversal and it is probable that such differences will not reverse in the foreseeable future.

17 – Inventories

	2018 $m	Restated 2017 $m
Goods purchased for resale	**2,680**	2,548
Inventory provisions	**(164)**	(149)
Net inventories	**2,516**	2,399

18 – Trade and other receivables

Current	2018 $m	Restated 2017 $m
Trade receivables	**2,642**	2,372
Less: provision for impairment	**(32)**	(32)
Net trade receivables	**2,610**	2,340
Other receivables	**135**	122
Prepayments	**349**	304
	3,094	2,766
Non-current		
Other receivables	**328**	299

Included in prepayments is $266 million (2017: $234 million) due in relation to supplier rebates where there is no right of offset against trade payable balances.

Trade receivables have been aged with respect to the payment terms specified in the terms and conditions established with customers as follows:

	2018 $m	Restated 2017 $m
Amounts not yet due	**1,790**	1,576
Less than one month past due	**580**	565
More than one month past due	**272**	231
	2,642	2,372

19 – Cash and cash equivalents

	2018 $m	Restated 2017 $m
Cash and cash equivalents	**833**	2,525

Included in the balance at 31 July 2018 is an amount of $255 million (2017: $1,876 million) which is part of the Group's cash pooling arrangements where there is an equal and opposite balance included within bank overdrafts (note 22). These amounts are subject to a master netting arrangement.

At 31 July 2018, cash and cash equivalents included $86 million (2017: $85 million) which is used to collateralise letters of credit on behalf of Wolseley Insurance Limited.

20 – Assets and liabilities held for sale

	2018 $m	Restated 2017 $m
Properties awaiting disposal	**151**	87
Assets of disposal groups held for sale	**–**	1,628
Assets held for sale	**151**	1,715
Liabilities of disposal groups held for sale	**–**	1,085

During the previous year, the Group announced its decision to sell its Nordic business and at 31 July 2017 the assets of the business were classified as a disposal group held for sale.

Properties awaiting disposal principally comprises the Nordic property assets, which were retained following the disposal of the Nordic business, and properties in the UK which are in the process of being exited as a result of the business restructuring.

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

	2018 $m	Restated 2017 $m
Intangible assets	**–**	33
Property, plant and equipment	**–**	812
Inventories	**–**	364
Trade and other receivables	**–**	337
Tax receivables	**–**	39
Cash and cash equivalents	**–**	43
Bank loans	**–**	(105)
Trade and other payables	**–**	(790)
Provisions and retirement benefit obligations	**–**	(96)
Tax payables	**–**	(94)
	–	543

21 – Trade and other payables

Current	2018 $m	Restated 2017 $m
Trade payables	**2,597**	2,335
Tax and social security	**108**	88
Other payables	**97**	117
Accruals and deferred income	**539**	471
	3,341	3,011
Non-current		
Other payables	**298**	238

Trade payables are stated net of $32 million (2017: $nil) due from suppliers with respect to supplier rebates where an agreement exists that allows these to be net settled.

22 – Bank loans and overdrafts

			2018			Restated 2017
	Current $m	Non-current $m	Total $m	Current $m	Non-current $m	Total $m
Bank overdrafts	**375**	**–**	**375**	1,982	–	1,982
Bank and other loans	**2**	**–**	**2**	3	5	8
Senior unsecured loan notes	**6**	**1,522**	**1,528**	165	1,093	1,258
Total bank loans	**8**	**1,522**	**1,530**	168	1,098	1,266
Total bank loans and overdrafts	**383**	**1,522**	**1,905**	2,150	1,098	3,248

Included in bank overdrafts at 31 July 2018 is an amount of $255 million (2017: $1,876 million) which is part of the Group's cash pooling arrangements where there is an equal and opposite balance included within cash and cash equivalents (note 19). These amounts are subject to a master netting arrangement.

No bank loans are secured against the Group's freehold property (2017: $2 million). In addition, no bank loans included in liabilities held for sale (note 20) are secured against freehold property included in assets held for sale (2017: $104 million). No bank loans were secured against trade receivables at 31 July 2018 (2017: $nil) as the trade receivables facility of $600 million was undrawn as at 31 July 2018 and 31 July 2017.

22 – Bank loans and overdrafts continued

Non-current loans are repayable as follows:

	2018 $m	Restated 2017 $m
Due in one to two years	**5**	8
Due in two to three years	**283**	5
Due in three to four years	**–**	283
Due in four to five years	**250**	1
Due in over five years	**984**	801
Total	**1,522**	1,098

The carrying value of the senior unsecured loan notes of $1,528 million comprises a par value of $1,530 million and a fair value adjustment of $2 million (2017: $1,258 million, $1,238 million and $20 million respectively). During the year the Group applied fair value hedge accounting to debt of $355 million, swapping fixed interest rates into floating interest rates using a series of interest rate swaps.

There have been no significant changes during the year to the Group's policies on accounting for, valuing and managing the risk of financial instruments. These policies are summarised in note 1.

23 – Financial instruments and financial risk management

Financial instruments by measurement basis

The carrying value of financial instruments by category as defined by IAS 39 "Financial Instruments: Recognition and Measurement" is as follows:

	2018 $m	Restated 2017 $m
Financial assets		
Financial assets at fair value through profit and loss	**17**	26
Loans and receivables	**3,350**	3,010
Financial liabilities		
Financial liabilities at fair value through profit and loss	**19**	–
Financial liabilities at amortised cost	**5,063**	6,071

Financial instruments in the category "fair value through profit and loss" are measured in the balance sheet at fair value. Fair value measurements can be classified in the following hierarchy:

– quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
– inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2); and
– inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The Group's derivatives are measured at fair value through profit and loss at 31 July 2018 and 31 July 2017 using level 2 inputs.

The Group uses interest rate swaps to manage its exposure to interest rate movements on its borrowings and foreign exchange swaps to hedge cash flows in respect of committed transactions or to hedge its investment in overseas operations. The current element of derivative financial assets is $nil (2017: $7 million) and the non-current element is $17 million (2017: $19 million). The current element of derivative financial liabilities is $2 million (2017: $nil) and the non-current element is $17 million (2017: $nil). Total net derivative financial instruments is a liability of $2 million (2017: asset $26 million). No transfers between levels occurred during the current or prior year.

The fair value of financial instruments that are not traded in an active market (such as over-the-counter derivatives) is determined by using valuation techniques. The Group's other financial instruments are measured on bases other than fair value. Other receivables include an amount of $67 million (2017: $66 million) which has been discounted at a rate of 3.0 per cent (2017: 2.3 per cent) due to the long-term nature of the receivable. Other current assets and liabilities are either of short maturity or bear floating rate interest and their fair values approximate to book values. The only non-current financial assets or liabilities for which fair value does not approximate to book value are the senior unsecured loan notes, which had a book value of $1,528 million (2017: $1,258 million) and a fair value (level 2) of $1,621 million (2017: $1,309 million).

23 – Financial instruments and financial risk management continued

Disclosure of offsetting arrangements

The financial instruments which have been offset in the financial statements are disclosed below:

At 31 July 2018	Notes	Gross balances[1] $m	Offset amounts[2] $m	Financial statements[3] $m	Cash pooling amounts[4] $m	Net total[5] $m
Financial assets						
Non-current assets						
Derivative financial assets		31	(14)	17	–	17
Current assets						
Derivative financial assets		23	(23)	–	–	–
Cash and cash equivalents	19	833	–	833	(255)	578
		887	(37)	850	(255)	595
Financial liabilities						
Current liabilities						
Derivative financial liabilities		25	(23)	2	–	2
Bank loans and overdrafts	22	383	–	383	(255)	128
Finance leases		3	–	3	–	3
Non-current liabilities						
Derivative financial liabilities		31	(14)	17	–	17
Bank loans	22	1,522	–	1,522	–	1,522
Finance leases		3	–	3	–	3
		1,967	(37)	1,930	(255)	1,675
Closing net debt	30	(1,080)	–	(1,080)	–	(1,080)

At 31 July 2017 restated	Notes	Gross balances[1] $m	Offset amounts[2] $m	Financial statements[3] $m	Cash pooling amounts[4] $m	Net total[5] $m
Financial assets						
Non-current assets						
Derivative financial assets		51	(32)	19	–	19
Current assets						
Derivative financial assets		23	(16)	7	–	7
Cash and cash equivalents	19	2,525	–	2,525	(1,876)	649
		2,599	(48)	2,551	(1,876)	675
Financial liabilities						
Current liabilities						
Derivative financial liabilities		16	(16)	–	–	–
Bank loans and overdrafts	22	2,150	–	2,150	(1,876)	274
Finance leases		4	–	4	–	4
Non-current liabilities						
Derivative financial liabilities		32	(32)	–	–	–
Bank loans	22	1,098	–	1,098	–	1,098
Finance leases		5	–	5	–	5
		3,305	(48)	3,257	(1,876)	1,381
Closing net debt	30	(706)	–	(706)	–	(706)

1. The gross amounts of the recognised financial assets and liabilities under a master netting agreement, or similar arrangement.
2. The amounts offset in accordance with the criteria in IAS 32.
3. The net amounts presented in the Group balance sheet.
4. The amounts subject to a master netting arrangement, or similar arrangement, not included in (3).
5. The net amount after deducting the amounts in (4) from the amounts in (3).

23 – Financial instruments and financial risk management continued

Risk management policies

The Group is exposed to market risks arising from its international operations and the financial instruments which fund them. The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk and liquidity risk. The Group has well-defined policies for the management of interest rate, liquidity, foreign exchange and counterparty exposures, which have been consistently applied during the financial years ended 31 July 2018 and 31 July 2017. By the nature of its business, the Group also has trade credit and commodity price exposures, the management of which is delegated to the operating businesses. There has been no change since the previous year in the major financial risks faced by the Group.

Policies for managing each of these risks are regularly reviewed and are summarised below. When the Group enters into derivative transactions (principally interest rate swaps and foreign exchange contracts), the purpose of such transactions is to hedge certain interest rate and currency risks arising from the Group's operations and its sources of finance. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments or speculative transactions be undertaken.

Capital structure and risk management

To assess the appropriateness of its capital structure based on current and forecast trading, the Group's principal measure of financial gearing is the ratio of net debt to adjusted EBITDA. The Group aims to operate with investment grade credit metrics and ensure this ratio remains within 1 to 2 times. The Group's main borrowing facilities contain a financial covenant limiting the ratio of net debt to adjusted EBITDA to 3.5:1. The reconciliation of opening to closing net debt is detailed in note 30.

The Group's sources of funding currently comprise cash flows generated from operations, equity contributed by shareholders and borrowings from banks and other financial institutions. In order to maintain or adjust the capital structure, the Group may pay a special dividend, return capital to shareholders, repurchase its own shares, issue new shares or sell assets to reduce debt.

Credit risk

The Group provides sales on credit terms to most of its customers. There is an associated risk that customers may not be able to pay outstanding balances. At 31 July 2018, the maximum exposure to credit risk was $3,005 million (2017: $2,673 million).

Each of the Group's businesses have established procedures in place to review and collect outstanding receivables. Significant outstanding and overdue balances are reviewed on a regular basis and resulting actions are put in place on a timely basis. In some cases, protection is provided through credit insurance arrangements. All of the major businesses use professional and dedicated credit teams, in some cases field-based. Appropriate provisions are made for debts that may be impaired on a timely basis. Concentration of credit risk in trade receivables is limited as the Group's customer base is large and unrelated. Accordingly, the Group considers that there is no further credit risk provision required above the current provision for impairment. The ageing of trade receivables is detailed in note 18.

The Group has cash balances deposited for short periods with financial institutions and enters into certain contracts (such as interest rate swaps) which entitle the Group to receive future cash flows from financial institutions. These transactions give rise to credit risk on amounts due from counterparties with a maximum exposure of $429 million (2017: $560 million). This risk is managed by setting credit and settlement limits for a panel of approved counterparties. The limits are approved by the Treasury Committee and ratings are monitored regularly.

Liquidity risk

The Group maintains a policy of ensuring sufficient borrowing headroom to finance all investment and capital expenditure included in its strategic plan, with an additional contingent safety margin.

The Group has estimated its anticipated contractual cash outflows (excluding interest income and income from derivatives), including interest payable in respect of its trade and other payables and bank borrowings, on an undiscounted basis. The principal assumptions are that floating rate interest is calculated using the prevailing interest rate at the balance sheet date and cash flows in foreign currency are translated using spot rates at the balance sheet date. These cash flows can be analysed by maturity as follows:

	2018				Restated 2017			
	Trade and other payables $m	**Debt $m**	**Interest on debt $m**	**Total $m**	Trade and other payables $m	Debt $m	Interest on debt $m	Total $m
Due in less than one year	**2,829**	**5**	**68**	**2,902**	2,557	165	51	2,773
Due in one to two years	**44**	**1**	**63**	**108**	26	5	47	78
Due in two to three years	**59**	**281**	**52**	**392**	28	1	43	72
Due in three to four years	**19**	**–**	**44**	**63**	13	281	43	337
Due in four to five years	**16**	**250**	**40**	**306**	12	1	34	47
Due in over five years	**160**	**1,001**	**92**	**1,253**	159	801	84	1,044
Total	**3,127**	**1,538**	**359**	**5,024**	2,795	1,254	302	4,351

23 – Financial instruments and financial risk management continued

Liquidity risk continued

The Group holds three main bank facilities: an £800 million (2017: £800 million) revolving credit facility that matures in September 2021, a $290 million (2017: $190 million) bi-lateral facility that matures in November 2018 and a $600 million (2017: $600 million) securitisation facility that matures in December 2020. This facility is secured against the trade receivables of Ferguson Enterprises Inc. All facilities were undrawn at 31 July 2018 and 31 July 2017. The maturity profile of the Group's undrawn facilities is as follows:

	2018 $m	Restated 2017 $m
Less than one year	**290**	190
Between one and two years	**–**	–
Between two and three years	**600**	600
Between three and four years	**1,050**	–
Between four and five years	**–**	1,057
After five years	**–**	–
Total	**1,940**	1,847

At 31 July 2018 the Group has total available facilities, excluding bank overdrafts, of $3,470 million (2017: $3,085 million), of which $1,530 million is drawn (note 22) and $1,940 million is undrawn (2017: $1,238 million and $1,847 million respectively). The Group does not have any debt factoring or supply chain financing arrangements.

Foreign currency risk

The Group has significant overseas businesses whose revenues are mainly denominated in the currencies of the countries in which the operations are located. Approximately 80 per cent of the Group's revenue is in US dollars. Within each country it operates, the Group does not have significant transactional foreign currency cash flow exposures. However, those that do arise may be hedged with either forward contracts or currency options. The Group does not normally hedge profit translation exposure since such hedges have only a temporary effect.

The Group's policy is to adjust the currencies in which its net debt is denominated materially to match the currencies in which its trading profit is generated. Details of average exchange rates used in the translation of overseas earnings and of year-end exchange rates used in the translation of overseas balance sheets for the principal currencies used by the Group are shown in the five-year summary on page 151. The net effect of currency translation was to increase revenue by $229 million (2017: decrease by $391 million) and to increase trading profit by $7 million (2017: decrease by $6 million). These currency effects primarily reflect a movement of the average US dollar exchange rate against pounds sterling, euro and Canadian dollars as follows:

	2018 Weakening of USD	2017 Strengthening/ (weakening) of USD
Pounds sterling	**(6.4%)**	13.3%
Euro	**(9.2%)**	1.6%
Canadian dollars	**(4.0%)**	(0.2%)

The Group has net financial liabilities denominated in foreign currencies which have been designated as hedges of the net investment in its overseas subsidiaries. The principal value of those financial liabilities designated as hedges at the balance sheet date was $431 million (2017: pounds sterling equivalent of $2,019 million). The loss on translation of these financial instruments into US dollars of $11 million (2017: pounds sterling equivalent of $8 million) has been taken to the translation reserve.

Net debt by currency was as follows:

As at 31 July 2018	Interest rate swaps $m	Finance lease obligations $m	Cash, overdrafts and bank loans $m	Currency sold forward $m	Total $m
US dollars	**–**	**(2)**	**(1,297)**	**–**	**(1,299)**
Pounds sterling	**–**	**(4)**	**101**	**–**	**97**
Euro, Danish kroner and Swedish kronor	**–**	**–**	**23**	**–**	**23**
Other currencies	**–**	**–**	**101**	**(2)**	**99**
Total	**–**	**(6)**	**(1,072)**	**(2)**	**(1,080)**

As at 31 July 2017 restated	Interest rate swaps $m	Finance lease obligations $m	Cash, overdrafts and bank loans $m	Currency bought/(sold) forward $m	Total $m
US dollars	26	(5)	(798)	9	(768)
Pounds sterling	–	(4)	82	(9)	69
Euro, Danish kroner and Swedish kronor	–	–	8	–	8
Other currencies	–	–	(15)	–	(15)
Total	26	(9)	(723)	–	(706)

Currency (sold)/bought forward comprises short-term foreign exchange contracts which were designated and effective as hedges of overseas operations.

23 – Financial instruments and financial risk management continued

Net investment hedging

Exchange differences arising from the translation of the net investment in foreign operations are recognised in the currency translation reserve. Gains and losses on those hedging instruments designated as hedges of the net investments in foreign operations are recognised in equity to the extent that the hedging relationship is effective. These amounts are included in exchange differences on translation of foreign operations as stated in the Group statement of comprehensive income. Gains and losses relating to hedge ineffectiveness are recognised immediately in the income statement for the period. Gains and losses accumulated in the translation reserve are included in the income statement when the foreign operation is disposed of.

Interest rate risk

At 31 July 2018, 70 per cent of loans were at fixed rates. The Group borrows in the desired currencies principally at rates determined by reference to short-term benchmark rates applicable to the relevant currency or market, such as LIBOR. Rates which reset at least every 12 months are regarded as floating rates and the Group then, if appropriate, considers interest rate swaps to generate the desired interest rate profile.

The Group reviews deposits and borrowings by currency at Treasury Committee and Board meetings. The Treasury Committee gives prior approval to any variations from floating rate arrangements.

The interest rate profile of the Group's net debt including the effect of interest rate swaps is set out below:

			2018			Restated 2017
	Floating $m	Fixed $m	Total $m	Floating $m	Fixed $m	Total $m
US dollars	(217)	(1,082)	(1,299)	475	(1,243)	(768)
Pounds sterling	101	(4)	97	73	(4)	69
Euro, Danish kroner and Swedish kronor	23	–	23	8	–	8
Other currencies	99	–	99	(15)	–	(15)
Total	6	(1,086)	(1,080)	541	(1,247)	(706)

The Group's weighted average cost of debt is 4.0 per cent. Fixed rate borrowings at 31 July 2018 carried a weighted average interest rate of 3.4 per cent fixed for a weighted average duration of 6.6 years (31 July 2017: 3.3 per cent for 6.5 years). Floating rate borrowings, excluding overdrafts, at 31 July 2018 had a weighted average interest rate of 2.6 per cent (31 July 2017: the Group had no floating rate borrowings, excluding overdrafts).

In November 2017, the Group entered into interest rate swap contracts comprising fixed interest receivable on $355 million of notional principal. These contracts expire between November 2023 and November 2026 and the fixed interest rates range between 3.30 per cent and 3.51 per cent. These swaps were designated as a fair value hedge against a portion of the Group's outstanding debt.

The table below shows the income statement movement on interest rate swaps at fair value through profit and loss:

	2018 $m	Restated 2017 $m
At 1 August	26	38
Settled	(9)	(12)
Valuation loss debited to income statement	(17)	–
At 31 July	–	26

Monitoring interest rate and foreign currency risk

The Group monitors its interest rate and foreign currency risk by reviewing the effect on financial instruments over various periods of a range of possible changes in interest rates and exchange rates. The financial impact for reasonable approximation of possible changes in interest rates and exchange rates are as follows. The Group has estimated that an increase of one per cent in the principal floating interest rates to which it is exposed would result in a charge to the income statement of $nil (2017: $nil). The Group has estimated that a weakening of the US dollar by 10 per cent against gross borrowings denominated in a foreign currency in which the Group does business would result in a charge to the currency translation reserve of $4 million (2017: $146 million). The Group does not consider that there is a useful way of quantifying the Group's exposure to any of the macroeconomic variables that might affect the collectability of receivables or the prices of commodities.

24 – Provisions

	Environmental and legal $m	Wolseley Insurance $m	Restructuring $m	Other provisions $m	Total $m
At 31 July 2016 restated	101	70	36	85	292
Utilised in the year	(14)	(16)	(29)	(5)	(64)
Changes in discount rate	(13)	–	–	–	(13)
Charge for the year	9	18	63	6	96
Disposal of businesses and reclassified as held for sale	(5)	–	(12)	(30)	(47)
Exchange rate adjustment	–	–	1	1	2
At 31 July 2017 restated	**78**	**72**	**59**	**57**	**266**
Utilised in the year	**(3)**	**(23)**	**(38)**	**(7)**	**(71)**
Changes in discount rate	**(4)**	**–**	**–**	**–**	**(4)**
Charge for the year	**12**	**24**	**31**	**12**	**79**
Acquisition of businesses	**–**	**–**	**–**	**4**	**4**
Exchange rate adjustment	**(1)**	**1**	**(1)**	**1**	**–**
At 31 July 2018	**82**	**74**	**51**	**67**	**274**

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

At 31 July 2018	**Environmental and legal $m**	**Wolseley Insurance $m**	**Restructuring $m**	**Other provisions $m**	**Total $m**
Current	**16**	**11**	**32**	**36**	**95**
Non-current	**66**	**63**	**19**	**31**	**179**
Total provisions	**82**	**74**	**51**	**67**	**274**

At 31 July 2017 restated	Environmental and legal $m	Wolseley Insurance $m	Restructuring $m	Other provisions $m	Total $m
Current	13	24	37	33	107
Non-current	65	48	22	24	159
Total provisions	78	72	59	57	266

The environmental and legal provision includes $69 million (2017: $69 million) for the estimated liability for asbestos litigation on a discounted basis using a long-term discount rate of 3.0 per cent (2017: 2.3 per cent). This amount has been actuarially determined as at 31 July 2018 based on advice from independent professional advisers. The Group has insurance that it currently believes significantly covers the estimated liability and accordingly an 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). Due to the nature of these provisions, the timing of any settlements is uncertain.

Restructuring provisions include provisions for staff redundancy costs and future lease rentals on closed branches. 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 three years.

25 – Retirement benefit obligations

(i) Long-term benefit plans provided by the Group

The principal UK defined benefit plan is the Wolseley Group Retirement Benefits Plan which provides benefits based on final pensionable salaries. This plan was closed to new entrants in 2009. The assets are held in separate trustee administered funds. The Group contribution rate is calculated on the Projected Unit Credit Method and agreed with an independent consulting actuary. The Group Retirement Benefits Plan was closed to future service accrual in December 2013 and was replaced by a defined contribution plan. During October 2016, the plan was closed for future non-inflationary salary accrual.

In 2017, the Group secured a buy-in insurance policy with Pension Insurance Corporation (PIC) for the UK pension plan. This policy covered all of the pensioner members of the plan at the time and exactly matches the benefits provided by the plan. The deferred members of the plan at the time were not covered by this policy. The insurance asset is valued as exactly equal to the insured liabilities.

The principal plans operated for USA employees are defined contribution plans, which are established in accordance with USA 401k rules. Companies contribute to both employee compensation deferral and profit sharing plans. The Group completed a buy out of its primary defined benefit plan in the USA during the year.

In Canada, defined benefit plans and a defined contribution plan are operated. Most of the Canadian defined benefit plans are funded. The contribution rate is calculated on the Projected Unit Credit Method as agreed with independent consulting actuaries.

The Group operates a number of smaller defined benefit and defined contribution plans providing pensions or other long-term benefits such as long service or termination awards.

Investment policy

The Group's investment strategy for its funded post-employment plans is decided locally and, if relevant, by the trustees of the plan and takes account of the relevant statutory requirements. The Group's objective for the investment strategy is to achieve a target rate of return in excess of the increase in the liabilities, while taking an acceptable amount of investment risk relative to the liabilities.

This objective is implemented by using specific allocations to a variety of asset classes that are expected over the long term to deliver the target rate of return. Most investment strategies have significant allocations to equities, with the intention that this will result in the ongoing cost to the Group of the post-employment plans being lower over the long term and within acceptable boundaries of risk.

For the UK plan, the buy-in insurance policy represents approximately 30 per cent of the plan assets. For the remaining assets, the strategy is to invest in a balanced portfolio of equities, government bonds and corporate bonds. The investment strategy is subject to regular review by the plan trustees in consultation with the Company. For the overseas plans, the investment strategy involves the investment in defined levels, predominantly equities with the remainder of the assets being invested in cash and bonds.

Investment risk

The present value of the UK defined benefit plan liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the actual return on plan assets is below this rate, it will decrease a net surplus or increase a net pension liability. Currently, the plan has a relatively balanced investment in equity securities, debt instruments and property. Due to the long-term nature of the plan liabilities, the trustees of the pension plan consider it appropriate that a reasonable portion of the plan assets should be invested in equity securities to leverage the return generated by the fund.

Interest risk

A decrease in the bond interest rate will increase the UK plan liability and this will be partially offset by an increase in the value of the plan's debt investments.

Longevity risk

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the UK plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.

25 – Retirement benefit obligations continued

(ii) Financial impact of plans

As disclosed in the Group balance sheet	**2018 $m**	Restated 2017 $m
Non-current asset	**193**	4
Current liability	**(4)**	(11)
Non-current liability	**(15)**	(21)
Total liability	**(19)**	(32)
Net asset/(liability)	**174**	(28)

			2018			Restated 2017
Analysis of Group balance sheet net asset/(liability)	**UK $m**	**Non-UK $m**	**Total $m**	UK $m	Non-UK $m	Total $m
Fair value of plan assets	**1,824**	**121**	**1,945**	1,766	217	1,983
Present value of defined benefit obligations	**(1,631)**	**(140)**	**(1,771)**	(1,762)	(249)	(2,011)
Net asset/(liability)	**193**	**(19)**	**174**	4	(32)	(28)

Analysis of total expense/(income) recognised in the Group income statement	**2018 $m**	Restated 2017 $m
Current service cost	**1**	6
Administration costs	**3**	4
Exceptional settlement losses and past service gains (note 5)	**5**	(14)
Past service gain from settlements	**–**	(3)
Charged/(credited) to operating costs (note 11)[1]	**9**	(7)
Charged to finance costs (note 6)[2]	**1**	4
Total expense/(income) recognised in the Group income statement	**10**	(3)

1. Includes a charge of $nil (2017: $2 million) relating to discontinued operations.
2. Includes a charge of $nil (2017: $1 million) relating to discontinued operations.

Expected employer contributions to the defined benefit plans for the year ending 31 July 2019 are $39 million. The remeasurement of the defined benefit net asset is included in the Group statement of comprehensive income.

Analysis of amount recognised in the Group statement of comprehensive income	**2018 $m**	Restated 2017 $m
The return on plan assets (excluding amounts included in net interest expense)	**22**	6
Actuarial gain arising from changes in demographic assumptions	**12**	40
Actuarial gain/(loss) arising from changes in financial assumptions	**74**	(99)
Actuarial (loss)/gain arising from experience adjustments	**(4)**	51
Tax	**(17)**	(1)
Total amount recognised in the Group statement of comprehensive income	**87**	(3)

The cumulative amount of actuarial losses recognised in the Group statement of comprehensive income is $488 million (2017: $592 million).

25 – Retirement benefit obligations continued

(ii) Financial impact of plans continued

The fair value of plan assets is as follows:

	2018 UK $m	2018 Non-UK $m	2018 Total $m	Restated 2017 UK $m	Restated 2017 Non-UK $m	Restated 2017 Total $m
At 1 August	**1,766**	**217**	**1,983**	1,730	331	2,061
Interest income	**46**	**5**	**51**	39	6	45
Employer's contributions	**97**	**13**	**110**	47	38	85
Participants' contributions	**–**	**–**	**–**	–	3	3
Benefit payments	**(89)**	**(8)**	**(97)**	(58)	(18)	(76)
Settlement payments	**–**	**(105)**	**(105)**	–	(4)	(4)
Disposal of businesses	**–**	**–**	**–**	–	(129)	(129)
Reclassification as held for sale	**–**	**–**	**–**	–	(10)	(10)
Remeasurement gain/(loss):						
Return on plan assets (excluding amounts included in net interest expense)	**17**	**5**	**22**	9	(3)	6
Currency translation	**(13)**	**(6)**	**(19)**	(1)	3	2
At 31 July	**1,824**	**121**	**1,945**	1,766	217	1,983
Actual return on plan assets	**63**	**10**	**73**	48	3	51

Employer's contributions included special funding contributions of $99 million (2017: $70 million), including $94 million to the UK pension scheme.

At 31 July 2018, the plan assets were invested in a diversified portfolio comprised of:

		2018 UK $m	2018 Non-UK $m	2018 Total $m	Restated 2017 UK $m	Restated 2017 Non-UK $m	Restated 2017 Total $m
Equity type assets	quoted	**284**	**72**	**356**	536	71	607
Government bonds	quoted	**464**	**20**	**484**	337	47	384
Corporate bonds	quoted	**253**	**22**	**275**	41	74	115
Real estate		**25**	**–**	**25**	52	–	52
Cash		**61**	**–**	**61**	47	10	57
Insurance policies		**626**	**–**	**626**	667	–	667
Other		**111**	**7**	**118**	86	15	101
Total market value of assets		**1,824**	**121**	**1,945**	1,766	217	1,983

The present value of defined benefit obligations is as follows:

	2018 UK $m	2018 Non-UK $m	2018 Total $m	Restated 2017 UK $m	Restated 2017 Non-UK $m	Restated 2017 Total $m
At 1 August	**1,762**	**249**	**2,011**	1,768	488	2,256
Current service cost (including administrative costs)	**3**	**1**	**4**	3	7	10
Past service gain	**–**	**–**	**–**	(14)	(3)	(17)
Interest cost	**46**	**6**	**52**	39	10	49
Benefit payments	**(89)**	**(8)**	**(97)**	(58)	(18)	(76)
Settlement and curtailment payments	**–**	**(100)**	**(100)**	–	(6)	(6)
Participants' contributions	**–**	**–**	**–**	–	3	3
Remeasurement (gain)/loss:						
Actuarial gain arising from changes in demographic assumptions	**(12)**	**–**	**(12)**	(39)	(1)	(40)
Actuarial (gain)/loss arising from changes in financial assumptions	**(74)**	**–**	**(74)**	115	(16)	99
Actuarial loss/(gain) arising from experience adjustments	**4**	**–**	**4**	(48)	(3)	(51)
Disposal of businesses	**–**	**–**	**–**	–	(152)	(152)
Reclassified as held for sale	**–**	**–**	**–**	–	(69)	(69)
Currency translation	**(9)**	**(8)**	**(17)**	(4)	9	5
At 31 July	**1,631**	**140**	**1,771**	1,762	249	2,011

25 – Retirement benefit obligations continued

(ii) Financial impact of plans continued

An analysis of the present value of defined benefit obligations by funding status is shown below:

	2018 $m	Restated 2017 $m
Amounts arising from wholly unfunded plans	**3**	3
Amounts arising from plans that are wholly or partly funded	**1,768**	2,008
	1,771	2,011

(iii) Valuation assumptions

The financial assumptions used to estimate defined benefit obligations are:

	2018		2017	
	UK %	Non-UK %	UK %	Non-UK %
Discount rate	**2.7**	**3.5**	2.6	3.6
Inflation rate	**3.2**	**2.5**	3.2	2.5
Increase to deferred benefits during deferment	**2.1**	**n/a**	2.1	n/a
Increases to pensions in payment	**2.8**	**2.0**	2.9	2.0
Salary increases	**2.1**	**2.5**	2.1	2.5

The life expectancy assumptions used to estimate defined benefit obligations are:

	2018		2017	
	UK Years	Non-UK Years	UK Years	Non-UK Years
Current pensioners (at age 65) – male	**22**	**22**	22	21
Current pensioners (at age 65) – female	**23**	**24**	24	24
Future pensioners (at age 65) – male	**24**	**23**	24	23
Future pensioners (at age 65) – female	**26**	**25**	26	25

The weighted average duration of the defined benefit obligation is 21.5 years (2017: 20.4 years).

(iv) Sensitivity analysis

The Group considers that the most sensitive assumptions are the discount rate, inflation rate and life expectancy. The sensitivity analyses below shows the impact on the Group's defined benefit plan net asset of reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

	2018			Restated 2017		
	Change	UK $m	Non-UK $m	Change	UK $m	Non-UK $m
Discount rate	**+0.25%**	**70**	**5**	+0.25%	74	5
	(0.25)%	**(76)**	**(4)**	(0.25)%	(81)	(5)
Inflation rate	**+0.25%**	**(64)**	**–**	+0.25%	(73)	–
	(0.25)%	**66**	**–**	(0.25)%	69	–
Life expectancy	**+1 year**	**(33)**	**(4)**	+1 year	(36)	(8)

The UK defined benefit plan holds a buy-in policy asset which exactly equals the insured liability. The above sensitivities are in respect of the Group's remaining defined benefit plan net asset.

26 – Share capital

(i) Ordinary shares in issue

Allotted and issued shares	2018 Number of shares	2018 Cost $m	Restated 2017 Number of shares	Restated 2017 Cost $m
Number / cost of ordinary $10\frac{53}{66}$ pence shares in the Company (million)	**–**	**–**	267	45
Number / cost of ordinary $11\frac{227}{563}$ pence shares in the Company (million)	**253**	**45**	–	–
As at 31 July	**253**	**45**	267	45

The authorised share capital of the Company is 439 million ordinary $11\frac{227}{563}$ pence shares (2017: 463 million ordinary $10\frac{53}{66}$ pence shares).

All the allotted and issued shares, including those held by Employee Benefit Trusts and in Treasury, are fully paid or credited as fully paid.

Following approval at the General Meeting held on 23 May 2018 and in connection with the special dividend approved at that meeting, a share consolidation under which shareholders received 18 new ordinary shares of $11\frac{227}{563}$ pence each for every 19 existing ordinary shares of $10\frac{53}{66}$ pence each, became effective on 11 June 2018.

A summary of the movements in the year is detailed in the following table:

	2018	2017
Number of $10\frac{53}{66}$ pence ordinary shares in the Company in issue at 1 August	**266,636,106**	266,636,106
Cancellation of Treasury shares	**(5)**	–
Effect of share consolidation	**(14,033,479)**	–
Number of $11\frac{227}{563}$ pence (2017: $10\frac{53}{66}$ pence) ordinary shares in the Company in issue at 31 July	**252,602,622**	266,636,106

(ii) Treasury shares

The shares purchased under the Group's buyback programme have been retained in issue as Treasury shares and represent a deduction from equity attributable to shareholders of the Company.

A summary of the movements in Treasury shares in the year is detailed in the following table:

	2018 Number of shares	2018 Cost $m	Restated 2017 Number of shares	Restated 2017 Cost $m
As at 1 August	**13,382,580**	**743**	14,259,276	792
Treasury shares purchased	**9,178,209**	**675**	–	–
Disposal of Treasury shares to settle share options	**(646,988)**	**(38)**	(876,696)	(49)
Cancellation of Treasury shares	**(5)**	**–**	–	–
Effect of share consolidation	**(1,135,924)**	**–**	–	–
As at 31 July	**20,777,872**	**1,380**	13,382,580	743

Consideration received in respect of shares transferred to participants in certain long-term incentive plans and all-employee plans amounted to $24 million (2017: $27 million).

(iii) Own shares

Two Employee Benefit Trusts have been established in connection with the Company's discretionary share option plans and long-term incentive plans.

A summary of the movements in own shares held in Employee Benefit Trusts is detailed in the following table below:

	2018 Number of shares	2018 Cost $m	Restated 2017 Number of shares	Restated 2017 Cost $m
As at 1 August	**1,435,155**	**76**	1,762,657	92
New shares purchased	**564,476**	**41**	142,000	8
Exercise of share options	**(492,870)**	**(27)**	(469,502)	(24)
Effect of share consolidation	**(80,156)**	**–**	–	–
As at 31 July	**1,426,605**	**90**	1,435,155	76

Consideration received in respect of shares transferred to participants in the discretionary share option plans and long-term incentive plans amounted to $nil (2017: $nil). At 31 July 2018, the shares held in the trusts had a market value of $113 million (2017: $86 million).

Dividends due on shares held by the Employee Benefit Trusts are waived in accordance with the provisions of the trust deeds.

27 – Reconciliation of profit to cash generated from operations

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

	2018 $m	Restated 2017 $m
Profit for the year attributable to shareholders	1,267	920
Net finance costs	57	49
Share of (profit)/loss after tax of associates	(2)	1
Impairment of interests in associates	122	–
Tax charge	377	367
Profit on disposal and closure of businesses and revaluation of assets held for sale	(407)	(255)
Amortisation and impairment of goodwill and acquired intangible assets	65	216
Amortisation and impairment of non-acquired intangible assets	28	31
Depreciation and impairment of property, plant and equipment	152	180
(Profit)/loss on disposal of property, plant and equipment and assets held for sale	(6)	11
Increase in inventories	(102)	(121)
Increase in trade and other receivables	(351)	(267)
Increase in trade and other payables	208	293
Decrease in provisions and other liabilities	(120)	(43)
Share-based payments	35	28
Cash generated from operations	1,323	1,410

28 – Acquisitions

The Group acquired the following businesses in the year ended 31 July 2018. All these businesses are engaged in the distribution of plumbing and heating products and were acquired to support growth principally in the USA and Canada. All transactions have been accounted for by the purchase method of accounting.

Name	Date of acquisition	Country of incorporation	Shares/asset deal	% acquired
Wholesale Group, Inc.	August 2017	USA	Asset	100
Aircovent B.V.	August 2017	Netherlands	Shares	100
HM Wallace, Inc.	September 2017	USA	Shares	100
3097-3275 Quebec Inc.	September 2017	Canada	Shares	100
Tackaberry Heating Supplies Limited	September 2017	Canada	Shares	100
Duhig and Co., Inc.	January 2018	USA	Shares	100
National Fire Products, L.L.C.[1]	May 2018	USA	Asset	100
National Fire Protection of Albuquerque, LLC[1]	May 2018	USA	Asset	100
National Fire Protection Manufacturing & Supply, Inc.[1]	May 2018	USA	Asset	100
Cooper National Leasing, L.L.C.[1]	May 2018	USA	Asset	100
AMRE Supply Inc.[2]	July 2018	Canada	Shares	100
AMRE Supply Company Limited[2]	July 2018	Canada	Asset	100
Wright Plumbing Supply, Inc.	July 2018	USA	Asset	100
Lighting Design Enterprises, Inc.	July 2018	USA	Asset	100
Appliance Distributors of Louisiana – Baton Rouge, LLC.	July 2018	USA	Asset	100
Brock-McVey Company	July 2018	USA	Asset	100
Safe Step Walk In Tub, LLC	July 2018	USA	Shares	100

1. These businesses trade as National Fire and were acquired together.
2. These businesses trade as AMRE Supply and were acquired together.

28 – Acquisitions continued

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

	Provisional fair values acquired $m
Intangible assets	
– Customer relationships	21
– Trade names and brands	54
– Other	55
Property, plant and equipment	12
Inventories	34
Receivables	34
Cash, cash equivalents and bank overdrafts	7
Payables	(38)
Deferred tax	(1)
Provisions	(4)
Total	174
Goodwill arising	241
Consideration	415
Satisfied by:	
Cash	376
Deferred consideration	39
Total consideration	415

The fair values acquired 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 $187 million to revenue, $6 million to trading profit and $3 million loss 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, continuing revenue would have been $21,000 million and continuing trading profit would have been $1,532 million. It is not practicable to disclose profit before tax or profit attributable to shareholders of the Company, 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:

	2018 $m	Restated 2017 $m
Purchase consideration	376	326
Deferred and contingent consideration in respect of prior year acquisitions	47	15
Cash consideration	423	341
Cash, cash equivalents and bank overdrafts acquired	(7)	(10)
Net cash outflow in respect of the purchase of businesses	416	331

29 – Disposals

In the year ended 31 July 2018, the Group disposed of the following businesses:

Name	Country	Date of disposal	Shares/asset deal
Silvan A/S	Denmark	August 2017	Shares
Stark Group A/S	Denmark	March 2018	Shares
Ferguson Property (Norway) AS	Norway	June 2018	Shares
Arhus Property Denmark A/S	Denmark	June 2018	Shares

The Group recognised a total gain on current year disposals of $439 million, which is reported within discontinued operations.

	2018 $m
Consideration received	1,411
Net assets disposed of	(697)
Disposal costs and provisions	(81)
Recycling of deferred foreign exchange losses[1]	(194)
Gain on disposal	439

1. Includes recycling of remaining foreign exchange relating to France and other European assets following the abandonment of operations.

Net assets disposed of were previously reported in assets and liabilities held for sale.

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

	2018 $m
Cash consideration received for current year disposals (net of cash disposed of)	1,367
Cash paid in respect of prior year disposals	(2)
Disposal costs paid	(45)
Net cash inflow	1,320

30 – Reconciliation of opening to closing net debt

				Liabilities from financing activities			
	Cash and cash equivalents (note 19) $m	Bank overdrafts (note 22) $m	Total cash, cash equivalents and bank overdrafts $m	Derivative financial Instruments (note 23) $m	Bank loans (note 22) $m	Obligations under finance leases $m	Net debt $m
At 1 August 2017 restated	2,525	(1,982)	543	26	(1,266)	(9)	(706)
Cash movements							
Proceeds from borrowings and derivatives			–	(9)	(450)	–	(459)
Repayments of borrowings			–	–	261	–	261
Finance lease capital payments			–	–	–	4	4
Changes in net debt due to disposal of businesses			(42)	–	7	–	(35)
Changes in net debt due to acquisition of businesses			7	–	–	–	7
Held for sale movements			43	–	(105)	–	(62)
Other cash flows			(86)	–	–	–	(86)
Non-cash movements							
New finance leases			–	–	–	(1)	(1)
Fair value and other adjustments			–	(17)	16	–	(1)
Exchange movements			(7)	(2)	7	–	(2)
At 31 July 2018	833	(375)	458	(2)	(1,530)	(6)	(1,080)

31 – Related party transactions

There are no related party transactions requiring disclosure under IAS 24 “Related Party Disclosures” other than the compensation of key management personnel which is set out in note 11.

32 – Operating lease commitments

Future minimum lease payments under non-cancellable operating leases for the following periods are:

	2018 $m	Restated 2017 $m
Less than one year	**328**	344
After one year and less than five years	**591**	609
After five years	**162**	176
Total operating lease commitments	**1,081**	1,129

Operating lease payments mainly represent rents payable for properties. Some of the Group's operating lease arrangements have renewal options and rental escalation clauses. No arrangements have been entered into for contingent rental payments.

The commitments shown above include commitments for onerous leases which have already been provided for. At 31 July 2018, provisions include an amount of $32 million (2017: $36 million) in respect of minimum lease payments for such onerous leases net of sublease income expected to be received. The total minimum sublease income expected to be received under non-cancellable subleases at 31 July 2018 is $6 million (2017: $10 million).

The commitments above include $nil operating lease commitments (2017: $120 million) for discontinued operations.

33 – 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 they 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, 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.

34 – Post-balance sheet events

Since the year-end, the Group has acquired five businesses, four in the USA and one in Canada for total consideration of $240 million with a combined annual revenue of $171 million. These acquisitions include Plumbing Holdings Corporation (trading as Jones Stephens), a master distributor of own brand plumbing speciality products. 100% of this company was acquired to further develop our product strategy and expand our customer base in the USA. As at the date of this report, the accounting for these transactions has not been finalised.

Since the year-end, the Group has initiated a process to dispose of Wasco Holding B.V., a Dutch plumbing and heating business.

Independent auditor's report to the members of Ferguson plc

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of Ferguson plc (the "Company") and its subsidiaries (the "Group") give a true and fair view of the state of the Group's and of the Company's affairs as at 31 July 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been properly prepared in accordance with the requirements of Companies (Jersey) Law, 1991.

We have audited the financial statements which comprise:

- the Group income statement;
- the Group statement of comprehensive income;
- the Company profit and loss account;
- the Group and Company balance sheets;
- the Group cash flow statement;
- the Group and Company statements of changes in equity;
- the notes to the consolidated financial statements 1 to 34; and
- the notes to the Company financial statements 1 to 15.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the "FRC's") Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key matters that we identified in the current year were: – appropriateness of supplier rebates; – inventory provision for slow-moving and obsolete inventory; and – accounting for the disposal of the Nordic businesses. Within this report, any new key audit matters are identified with ⊗ and any key audit matters which are the same as the prior year identified with ⊗.
Materiality	The materiality that we used in the current year was $65 million (2017: £45 million) which was determined on the basis of approximately 5% of profit before tax excluding exceptional items and impairment of interests in associates.
Scoping	We performed full audits on the three key regions of continuing businesses, Head Office entities and the consolidation process, representing 99% of revenue, 99% of profit before tax and 98% of net assets.
Significant changes in our approach	Our approach is consistent with the previous year with the exception of: – the inclusion of an additional key audit matter relating to the accounting for the disposal of the Nordic businesses which were completed in the year; and – the exclusion of the key audit matter relating to restructuring costs. The Nordic related restructuring was completed during the prior year and in the context of our Group materiality level we have concluded that there is no longer a significant risk of material misstatement in the accounting for UK restructuring costs.

Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed the Directors' statement in note 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Principal risks and viability statement

Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

– the disclosures on pages 44-49 that describe the principal risks and explain how they are being managed or mitigated;
– the Directors' confirmation on page 69 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
– the Directors' explanation on page 45 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the Directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Appropriateness of supplier rebates	
Key audit matter description	As described in the Audit Committee report on page 63 as a significant judgement and the accounting policies in note 1 to the financial statements, the Group recognises a reduction in cost of sales as a result of amounts receivable from suppliers in the form of rebate arrangements. Where the rebate arrangements are non-tiered arrangements (flat rate), there is limited judgement. However, a proportion of the rebate arrangements comprise annual tiered volume rebates, for which the end of the period is often non-coterminous with the Group's year-end. Notes 18 and 21 to the financial statements disclose the quantum of accrued supplier rebates at year-end. There is complexity in supplier rebates which give rise to management judgement and scope for potential fraud or error in accounting for this income. Judgement is required in estimating the expected level of rebates for the rebate year, driven by the forecast purchase volumes. This requires a detailed understanding of the specific contractual arrangements themselves as well as complete and accurate source data to apply the arrangements to.
How the scope of our audit responded to the key audit matter	We assessed the design and implementation of manual and automated controls over the recording of supplier rebate income. Our procedures on supplier rebates included: – in certain components, testing the operating effectiveness of the controls relating to supplier rebates; – making inquiries of members of management responsible either for buying decisions or managing vendor relationships to supplement our understanding of the key contractual rebate arrangements; – testing the accuracy of the amounts recognised by agreeing a sample to individual supplier agreements; – circularising a sample of suppliers to test whether the arrangements recorded were complete; – testing the completeness and accuracy of the inputs to the calculations for recording supplier rebates by agreement to supporting evidence, including historical volume data. We challenged the assumptions underlying management's estimates of purchase volumes including looking at the historical accuracy of previous estimates and historical purchase trends; – recalculating the rebate recognised for a sample of suppliers; – considering the adequacy of rebate related disclosure within the Group's financial statements; – holding discussions with management to understand if there has been any whistleblowing; and – testing a sample of rebate receivables to cash receipts, where relevant, to test the recoverability of amounts recorded.
Key observations	We consider the Group's estimation methodology to be prudent based on a number of factors, including a look back at historical cash receipts. However, the methodology is consistently applied year-on-year and the understatement of rebate income is not material to the financial position or the reported financial result as at 31 July 2018.

Inventory provision for slow-moving and obsolete inventory	
Key audit matter description	The Group had inventories of $2,516 million at 31 July 2018, held in distribution centres, warehouses and numerous branches, and across multiple product lines. Details of its valuation are included in the Audit Committee report on page 63 and the accounting policies in note 1 to the consolidated financial statements. Inventories are carried at the lower of cost and net realisable value. As a result, the Directors apply judgement in determining the appropriate values for slow-moving or obsolete items. As outlined in note 17 to the consolidated financial statements, inventories are net of a provision of $164 million which is primarily driven by comparing the level of inventory held to future projected sales. The provision is calculated within the Group's accounting systems using an automated process. We consider the assessment of inventory provisions to require judgement based on the size of the inventories balance held at year-end and the manual intervention required in the calculation. There is risk that inappropriate management override and/or error may occur.
How the scope of our audit responded to the key audit matter	We challenged the appropriateness of management's assumptions applied in calculating the value of the inventory provisions by: – evaluating the design and implementation of key inventory provision controls operating across the Group, including those at a sample of distribution centres, warehouses and branches; – comparing the net realisable value, obtained through a detailed review of sales subsequent to the year-end, to the cost price of a sample of inventories and comparison to the associated provision to assess whether inventory provisions are complete; – reviewing the historical accuracy of inventory provisioning, and the level of inventory write-offs during the year; – recalculating for a sample of inventory items the required provision based on a look-back at historical demand over several years to predict forward future demand, to test the validity of the provisioning methodology; – evaluating the business rationale behind any significant change in product strategy that had a consequential impact on inventory provisions recognised; and – challenging the completeness of inventory provisions through assessing actual and forecast sales of inventory lines to assess whether provisions for slow-moving or obsolete inventories are valid and complete.
Key observations	We consider the Group's provisioning methodology to be prudent when compared with historical levels of inventory write-offs. However, the methodology is consistently applied year-on-year and our estimate of the potential overstatement of the provision is not material to the financial position or the reported financial result as at 31 July 2018.

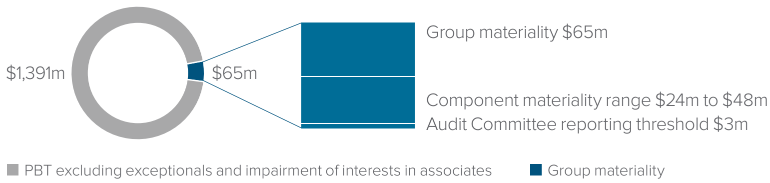
Accounting for the disposal of the Nordic businesses	
Key audit matter description	As described in the Audit Committee report on page 63 as a significant judgement and in notes 8 and 29 to the consolidated financial statements, the Group completed its disposal of the Nordic businesses in the period with a resultant gain of $439 million. The key judgements related to this key audit matter lie in the determination of the amount of foreign exchange balances to recycle from reserves and the balance sheet adjustments to net assets in respect of the completion accounts process for Stark Group.
How the scope of our audit responded to the key audit matter	Our procedures on the disposal included: – reviewing the completion account submissions and assessing the net asset values in light of the completion accounts process, including management's estimation of any final payment or receipt; – challenging the nature of the amounts recycled from reserves to the income statement to determine whether they relate to the entities disposed of or abandoned in the year; – testing the quantum of the amount recycled from reserves back to underlying accounting records; and – performing a completeness check on amounts remaining in reserves with reference to the Group structure, historical transactions and a proof of the closing balance.
Key observations	We consider that the judgements taken by management in concluding on the total gain to be recognised in the financial statements are reasonable and materially consistent with the results of our audit work, reflecting the substance and nature of the businesses disposed of or abandoned.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Materiality	$65 million (2017: £45 million)	$30 million (2017: £23 million)
Basis for determining materiality	Approximately 5% of profit before tax excluding exceptional items and impairment of interests in associates. The profit before tax excluding exceptional items and impairment of interests in associates was $1,391 million which was $204 million higher than statutory profit. The exceptional items we excluded from our determination are explained further in note 5. We have also excluded impairment of interests in associates. These amounts were excluded to normalise for items which are considered significant by virtue of their nature, size or incidence.	Materiality was determined on the basis of the Company's net assets. This was then capped at approximately 50% of Group materiality.
Rationale for the benchmark applied	Profit before tax is a key metric for users of the financial statements and adjusting for exceptional items and impairment of interests in associates is to reflect the manner in which business performance is reported and assessed by external users of the financial statements.	The entity is non-trading and contains investments in all of the Group's trading components and as a result, we have determined net assets for the current year to be the appropriate basis.

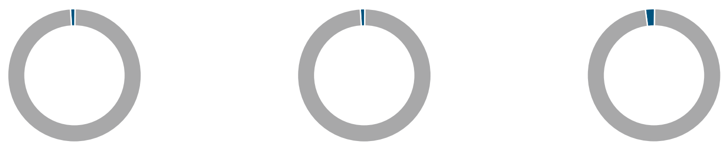


We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of $3 million (2017: £2 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment we focused our Group audit scope primarily on the audit work at the three key regions of continuing businesses (USA, UK and Canada). Full audits were performed in these locations, as was the case in the prior year. At the Group level we also tested Head Office entities and the consolidation process. Of continuing results, this provided coverage of 99% (2017: 97%) of revenue, 99% (2017: 99%) of the profit before tax and 98% (2017: 98%) of the net assets.



	Revenue	Profit before tax	Net assets
Full audit scope	99%	99%	98%
Analytical procedures	1%	1%	2%

The Group team is responsible for the Head Office entities and the consolidation. The Group team carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit.

The component teams in the USA, UK and Canada perform audit work and report into the Group team.

The Group audit team continued to follow a programme of planned visits that has been designed to enhance our oversight of the component teams. A senior member of the Group audit team visited each of the most significant locations where the Group audit scope was focused, being the USA, UK and Canada. We included the component audit partners in our team briefing, sent detailed instructions to our component audit teams, reviewed their planned audit work and challenged their risk assessment. We communicated regularly with all components to discuss the progress of their work and a senior member of the Group audit team performed a review of the work performed on significant risks and other areas of focus set out in our instructions. For all components we attended the local close meetings.

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Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- *Fair, balanced and understandable* – the statement given by the Directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- *Audit Committee reporting* – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- *Directors' statement of compliance with the UK Corporate Governance Code* – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

Responsibilities of the Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management, internal audit, and the Audit Committee, including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.
- discussing among the engagement team including the USA, UK and Canadian component audit teams and involving relevant internal specialists, including tax, treasury, valuations and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in relation to supplier rebates given the complexity of the annual tiered volume rebates and manual adjustments to revenue; and
- obtaining an understanding of the legal and regulatory frameworks that the Group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Group. The key laws and regulations we considered in this context included the UK Companies Act, Jersey Law, Listing Rules, pensions legislation and tax legislation.

Audit response to risks identified

As a result of performing the above, we identified the appropriateness of supplier rebates as a key audit matter. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

Our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- profiling the manual revenue postings made and tested the appropriateness of a sample that met certain risk criteria;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with tax authorities;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments;
- assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and
- evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by our engagement letter

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the provisions of UK Companies Act 2006 as if that Act applied to the Company.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and of the Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies (Jersey) Law, 1991 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- proper accounting records have not been kept by the Company, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

We are also required to report if in our opinion certain disclosures of Directors' remuneration that would be required under the UK Companies Act 2006 have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns.

We have nothing to report arising from these matters.

Other matters

Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Company on 12 November 2015 to audit the financial statements for the year ending 31 July 2016 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is three years, covering periods from our appointment to 31 July 2018.

Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law, 1991. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and/or those further matters we have expressly agreed to report to them on in our engagement letter and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ian Waller

Ian Waller
(Senior statutory auditor)
For and on behalf of Deloitte LLP
Recognised Auditor
London, UK

1 October 2018

Company profit and loss account

Year ended 31 July 2018

	2018 $m	Restated[1] 2017 $m
Administrative expenses	**(54)**	(13)
Operating loss	**(54)**	(13)
Income from shares in Group undertakings	**1,442**	572
Profit on ordinary activities before interest	**1,388**	559
Interest receivable and similar income	**2**	–
Interest payable and similar charges	**(24)**	(10)
Profit before tax	**1,366**	549
Tax	**2**	–
Profit for the financial year	**1,368**	549

1. All comparative information has been restated to be presented in US dollars, see note 1.

Company statement of changes in equity

	Notes	Called up share capital $m	Share premium $m	Treasury shares reserve $m	Own shares reserve $m	Retained earnings $m	Translation Reserve $m	Total shareholders' equity $m
At 1 August 2016 restated		45	67	(792)	(92)	12,302	(1,877)	9,653
Profit for the year		–	–	–	–	549	–	549
Purchase of own shares by Employee Benefit Trusts	9	–	–	–	(8)	–	–	(8)
Issue of own shares by Employee Benefit Trusts		–	–	–	24	(24)	–	–
Credit to equity for share-based payments	10	–	–	–	–	28	–	28
Disposal of Treasury shares	8	–	–	49	–	(22)	–	27
Dividends paid		–	–	–	–	(328)	–	(328)
Exchange rate adjustment		–	–	–	–	–	18	18
At 31 July 2017 restated		**45**	**67**	**(743)**	**(76)**	**12,505**	**(1,859)**	**9,939**
Profit for the year		**–**	**–**	**–**	**–**	**1,368**	**–**	**1,368**
Purchase of own shares by Employee Benefit Trusts	9	**–**	**–**	**–**	**(41)**	**–**	**–**	**(41)**
Issue of own shares by Employee Benefit Trusts		**–**	**–**	**–**	**27**	**(27)**	**–**	**–**
Credit to equity for share-based payments	10	**–**	**–**	**–**	**–**	**35**	**–**	**35**
Purchase of Treasury shares		**–**	**–**	**(675)**	**–**	**–**	**–**	**(675)**
Disposal of Treasury shares	8	**–**	**–**	**38**	**–**	**(14)**	**–**	**24**
Dividends paid		–	**–**	**–**	**–**	**(1,364)**	**–**	**(1,364)**
At 31 July 2018		**45**	**67**	**(1,380)**	**(90)**	**12,503**	**(1,859)**	**9,286**

Company balance sheet

Year ended 31 July 2018

	Notes	2018 $m	Restated 2017 $m
Fixed assets			
Investments in subsidiaries	3	**10,979**	10,979
		10,979	10,979
Current assets			
Debtors: amounts falling due within one year	4	**2**	1
Cash at bank and in-hand		**1**	–
		3	1
Current liabilities			
Creditors: amounts falling due within one year	5	**(1,696)**	(1,041)
Net current liabilities		**(1,693)**	(1,040)
Net assets		**9,286**	9,939
Capital and reserves			
Called up share capital	6	**45**	45
Share premium	7	**67**	67
Treasury shares reserve	8	**(1,380)**	(743)
Own shares reserve	9	**(90)**	(76)
Retained earnings		**12,503**	12,505
Translation reserve		**(1,859)**	(1,859)
Total shareholders' equity		**9,286**	9,939

The accompanying notes are an integral part of these Company financial statements.

The Company financial statements on pages 146 to 149 were approved by the Board of Directors on 1 October 2018 and were signed on its behalf by:

John Martin
Group Chief Executive

Mike Powell
Group Chief Financial Officer

Notes to the Company financial statements

Year ended 31 July 2018

1 – Corporate information

Ferguson plc (the "Company") was incorporated and registered in Jersey on 28 September 2010 under the Jersey Companies Law as a public company limited by shares under the name Ferguson plc with registered number 106605. The principal legislation under which the Company operates is the Companies (Jersey) Law 1991, as amended, and regulations made thereunder. The address of its registered office is 26 New Street, St Helier, Jersey, JE2 3RA, Channel Islands. It is headquartered in Switzerland.

The principal activity of the Company is to act as the ultimate holding company of the Ferguson Group of companies.

Change in functional and presentation currency

With effect from 1 August 2017, the functional currency of the Company was changed from pounds sterling to US dollars and applied prospectively from the date of change, as this is now the primary currency in which the Company's financing activities and investments returns are denominated. As a result of the change in functional currency, the Company has chosen to change its presentational currency to US dollars which is accounted for retrospectively.

Statutory financial information included in the Company financial statements for the years ended 31 July 2017 and 31 July 2016 previously reported in pounds sterling has been restated into US dollars using the procedures outlined below:

– assets and liabilities denominated in non-US dollar currencies were translated into US dollars at the closing rates of exchange on the relevant balance sheet date;
– non-US dollar income and expenditure were translated at the average rates of exchange prevailing for the relevant period;
– share capital, share premium and the other reserves were translated at the historic rates of exchange prevailing on the date of each transaction; and
– all exchange rates used were extracted from the Company's underlying financial records.

The exchange rates of US dollar to pounds sterling over the periods presented in this report are as follows:

	2018	2017	2016
US dollar/pounds sterling translation rate			
Profit and loss	**0.74**	0.79	0.68
Balance sheet	**0.76**	0.76	0.76

2 – Company accounting policies

Basis of accounting

The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council ("FRC"). Accordingly, the financial statements have been prepared in accordance with FRS 101 (Financial Reporting Standard 101) "Reduced Disclosure Framework" as issued by the FRC.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions.

The financial statements have been prepared on the historical cost basis and on the going concern basis.

Note 4 (Operating profit) on page 113, note 9 (Dividends) on page 116, note 26 (Share capital) on page 135 and note 34 (Post-balance sheet events) on page 139 of the Ferguson plc consolidated financial statements form part of these financial statements.

Foreign currencies

The financial statements are presented in US dollars which was the functional currency of the Company at 31 July 2018.

Foreign currency transactions entered into during the year are translated into US dollars at the rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All currency translation differences are charged or credited to retained earnings.

Investments in subsidiaries

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

Cash at bank and in-hand

Cash at bank and in-hand includes cash in-hand and deposits held with banks which are readily convertible to known amounts of cash. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet to the extent there is no right of offset or intention to net settle with cash balances.

Share capital

The Company has one class of shares, ordinary shares, which are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax.

Where the Company or one of the Company's trusts purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of tax), is deducted from equity attributable to shareholders of the Company until the shares are cancelled, reissued or disposed of. Where such shares are subsequently disposed or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related tax effects, is included in equity attributable to shareholders of the Company.

Share-based payments

Share-based incentives are provided to employees under the Company's executive share option, long-term incentive and share purchase and ordinary share plans. The Company recognises a compensation cost in respect of these plans that is based on the fair value of the awards, measured using Binomial and Monte Carlo valuation methodologies. For equity-settled plans, the fair value is determined at the date of grant (including the impact of non-vesting conditions such as requirement for employees to save) and is not subsequently remeasured unless the conditions on which the award was granted are modified. Generally, the compensation cost is recognised on a straight-line basis over the vesting period. Adjustments are made to reflect expected and actual forfeitures during the vesting period due to the failure to satisfy service conditions or achieve non-market performance conditions.

Dividends payable

Dividends on ordinary shares are recognised in the Company's financial statements in the period in which the dividends are paid or approved by the shareholders of the Company.

Tax

Ferguson plc is taxed as a holding company in Switzerland so no tax is due at cantonal or communal level. The tax charge is therefore made up of federal tax and capital tax. Federal tax is levied on profits in the year subject to any participation exemption for qualifying dividends from subsidiaries. Capital tax is based on the value of the Company's assets, primarily its investment in Wolseley Limited and Ferguson Holdings (Switzerland) AG.

3 – Fixed asset investments

	Cost $m
At 1 August 2017 restated	**10,979**
Additions	**–**
At 31 July 2018	**10,979**

All of the above investments are in unlisted shares. The Directors believe that the carrying value of the investments is supported by the recoverable amount of their underlying assets.

The Company's direct holdings in subsidiary undertakings as at 31 July 2018 were as follows:

Company	Country of registration and operation	Principal activity	Ordinary shares held %
Wolseley Limited	England and Wales	Investment	100
Ferguson Holdings (Switzerland) AG	Switzerland	Investment	100

Details of the subsidiary undertakings of the Company, including those that are held indirectly, are listed on pages 152 and 153 of the Ferguson plc Annual Report.

4 – Debtors: amounts falling due within one year

	2018 $m	Restated 2017 $m
Other debtors	**2**	1

The fair value of amounts included in debtors approximates to book value.

5 – Creditors: amounts falling due within one year

	2018 $m	Restated 2017 $m
Bank overdrafts	**199**	1,040
Other creditors	**7**	1
Amounts owed to Group companies	**1,490**	–
Total	**1,696**	1,041

The fair value of amounts included in creditors approximates to book value. Bank overdrafts are interest bearing, carrying an interest rate of 2.5 per cent and are payable on demand. Amounts owed to Group companies are interest bearing, carrying an interest rate of 2.5 per cent and are payable on demand.

6 – Share capital

Details of the Company's share capital are set out in note 26 on page 135 to the Ferguson plc consolidated financial statements.

7 – Share premium account

Details of new share capital subscribed are set out in note 26 on page 135 to the Ferguson plc consolidated financial statements.

8 – Treasury shares

Details of Treasury shares are set out in note 26 on page 135 to the Ferguson plc consolidated financial statements.

9 – Own shares reserve

During the year, the Company contributed $35 million (2017: $8 million) of cash to its USA Employee Benefit Trust and $6 million (2017: $nil) to its Jersey Employee Benefit Trust to purchase shares. The Treasury shares held by both of these trusts have been consolidated within the Company's balance sheet as at 31 July 2018 and amount to $90 million (2017: $76 million).

10 – Share-based payments

The net profit and loss charge to the Company for equity-settled share-based payments was $nil (2017: $nil). The Company charged the full amount incurred for equity-settled share-based payments of $35 million (2017: $28 million) to its subsidiary undertakings.

11 – Contingent liabilities

Provision is made for the Directors' best estimate of known claims and legal actions in progress. The Company takes legal advice as to the likelihood of success of claims and actions and no provision is made where the Directors consider, based on that advice, that the action is unlikely to succeed or a sufficiently reliable estimate of the potential obligation cannot be made.

In addition, the Company has given certain banks and lenders authority to transfer at any time any sum outstanding to its credit against or towards satisfaction of its liability to those banks of certain subsidiary undertakings. The Company has also given indemnities and warranties to the purchasers of businesses from the Company and certain Group companies in respect of which no material liabilities are expected to arise.

The Company acts as a guarantor for the Group's UK defined benefit pension plan, which is disclosed in note 25 on pages 131 to 134 to the Ferguson plc consolidated financial statements.

12 – Employees, employee costs and auditor's remuneration

The average number of employees of the Company in the year ended 31 July 2018 was one (2017: one). Other employees of Group companies were seconded or assigned to the Company in the period in order to fulfil their duties or to carry out the work of the Company. Each of the Non Executive Directors of the Company has an appointment letter with the Company. The Executive Directors and certain other senior managers of the Group have assignment letters in place with the Company. Total employment costs of the Company for the period, including Non Executive Directors and seconded employees, were $3 million (2017: $3 million).

Fees payable to the auditor for the audit of the Company's financial statements are set out in note 4 on page 113 to the Ferguson plc consolidated financial statements.

13 – Dividends

Details of the Company's dividends are set out in note 9 on page 116 to the Ferguson plc consolidated financial statements.

14 – Related party transactions

The Company is exempt under the terms of FRS 101 from disclosing related party transactions with entities that are 100 per cent owned.

15 – Post-balance sheet events

Details of post-balance sheet events are given in note 34 on page 139 to the Ferguson plc consolidated financial statements.

Five-year summary

	2018 $m	2017 $m	2016 $m	2015 $m	Restated 2014 $m
Revenue					
USA	**16,670**	15,193	13,808	13,014	11,610
UK	**2,568**	2,548	2,915	3,100	3,043
Canada and Central Europe	**1,514**	1,543	1,602	1,775	2,321
Continuing operations	**20,752**	19,284	18,325	17,889	16,974
Trading profit					
USA	**1,406**	1,224	1,132	1,062	896
UK	**73**	96	108	140	158
Canada and Central Europe	**83**	71	77	86	118
Central and other costs	**(55)**	(50)	(66)	(67)	(57)
Continuing operations	**1,507**	1,341	1,251	1,221	1,115
Amortisation of acquired intangible assets	**(65)**	(81)	(70)	(64)	(24)
Impairment of goodwill and acquired intangible assets	**–**	–	(125)	(6)	–
Exceptional items	**(82)**	218	(6)	(3)	33
Operating profit	**1,360**	1,478	1,050	1,148	1,124
Net finance costs	**(53)**	(54)	(71)	(11)	(44)
Share of profit/(loss) after tax of associates	**2**	(1)	–	–	–
Impairment of interests in associates	**(122)**	–	–	–	–
Profit before tax	**1,187**	1,423	979	1,137	1,080
Tax	**(346)**	(370)	(307)	(335)	(327)
Profit from continuing operations	**841**	1,053	672	802	753
Profit/(loss) from discontinued operations	**426**	(133)	159	(409)	60
Profit for the year attributable to shareholders of the Company	**1,267**	920	831	393	813
Ordinary dividends	**(390)**	(328)	(350)	(345)	(318)
Special dividend	**(974)**	–	–	–	(493)
Total dividends	**(1,364)**	(328)	(350)	(345)	(811)
Net assets employed					
Intangible fixed assets	**1,716**	1,413	1,460	1,579	2,023
Property, plant and equipment	**1,086**	1,068	1,897	1,819	2,070
Other net assets, excluding liquid funds	**2,336**	2,768	1,721	1,922	1,981
	5,138	5,249	5,078	5,320	6,074
Financed by					
Share capital	**45**	45	45	45	45
Share premium	**67**	67	67	67	66
Retained earnings and other reserves	**3,946**	4,431	3,728	3,950	4,762
Equity attributable to shareholders of the Company	**4,058**	4,543	3,840	4,062	4,873
Net debt	**1,080**	706	1,238	1,258	1,201
Net assets employed	**5,138**	5,249	5,078	5,320	6,074

Continuing operations (unless otherwise stated)	2018	2017	2016	2015	Restated 2014
Organic revenue growth (ongoing)	**7.5%**	6.0%	3.3%	7.8%	5.9%
Gross margin (before exceptional items)	**29.2%**	29.0%	28.6%	28.3%	28.1%
Trading margin	**7.3%**	7.0%	6.8%	6.8%	6.6%
Headline earnings per share	**444.4c**	366.1c	342.7c	322.4c	284.4c
Basic earnings per share from continuing and discontinued operations	**515.7c**	366.1c	327.8c	151.6c	306.1c
Dividends per share (in respect of the financial year)	**189.3c**	156.4c	132.1c	135.6c	132.1c
Special dividend per share	**400.0c**	–	–	–	182.1c
Cover for ordinary dividends	**2.3**	2.3	2.6	2.4	2.2
Net tangible assets per ordinary share	**925.7c**	1,172.3c	891.4c	930.0c	1,067.4c
Return on gross capital employed	**22.7%**	18.6%	17.5%	16.2%	15.2%
Cash generated from operations ($m)	**1,323**	1,410	1,488	1,462	1,113
Average number of employees	**34,056**	33,511	32,269	31,033	29,596
Number of shares in issue at year-end (million)	**253**	267	267	267	267
Number of branches at year-end					
Continuing operations	**2,280**	2,310	2,498	2,480	2,444
Discontinued operations	**–**	239	256	427	436
Total branches	**2,280**	2,549	2,754	2,907	2,880
Pounds sterling translation rate					
Income statement/profit and loss	**0.74**	0.79	0.68	0.64	0.61
Balance sheet	**0.76**	0.76	0.76	0.64	0.59
Euro translation rate					
Income statement/profit and loss	**0.84**	0.91	0.90	0.85	0.73
Balance sheet	**0.86**	0.84	0.89	0.91	0.75
Canadian dollars translation rate					
Income statement/profit and loss	**1.27**	1.32	1.33	1.19	1.07
Balance sheet	**1.30**	1.25	1.30	1.31	1.09

Group companies

The Ferguson Group comprises a large number of companies. This list includes only those subsidiaries owned by the Company at 31 July 2018 which in the Directors' opinion principally affect the figures shown in the consolidated financial statements. A full list of subsidiary undertakings is detailed in the second list below and on the next page.

Principal subsidiary undertakings

Company name	Principal activity	Country of incorporation
Capstone Global Solutions AG	Operating company	Switzerland
Ferguson Enterprises Inc	Operating company	USA
Ferguson Finance (Switzerland) AG	Financing company	Switzerland
Ferguson Holdings (Switzerland) AG*	Investment company	Switzerland
Ferguson Group Services Limited	Service company	England and Wales
Wasco Holding B.V.	Operating company	The Netherlands
Wolseley Canada Inc.	Operating company	Canada
Wolseley UK Limited	Operating company	England and Wales
Wolseley Capital, Inc.	Financing company	USA
Wolseley Insurance Limited	Operating company	Isle of Man
Wolseley Investments, Inc.	Investment company	USA
Wolseley Limited*	Investment company	England and Wales

1. Shareholdings in companies marked * are held 100 per cent directly by Ferguson plc. The proportion of the voting rights in the subsidiary undertakings held directly by Ferguson plc do not differ from the proportion of the ordinary shares held. All other shareholdings in the above mentioned companies are held by intermediate subsidiary undertakings.
2. All shareholdings in the above subsidiary undertakings are of ordinary shares or equity capital.
3. All subsidiary undertakings have been included in the consolidation.

Full list of subsidiary undertakings

A full list of subsidiaries and companies in which a Ferguson Group company has a controlling interest and associated undertakings as at 31 July 2018. The country of incorporation and the effective percentage of equity owned (if less than 100 per cent) is also detailed below. Unless otherwise noted, the share capital comprises ordinary shares which are indirectly held by Ferguson plc.

Fully owned subsidiaries

893111 Canada Inc. (Canada)[(x)(10)]
A C Electrical Holdings Limited (England)[(ix)(21)]
A C Electrical Wholesale Limited (England)[(iii)(21)]
A C Ferguson Limited (Scotland)[(ii)(iii)(16)]
Advancechief Limited (England)[(ii)(iii)(2)]
Aircovent B.V. (Netherlands)[(iii)(28)]
AMRE Supply Canada Inc. (Canada)[(x)(10)]
AMRE Supply Inc. (Canada)[(x)(10)]
B Holding SAS (France)[(iii)(6)]
B Participations SAS (France)[(iii)(6)]
British Fittings Central Limited (England)[(ii)(iii)(2)]
British Fittings Company (North Eastern) Limited (England)[(ii)(ix)(2)]
British Fittings Group Limited (England)[(ii)(iii)(2)]
British Fittings Limited (England)[(ii)(iii)(2)]
Brokvarteret Komplementar ApS (Denmark)[(iii)(14)]
Brokvarteret P/S (Denmark)[(iii)(14)]
Broughton's Limited (England)[(ii)(iii)(2)]
Build Center Limited (England)[(ii)(iii)(2)]
Build.com, Inc. (USA)[(ix)(3)]
Builder Center Limited (England)[(ii)(iii)(2)]
Building & Engineering Plastics Limited (England)[(ii)(iii)(2)]
Capstone Global Solutions AG (Switzerland)[(iii)(1)]
Caselco Limited (England)[(ii)(iii)(2)]
Clawfoot Supply, LLC (USA)[(xii)(3)]
Clayton International, LLC (USA)[(xii)(3)]
Controls Center Limited (England)[(ii)(ix)(2)]
Crew-Davis Limited (England)[(ii)(iii)(2)]
Davidson Group Leasing Co., LLC (USA)[(xii)(3)]
Drain Center Limited (England)[(ii)(iii)(2)]
Energy & Process Corporation (USA)[(x)(3)]
FEI Ventures, LLC (USA)[(xii)(3)]
Ferguson Enterprises, Inc. (USA)[(x)(3)]
Ferguson Finance (Switzerland) AG (Switzerland)[(iii)(1)]
Ferguson Finance Limited (England)[(ii)(ix)(2)]
Ferguson Fire & Fabrication Inc. (USA)[(iii)(3)]
Ferguson Group Services Limited (England)[(iii)(2)]
Ferguson Holding A/S (Denmark)[(iii)(14)]
Ferguson Holdings (Switzerland) AG (Switzerland)[(i)(iii)(1)]
Ferguson Nordic Holdings ApS (Denmark)[(iii)(14)]
Ferguson Panama, S.A. (Panama)[(x)(4)]
Ferguson Property (Finland) Oy (Finland)[(iii)(25)]
Ferguson Property (Sweden) AB (Sweden)[(iii)(26)]
Ferguson Property Denmark A/S (Denmark)[(iii)(14)]
Ferguson Property Rover A/S (Denmark)[(iii)(14)]
Ferguson Receivables, LLC (USA)[(x)(3)]
Ferguson Sourcing (Switzerland) AG (Switzerland)[(iii)(1)]
Fusion Provida Holdco Limited (England)[(iii)(21)]
Fusion Provida UK Limited (England)[(iii)(21)]
G. L. Headley Limited (England)[(ii)(iii)(2)]
Glegg & Thomson Limited (Scotland)[(ii)(iii)(16)]
H.P. Products Corporation (USA)[(x)(3)]
Hall & Co. Limited (England)[(ii)(iii)(21)]
Health Equipment Hire Limited (England)[(ii)(iii)(2)]
Heating Replacement Parts & Controls Limited (England)[(ii)(iii)(2)]
Heatmerchants Limited (England)[(ii)(iii)(2)]
Het Onderdeel B.V. (Netherlands)[(iii)(18)]
HM Wallace, Inc. (USA)[(iii)(3)]
Home Outlet Online Limited (England)[(iii)(21)]
HP Logistics, Inc. (USA)[(x)(3)]
Improvement Brand Holdings, Inc. (USA)[(x)(3)]
Julise Limited (England)[(ii)(iii)(2)]
King & Company (1744) Limited (England)[(ii)(iii)(2)]
Living Direct, Inc. (USA)[(x)(3)]
M. A. Ray & Sons Limited (England)[(ii)(iii)(2)]
Matera Paper Company, Inc. (USA)[(x)(3)]
Melanie Limited (England)[(ii)(iii)(2)]
MPS Builders Merchants Limited (England)[(iii)(21)]
Nevill Long Limited (England)[(iii)(21)]
Ningbo Capstone Service Solutions Company Limited (China)[(iii)(19)]
Northern Heating Limited (Scotland)[(ii)(iii)(16)]
Northern Heating Supplies Limited (Scotland)[(ii)(iii)(16)]

Fully owned subsidiaries (continued)

Nu-Way Heating Plants Limited (England)(ii)(iii)(2)
O.B.C. Limited (England)(ii)(iii)(2)
O.B.C. Limited (Northern Ireland)(ii)(iii)(8)
Oil Burner Components Limited (England)(ii)(iii)(2)
P.D.M. (Plumbers Merchants) Limited (Scotland)(ii)(iii)(16)
Parts Center Limited (England)(ii)(iii)(2)
Pat Murphy Industrial (Sales & Service) Unlimited Company (Republic of Ireland)(iii)(5)
Pipeline Controls Limited (England)(ii)(iii)(2)
Plumb-Center Limited (England)(ii)(iii)(2)
Power Equipment Direct, Inc. (USA)(x)(3)
Promandis Limited (England)(ii)(iii)(2)
Reay Electrical Distributors Limited (England)(ii)(iii)(2)
Rosco Industrial Limited (Scotland)(ii)(iii)(16)
Roskilde Property Denmark A/S (Denmark)(iii)(14)
Safe Step Walk In Tub, LLC (USA) (xii)(27)
Sellers of Leeds (Group Services) Limited (England)(ii)(iii)(2)
Sellers of Leeds International Limited (England)(ii)(iii)(2)
Sellers of Leeds Limited (England)(ix)(21)
SEMSCO Barbados, LLC (USA)(ii)(x)(11)
Soak B.V. (Netherlands)(ii)(iii)(17)
Soborg Property Denmark A/S (Denmark)(iii)(14)
Stock Loan Services, LLC (USA)(xii)(3)
T & R Electrical Wholesalers Ltd (England)(iii)(21)
Tellum Construction, LLC (USA)(xii)(3)
Thames Finance Company Limited (England)(ii)(iii)(2)
Thomson Brothers Limited (Scotland)(iii)(16)
Uni-Rents Limited (England)(ii)(iii)(2)
Utility Power Systems Limited (England)(vi)(21)
Wasco Distributiecentrum B.V. (Netherlands)(iii)(18)
Wasco Energie Centrum B.V. (Netherlands)(iii)(18)
Wasco Groothandelsgroep B.V. (Netherlands)(iii)(18)
Wasco Holding B.V. (Netherlands)(iii)(18)
Wasco Twello B.V. (Netherlands)(iii)(17)
Wholesale Group Operations, Inc. (USA)(x)(3)
Wholesale Supplies (C.I.) Ltd (Jersey)(iii)(v)(9)
William Wilson & Co. (Aberdeen) Limited (Scotland)(ii)(iii)(16)
William Wilson & Company (Glasgow) Limited (Scotland)(ii)(iii)(16)
William Wilson (Rugby) Limited (England)(ii)(iii)(2)
William Wilson Holdings Limited (Scotland)(iii)(vi)(16)
William Wilson Ltd (Scotland)(iii)(16)
WM. C. Yuille & Company Limited (Scotland)(ii)(iii)(16)
Wolseley (Barbados) Ltd (Barbados)(x)(3)
Wolseley Bristol Limited (England)(ii)(iii)(2)
Wolseley Canada Inc (Canada)(x)(10)
Wolseley Capital, Inc. (USA)(x)(3)
Wolseley Centers Limited (England)(ii)(iii)(2)
Wolseley Centres Limited (England)(ii)(iii)(2)
Wolseley de Puerto Rico, Inc. (Puerto Rico)(i)(x)(3)
Wolseley Developments Limited (England)(ii)(iii)(2)
Wolseley Directors Limited (England)(ii)(iii)(2)
Wolseley ECD Limited (Northern Ireland)(ii)(iii)(8)
Wolseley Engineering Limited (England)(ii)(iii)(2)
Wolseley Europe Limited (England)(iii)(2)
Wolseley Finance (Isle of Man) Limited (Isle of Man)(ii)(ix)(xv)(7)
Wolseley Finance (Thames) Limited (England)(ii)(iii)(2)
Wolseley Finance (Theale) Limited (England)(ii)(vii)(2)
Wolseley Green Deal Services Limited (England)(iii)(xvii)(21)
Wolseley Group Holdings Limited (England)(iii)(2)
Wolseley Haworth Limited (England)(iii)(21)
Wolseley Holding A/S (Denmark)(iii)(14)
Wolseley Holdings (Ireland) (Republic of Ireland)(ii)(iii)(xv)(5)
Wolseley Holdings Canada Inc. (Canada)(xi)(10)
Wolseley Industrial Canada Inc. (Canada)(iii)(10)
Wolseley Insurance Limited (Isle of Man)(ix)(22)
Wolseley Integrated de Mexico, S.A. de C.V. (Mexico)(iv)(23)
Wolseley Integrated Services Inc. (Canada)(x)(10)
Wolseley Investments Limited (England)(ii)(iii)(2)
Wolseley Investments, Inc. (USA)(iii)(3)
Wolseley Limited (England)(i)(iii)(2)
Wolseley NA Construction Services, LLC (USA)(xii)(3)
Wolseley Nordic Holdings AB (Sweden)(iii)(26)
Wolseley Overseas Limited (England)(iii)(2)
Wolseley Pension Trustees Limited (England)(ii)(iii)(2)
Wolseley Properties Limited (England)(ii)(iii)(2)
Wolseley QUEST Limited (England)(ii)(iii)(2)
Wolseley Trinidad Ltd (Trinidad and Tobago)(iii)(13)
Wolseley UK Directors Limited (England)(ii)(iii)(21)
Wolseley UK Finance Limited (Guernsey)(ii)(iii)(xv)(15)
Wolseley UK Limited (England)(ix)(21)
Wolseley Utilities Limited (England)(iii)(21)
Wolseley-Hughes Limited (England)(ii)(iii)(2)
Wolseley-Hughes Merchants Limited (England)(ii)(iii)(2)
Wright (Bedford) Limited (England)(ii)(iii)(2)
Yorkshire Heating Supplies Limited (England)(ii)(iii)(2)

Controlling interests

Luxury for Less Limited (England, 88%)(viii)(12)
Wolseley (Shanghai) Holdings AG (Switzerland, 80%) (iii)(1)
Shanghai Du Te International Trading Company (China)(iii)(xvi)(20)

Associated undertakings

Group Silverline Limited (England)(xiv)(29)
Meier Tobler Group AG (Switzerland, 39%)(iii)(24)

Notes:
(i) Directly owned by Ferguson plc
(ii) Dormant
(iii) Ownership held in ordinary shares
(iv) Ownership held in class of A shares
(v) Ownership held in class of B Shares
(vi) Ownership held in classes of A and B shares
(vii) Ownership held in classes of A, B, C and D shares
(viii) Ownership held in classes of A1, A2, B, C, D, E, G shares
(ix) Ownership held in ordinary and preference shares
(x) Ownership held in common stock
(xi) Ownership held in common stock and preferred stock
(xii) Ownership held as membership interests
(xiii) Ownership held as partnership interests
(xiv) Ownership held as 100% of preference shares
(xv) Companies controlled by the Group based on management's assessment
(xvi) Ownership held 100% by Wolseley (Shanghai) Holdings AG
(xvii) Applied for strike off

Registered office addresses:
(1) Grafenauweg 10, CH-6301, Zug, Switzerland
(2) 1020 Eskdale Road, Winnersh Triangle, Wokingham, RG41 5TS, United Kingdom
(3) 12500 Jefferson Avenue, Newport News VA 23602, United States of America
(4) Avenida 2F Norte, Calle Matias Hernandez, Rio Abajo, Panama City, Panama
(5) 25/28 North Wall Quay, Dublin 1, Ireland
(6) 3 avenue de l'Opera, 75001, Paris, France
(7) 33-37 Athol Street, Douglas, IM1 1LB, Isle of Man
(8) 42-46 Fountain Street, Belfast, Northern Ireland, BT1 5EF, United Kingdom
(9) 47 Esplanade, St Helier, Jersey, JE1 0BD, Jersey
(10) 880 Laurentian Drive, Burlington ON L7N 3V6, Canada
(11) 9501 Highway, 92 East, Tampa FL FL 33610, United States of America
(12) Attleborough House, Townsend Drive, Attleborough Fields Industrial Estate, Nuneaton, Warwickshire, CV11 6RU, United Kingdom
(13) Building no 6, Fernandes Industrial Centre, Eastern Main Road, Laventille, Port of Spain, Trinidad and Tobago
(14) Sundkrogsgade 21, 2100, København, Denmark
(15) Glategny Court, Glategny Esplanade, St Peter Port, GY1 1WR, Guernsey
(16) Hareness Road, Altens Industrial Estate, Aberdeen, AB12 3QA, United Kingdom
(17) Koppelstraat 9, 7391 AK, Twello, Netherlands
(18) Leigraaf 54, 7391 AL, Twello, Netherlands
(19) Room 1203, Building 1 (Beilun Financial Building), 527 Baoshan Road, Xinqi, Beliun District, Ningbo, China
(20) Room 306-1 Building 2, 3000 Yixian Road, Baoshan district, Shanghai, China
(21) The Wolseley Center, Harrison Way, Leamington Spa, CV31 3HH, United Kingdom
(22) Tower House, Loch Promenade, Douglas, Isle of Man, IM1 2LZ, Isle of Man
(23) Carretera a General Cepeda 8395, Derramadero, Coahuila, 25300, Mexico
(24) Bahnstrasse 24, 8603 Scherzenbach, Switzerland
(25) Kaisaniemenkatu 4, Helsinki, 00100, Finland
(26) Box 162 85, 103 25, Stockholm, Sweden
(27) 402 BNA Drive, Suite 350, Nashville, TN 37217, United States of America
(28) Kiotoweg, 411, 3047 BG, Rotterdam, Netherlands
(29) Boundary Way, Lufton Trading Estate, Yeovil, Somerset, BA22 8HZ, United Kingdom

Shareholder information

This section provides shareholders with key information to assist in the management of their shareholding. If you have any questions which are not answered below or on the Ferguson plc website **www.fergusonplc.com**, you can contact Equiniti (our registrar) or Ferguson's Investor Relations department at investor@fergusonplc.com.

Financial calendar

Key dates for 2018/19 are set out below. Please note that such dates are based on current expectations and all future dates should be considered as provisional and subject to change.

29 November 2018, 12.30pm Swiss time	Ferguson plc 2018 Annual General Meeting
4 December 2018	Announcement of first-quarter trading results
5 December 2018	2018 final dividend payment date
26 March 2019	Announcement of Half Year results for the period ending 31 January 2019
30 April 2019	2019 proposed interim dividend payment date
18 June 2019	Announcement of third-quarter trading results
31 July 2019	End of financial year 2018/19
1 October 2019	Final results for the year ending 31 July 2019

Ferguson shares

Share price history

Set out below is a graph showing the performance of Ferguson's share price (using normalised share price data) compared to the FTSE 100 Index during the financial year.

FTSE 100 Index – Ferguson and FTSE 100

Recent share capital history

Since 2009, there have been five events affecting the share capital of Ferguson plc:

2018 – Special dividend, share consolidation and consequential redenomination of shares as $11\frac{227}{563}$ pence.

2013 – Special dividend, share consolidation and consequential redenomination of shares as $10\frac{53}{66}$ pence.

2012 – Special dividend, share consolidation and consequential redenomination of shares as $10\frac{5}{11}$ pence.

2010 – Scheme of arrangement and redomiciliation.

2009 – Share capitalisation and rights issue.

Further details can be found on the Ferguson plc website **www.fergusonplc.com**.

Ordinary shares and ADRs

Ferguson shares are listed on the London Stock Exchange using code "FERG".

Ferguson also has an ADR programme which trades under the symbol "FERGY". The ADRs are listed on the premier tier of the over-the-counter market "OTCQX". For further information please contact the ADR Depositary:

Deutsche Bank Trust Company Americas
Transfer agent: American Stock Transfer & Trust Company
Operations Center
6201 15th Avenue
Brooklyn, NY 11219
Email enquiries: DB@astfinancial.com

Telephone: Within the USA toll free: 866 249 2593
International: +1 718 921 8124
Website: www.adr.db.com

Dividend

Proposed final dividend

131.9 cents per share

The Directors have recommended a final dividend of 131.9 cents per share. Payment of this dividend is subject to approval at the 2018 AGM. Dividends will be declared in US dollars and shareholders will be able to elect to receive payment in US dollars.

Key dates for this dividend

Ex-dividend date	25 October 2018
Record date	26 October 2018
Last day for DRIP and USD currency elections	14 November 2018
USD/pounds sterling exchange rate announcement	23 November 2018
AGM (to approve final dividend)	29 November 2018
Payment date	5 December 2018
DRIP certificates posted/CREST accounts credited	10 December 2018

Dividend history

Details of dividends paid in the financial years 2016/17 and 2017/18 are set out below. For details of other historical payments, please refer to the Ferguson plc website **www.fergusonplc.com** under "Dividends" in the "Shareholder centre" section.

Financial year	Dividend period	Dividend amount (per share)	Record date	Payment date	DRIP share price
2017/18	Special 2018	400.00 cents[1]	8 June 2018	29 June 2018	£61.3223
2017/18	Interim 2018	57.40 cents[2]	6 April 2018	27 April 2018	£56.1354
2016/17	Final 2017	73.33 pence	27 October 2017	1 December 2017	£53.9614
2016/17	Interim 2017	36.67 pence	7 April 2017	28 April 2017	£49.3796

1. Shareholders who elected to receive the 2018 special dividend of 400.00 cents per share in pounds sterling received 300.83 pence per share.
2. Shareholders who elected to receive the 2018 interim dividend of 57.40 cents per share in pounds sterling received 40.06 pence per share.

Dividend payment

1. Direct payment to your bank: You are encouraged to receive your dividends directly to your bank or building society account. This is more convenient and helps reduce the risk of cheques becoming lost or delayed in the post. The associated dividend confirmation will still be sent direct to your registered address. To switch to this method of payment you can download a dividend mandate form from the Shareview website (www.shareview.co.uk). Alternatively, you can contact Equiniti by telephone who will also be able to assist with any questions you may have.

2. USD election: Dividends are declared in US dollars. However, the default payment currency remains in pounds sterling. Should you wish to elect to receive your dividend in US dollars, further information can be found on the Ferguson plc website, Shareview website or you can contact Equiniti by telephone.

3. Overseas payment service: If you wish to receive your dividends in a currency other than pounds sterling or US dollars, Equiniti offers an Overseas Payment Service which is available in certain countries. This may make it possible to receive dividends direct into your bank account in your local currency[1]. Further information can be found on the Ferguson plc website, Shareview website or you can contact Equiniti by telephone.

4. Dividend Reinvestment Plan ("DRIP"): The Company offers a DRIP which gives shareholders the opportunity to use their dividend to purchase further Ferguson shares. Instead of receiving cash, shareholders receive as many whole shares as can be bought with their dividend, taking into account related purchase costs. Any residual cash will be carried forward and added to their next dividend.

If you wish to join the DRIP, you can download copies of the DRIP terms and conditions and the DRIP mandate form from the Shareview website. Simply complete the DRIP mandate form and return it to Equiniti. Should you have any questions on the DRIP or wish for a paper mandate form to be sent to you, please contact Equiniti on 0371 384 2934. Please note that if you wish to join the DRIP in time for the 2018 final dividend, our Registrars, Equiniti, must have received the instruction by 14 November 2018. Instructions received by Equiniti after this date will be applied to the next dividend.

1. Please note that a payment charge would be deducted from each individual payment before conversion into your local currency.

Shareholder communications

Annual General Meeting ("AGM")

The 2018 AGM will be held on Thursday, 29 November 2018 at IBZ Schulen AG, Landis + Gyr-Strasse 1, CH-6300 Zug, Switzerland and will commence at 12.30pm, Swiss time. An audio visual link to the meeting is proposed to be available at The Lincoln Centre, 18 Lincoln's Inn Fields, London WC2A 3ED, United Kingdom commencing at 11.30am (UK time).

The AGM provides an opportunity each year for shareholders to ask questions about the business in the Notice of AGM and to raise matters about the business of Ferguson. Full details of the AGM can be found in the Notice of AGM. Venue location maps are provided below.

Meeting with the UK Shareholders' Association

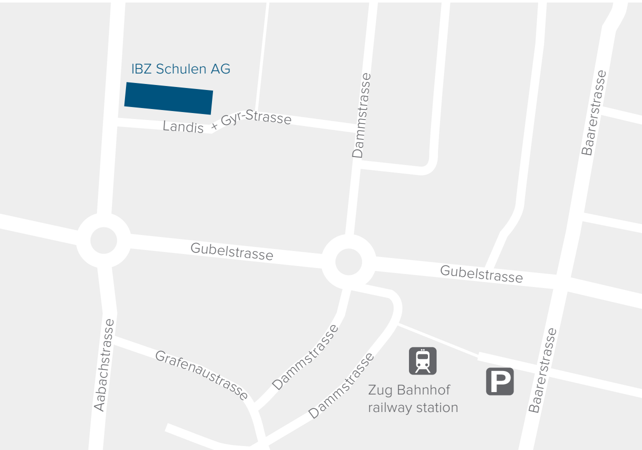
At 11.00am UK time on Wednesday, 21 November 2018, John Martin, Group Chief Executive, and Mark Fearon, Director of Communications and Investor Relations, will host a meeting with members of the UK Shareholders' Association. The meeting will be held at the offices of Bank of America Merrill Lynch, 2 King Edward Street, London EC1A 1HQ, United Kingdom.

Whilst the meeting is being organised by the UK Shareholders' Association all non-institutional or private shareholders of Ferguson plc are welcome to attend the meeting. John Martin will give a short update on the Group's strategy and financial performance in 2018 and shareholders will have the opportunity to ask questions in person in advance of the AGM.

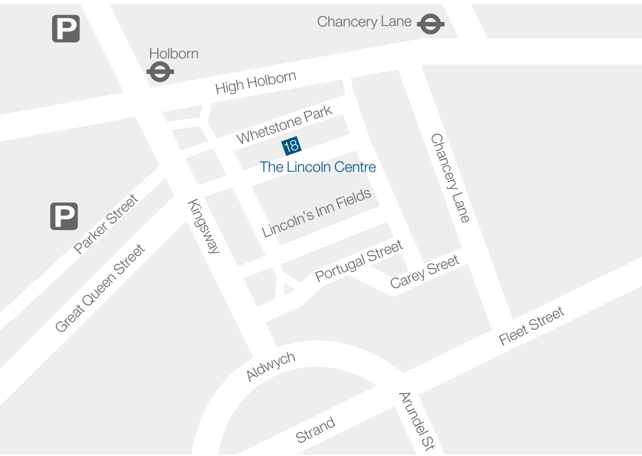
Shareholders who would like to attend should contact Ferguson plc Investor Relations at investor@fergusonplc.com. Places are limited and will be allocated on a first come, first served basis.

This meeting is not part of the 2018 Annual General Meeting of Ferguson plc.

Zug: AGM venue



London: audio visual link venue



Website

See the inside front cover for further details about the Ferguson plc website.

Annual Report

Ferguson publishes an Annual Report every year. It is sent to shareholders through the post as a printed document unless the shareholder has chosen to receive e-communications (see below).

E-communications

The Company offers shareholders the opportunity to access shareholder documents, such as annual reports and notices of AGM, via e-communications rather than receiving printed documents in the post. You will be notified by email as soon as shareholder documents are available on the website.

Managing your shares

Share registration enquiries

To manage your shareholding, please contact Equiniti. They will be able to assist you in various matters including:

- changing your registered name and address;
- consolidating share certificates;
- managing your dividend payments;
- notifying the death of a shareholder;
- registering a lost share certificate and obtaining a replacement;
- registering for electronic communications; and
- transferring your shares.

You can contact Equiniti in writing, by telephone or online. Further contact details are set out below. Please use your shareholder reference number when contacting Equiniti. This can be found on your share certificate or dividend confirmation.

If you are not already registered to view your shareholding online, you will need to register via Equiniti's Shareview website.

Equiniti

Address: Equiniti (Jersey) Limited, c/o Equiniti (8063)
PO Box 75
26 New Street
St Helier
Jersey JE4 8PP
Channel Islands

Telephone: 0371 384 2934 and from outside the UK +44 (0)121 415 7011

Website: www.equiniti.com
Shareview website: www.shareview.co.uk/myportfolio

Share dealing

If you wish to buy or sell Ferguson shares and hold a share certificate, you can do this:

- by using the services of a stockbroker or high street bank; or
- through telephone or online services.

Equiniti also offer a share dealing service to UK-based shareholders. Further details of their telephone, internet and postal dealing services can be obtained from their Shareview website (www.shareview.co.uk) or by calling 03456 037 037.

Group information

Company details

Registered Office
Ferguson plc
26 New Street
St Helier
Jersey
JE2 3RA
Channel Islands

Registration No. 106605 Jersey

Ferguson Corporate Head Office
Ferguson plc
Grafenauweg 10
CH-6301
Zug
Switzerland

Telephone: +41 (0) 41 723 2230
Fax: +41 (0) 41 723 2231

Ferguson Group Services Office
1020 Eskdale Road
Winnersh Triangle
Wokingham RG41 5TS

Telephone: +44 (0) 118 927 3800

Website
www.fergusonplc.com

Company contacts

Investor relations (investor@fergusonplc.com)
Group Director of Communications and Investor Relations
Mark Fearon

Company secretariat
Group Company Secretary
Graham Middlemiss

Company advisers

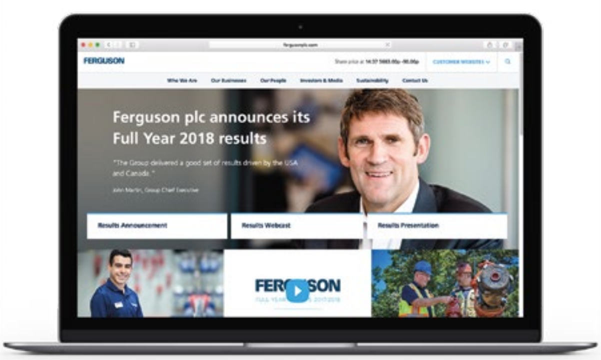
Auditor
Deloitte LLP

Public relations
Brunswick

Corporate brokers
Bank of America Merrill Lynch
Barclays

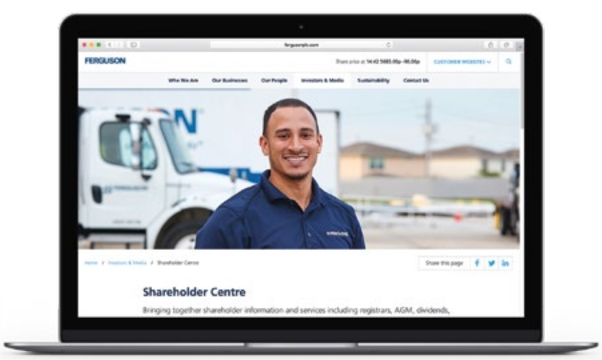
Solicitor
Freshfields Bruckhaus Deringer LLP

Stay informed



Main corporate site
www.fergusonplc.com

Key sections include Our businesses, Investors and media and Sustainability. There is also information on our strategy and links to our business unit websites. Site tools include information pack download, alert services and an option to receive content feeds.



Shareholder information section
www.fergusonplc.com/en/investors-and-media/shareholder-centre.html

Visit our Investor and media centre on our corporate website to stay up to date on Ferguson's results, financial calendar and latest press releases. Within the Investor and media centre you will find the Shareholder centre where you will find information on the AGM, dividends, electronic communications, share price and managing your shares.

Sustainability data assurance

We engaged PricewaterhouseCoopers LLP ('PwC') to undertake a limited assurance engagement, reporting to Ferguson plc only, using International Standard on Assurance Engagements ('ISAE') 3000 (Revised): 'Assurance Engagements Other Than Audits or Reviews of Historical Financial Information' and ISAE 3410: "Assurance Engagements on Greenhouse Gas Statements" over the sustainability data on page 43, that have been highlighted with the symbol "†". They have provided an unqualified opinion in relation to the relevant data and their full assurance opinion is available at **www.fergusonplc.com/en/sustainability.html**.

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks. Non-financial performance information, including greenhouse gas quantification in particular, is subject to more inherent limitations than financial information. It is important to read the selected sustainability data information contained in the Annual Report and Accounts 2018 in the context of PwC's full limited assurance opinion and Ferguson's Basis of Reporting, which is also available at **www.fergusonplc.com/en/sustainability.html**.

Forward-looking statements

Certain information included in this Annual Report and Accounts 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 market conditions and pressures on margins, changes in the level of litigation, employee motivation, the performance and resilience of the Company's systems and infrastructure, the level of government regulation and financial risks (such as fluctuations 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 Annual Report and Accounts are based upon information known to the Company on the date of this Annual Report and Accounts. 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 Guidance and the Transparency Rules of the Financial Conduct Authority), the Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. Nothing in this Annual Report and Accounts shall exclude any liability under applicable laws that cannot be excluded in accordance with such laws.

Credits
Design and production: Radley Yeldar
www.ry.com

Photography: Andy Wilson

Paper
This report is printed on Revive 50 Silk paper and cover board, with Revive 100 offset used in the financial section. Revive 50 Silk is made from 25 per cent de-inked post-consumer waste, 25 per cent unprinted pre-consumer waste and 50 per cent virgin fibre.

Revive 100 offset is made from 100 per cent de-inked post consumer waste. Both products are fully biodegradable and recyclable and produced in mills which hold IS0 9001 and ISO 14001 accreditation.

MIX
Paper from responsible sources
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FSC
www.fsc.org

Printing
This publication is produced by a CarbonNeutral company and Carbon Balanced with World Land Trust.

Balancing is delivered by World Land Trust, an international conservation charity, who offset carbon emissions through the purchase and preservation of high conservation value land.

Through protecting standing forests, under threat of clearance, carbon is locked in that would otherwise be released. These protected forests are then able to continue absorbing carbon from the atmosphere, referred to as REDD (Reduced Emissions from Deforestation and forest Degradation). This is now recognised as one of the most cost-effective and swiftest ways to arrest the rise in atmospheric CO_2 and global warming effects. Additional to the carbon benefits is the flora and fauna this land preserves, including a number of species identified at risk of extinction on the IUCN Red List of Threatened Species.

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FERGUSON

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