

A simpler, stronger business



Welcome to Ferguson

IFC–53

Strategic report

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+ Pages 2 and 3

A year of significant change and considerable progress

Gareth Davis
Chairman



+ Pages 22 to 25

A strong operating performance

Mike Powell
Group Chief Financial Officer

+ Pages 26 to 41

Making a difference through our vision, mission and values



+ Pages 6 to 10

Creating a simpler, stronger business dedicated to service



John Martin
Group Chief Executive

A simpler, stronger business

John Martin, our Group Chief Executive, outlines the strengths of our business in his review.

[+ Pages 6 to 10](#)

Throughout the Regional performance and overview section we feature examples of our values in action.

[+ Pages 26 to 41](#)

Over several years **we have simplified our business to make it stronger.**

We offer the best support, advice and widest range of specialist plumbing and heating products and we have focused on key markets which offer the greatest growth opportunities.

Across these markets, we pride ourselves on our exceptional customer service. **The values we are driving across the business underpin the way we work and help us to achieve our vision to be a trusted partner and deliver the best service** to customers in our industry.

Chairman's statement

A year of significant change and considerable progress



Ferguson delivered a strong operating performance in the year despite mixed market conditions, with the growth rate in our US markets, in particular, moderating in the second half. We have continued to execute our strategies and generate further market share gains and profitable growth.

2019 has been an important year for the Group as we have continued to focus our strategy on the excellent growth opportunities that exist in our markets in the USA and Canada. In September we announced our proposal to demerge Wolseley UK which will enable it to pursue its independent strategy as a standalone company (you can read more about this in the Chief Executive's Review on pages 6 to 10).

With Ferguson's increasing geographic focus on North America, we have continued to make excellent progress on reshaping the Board this year to ensure we have the right balance of Executive and Non Executive skills and experience to support the business over the long term. This is discussed in more detail below.

The Board has kept our listing structure under review over several years. In light of the Group's ongoing focus on the USA and Canada, the Board is again assessing the most appropriate listing structure for the Group going forward. A range of options and associated costs and benefits will be assessed and the Company will further consult with shareholders in due course.

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 line with these capital priorities the Board is recommending a final dividend of 145.1 cents per share (2017/18: 131.9 cents per share), to be paid on 28 November 2019 to shareholders on the register at 25 October 2019. This will bring the total dividend for the year to 208.2 cents per share (2017/18: 189.3 cents per share) representing a year-on-year increase of 10.0 per cent. 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. The dividend is covered 2.5 times by headline earnings per share.

The Group's cash generation has been strong, and the Company ended the year with a net debt to adjusted EBITDA ratio of 0.7 times. In June, we announced a \$500 million share buy back programme which we expect to complete over the next 12 months.

Board changes

In September, we announced that John Martin will step down as Chief Executive on 19 November 2019. John joined the Board as Chief Financial Officer in 2010 before being appointed Group Chief Executive in 2016. During his tenure the Group has been significantly simplified, exiting less attractive markets and focusing resources on those markets where the Company is best equipped to win. John's contribution to Ferguson has been outstanding for nearly a decade and he leaves the business in great shape. We wish him well for the future.

The Board is delighted that Kevin Murphy will succeed John as Chief Executive in November. Kevin, a US national based in Virginia, was appointed Chief Executive of Ferguson Enterprises in the USA and joined the Board in August 2017. Under his leadership Ferguson has continued to gain market share and generate profitable growth.

Financial highlights

Statutory financial results

\$22,010m

Revenue

+6.1% (2017/18: \$20,752m)

481.3c

Basic earnings per share

-6.7% (2017/18: \$515.7c)

\$1,324m

Profit before tax

+11.5% (2017/18: \$1,187m)

208.2c

Ordinary dividend per share

+10% (2017/18: 189.3c)

He has a wealth of operational experience gained in the plumbing and heating industry in the USA and joined the business through an acquisition of his family's Waterworks business, Midwest Pipe and Supply, in 1999. He has a strong track record of delivering results having previously served as Ferguson's Chief Operating Officer for 10 years.

In May we announced the appointment of Geoff Drabble as a Non Executive Director. Geoff will succeed me as Chairman after the 2019 Annual General Meeting ("AGM"), subject to shareholder approval. I have served as a Non Executive Director of Ferguson for 16 years including nearly nine years as the Company's Chairman and it is the right time for me to hand over the Chair. Geoff joins Ferguson following a 12-year period as Chief Executive of Ashted Group, the FTSE 100 industrial equipment rental company. He was previously an executive director of The Laird Group and held a number of senior management positions at Black & Decker. We are delighted to welcome Geoff to the Board of Ferguson. His record of value creation is outstanding and he brings a wealth of experience in the distribution, technology and manufacturing sectors, particularly in the USA.

Darren Shapland will be stepping down as a Non Executive Director at the AGM in November. The Board thanks him for his significant contribution to the Company over the last six years. Darren's responsibilities as Chairman of the Audit Committee will be taken on by Alan Murray the Senior Independent Director. Alan, a US resident, is a Chartered Management Accountant with considerable financial, operational and international experience within global businesses including 19 years at Hanson plc, with five years as CEO.

During the year two other Non Executive Directors joined the Board. Cathy Halligan joined in January 2019. She is a US citizen and currently serves on the Board of two NASDAQ-listed companies: Ulta Beauty, the omni-channel retailer; and FLIR Systems, a global thermal imaging, infrared technology company. Cathy previously worked for Walmart for five years where she held Executive roles across marketing and e-commerce, including Chief Marketing Officer for Walmart.com. Cathy has extensive digital transformation, marketing and Board experience. In February Tom Schmitt, a US citizen, was appointed to the Board and is currently Chairman and Chief Executive of Forward Air Corporation, the NASDAQ-listed premium ground transportation company. From 2013 to 2016 Tom served as a Non Executive Director of Zooplus AG, the e-commerce based provider of pet foods and supplies listed on the Frankfurt Stock Exchange. Tom has significant operational experience of running large international logistics and supply chain businesses.

Change of corporate headquarters

In May, following shareholder approval, the Company changed to a new corporate structure moving the Group's headquarters and the tax residence of its holding company from Switzerland to the UK. This further simplified the Group's corporate structure following recently announced Swiss tax reform. This change also allows us to hold the AGM in London on 21 November 2019. The Board and I are greatly looking forward to meeting with shareholders in person at the event this year.

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 54 to 106. 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 continue to deliver on its full potential. Our consistent strong performance, together with continued rapid execution of our strategy, ensures the Board continues to look to the future with confidence.

And finally, since this is my last letter to you as Chairman, it has been a huge privilege for me to have served this great Company and you as shareholders. It's the right time for me to step down with the business performing well, a clear strategy and a sound platform on which to generate substantial growth in the future. I would like to take this opportunity to thank my Board colleagues, the leadership team and, above all, our incredible associates for their passion, commitment and hard work which have been instrumental to our success. I strongly commend my proposed successor, Geoff Drabble to you and Kevin Murphy, Ferguson's new Chief Executive. The Board has made excellent choices in both of them and I have every confidence that together they will be superb stewards of the Company in the future.



Gareth Davis
Chairman

Alternative performance measures

\$21,771m

Ongoing revenue¹
+7.1% (2017/18: \$20,334m)

29.4%

Ongoing gross margin¹
+0.1% (2017/18: 29.3%)

\$1,601m

Ongoing trading profit¹
+7.2% (2017/18: \$1,493m)

517.4c

Headline EPS¹
+16.4% (2017/18: 444.4c)

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 notes 2 and 3 on pages 118 to 122.

Ferguson at a glance

A more focused business

Ferguson plc is a 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”) markets.

We operate nine strategic business units (“SBUs”) in the USA providing a broad range of plumbing and heating products and solutions.

These are delivered through specialist sales associates, counter service, showroom consultants and e-commerce.

Our nine SBUs are organised by customer requirements for strategic planning purposes. Blended Branches mainly comprises three principal SBUs: Residential Trade, Residential Showroom and Commercial. In certain markets where it is more efficient to do so, we serve our customers through a Blended Branches location rather than a standalone business unit.

For more information on our SBUs

+ Pages 26 to 41

For more information on the markets of our SBUs

+ Page 7

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.

20%

of total US revenue



Residential Showroom

Operates a national network of 277 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.

14%

of total US revenue

eBusiness

Sells home improvement products directly to consumers and trade customers online through various websites. The primary brand is Build.com and the business uses the same distribution network as the trade businesses.

8%

of total US revenue

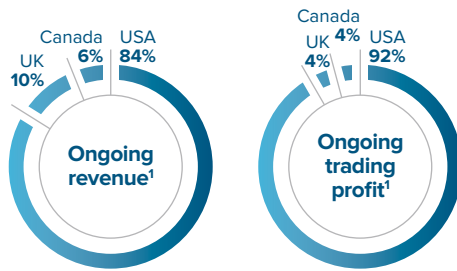
HVAC

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

9%

of total US revenue

Group



USA

\$18,358mOngoing revenue¹
(2017/18: \$16,670m)**8.2%**Ongoing trading margin¹
(2017/18: 8.4%)

UK

\$2,222mOngoing revenue¹
(2017/18: \$2,472m)**3.1%**Ongoing trading margin¹
(2017/18: 2.9%)

Canada

\$1,191mOngoing revenue¹
(2017/18: \$1,192m)**5.6%**Ongoing trading margin¹
(2017/18: 5.9%)

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.

15%

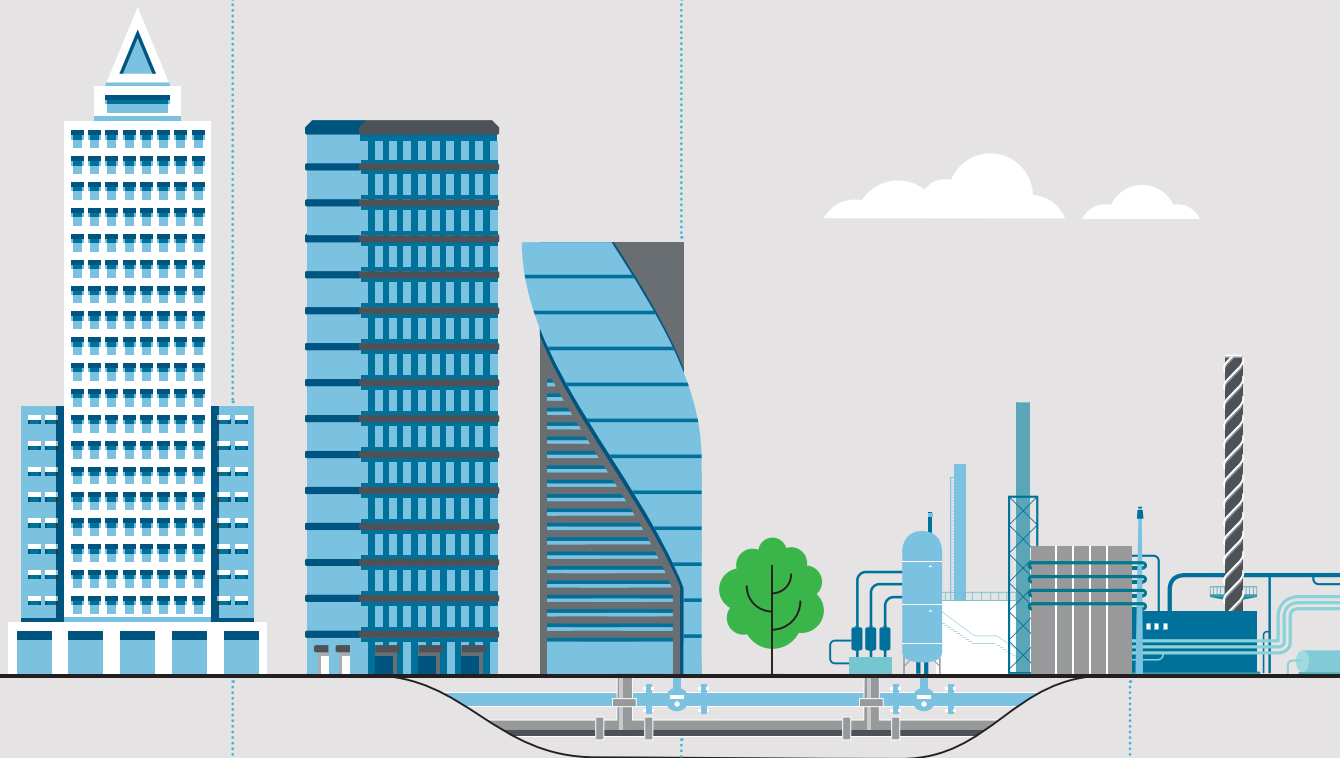
of total US revenue

Facilities Supply

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.

5%

of total US revenue



Fire and Fabrication

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

4%

of total US revenue

Waterworks

Distributes pipes, valves and fittings ("PVF"), hydrants, meters and related water management products alongside related services including water line tapping and pipe fusion.

17%

of total US revenue

Industrial

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.

8%

of total US revenue

1. 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 notes 2 and 3 on pages 118 to 122.

Group Chief Executive's review

Significant progress in executing our strategy



The Group generated another strong operating performance despite a slowing macroeconomic environment in the second half of the year.

Ongoing revenue increased to \$21.8 billion and ongoing trading profit increased by \$108 million to \$1.6 billion compared to last year. Cash generation was excellent and the Group continues to operate with a strong balance sheet. We made further excellent progress on executing our strategy and we continue to focus on developing our businesses in the USA and Canada where we see considerable opportunities for profitable growth. You can read about our strategic priorities and some of our key achievements this year on pages 12 and 13.

A simpler, stronger and more profitable business

We have substantially simplified our business over the last 11 years, focusing where we are best equipped to win, to become stronger and more profitable as shown in figure 1. Today we have an attractive business model that combines fragmented markets, a differentiated service offering, fantastic growth opportunities and strong, consistent returns for shareholders. These are discussed in more detail over the next few pages.

1. Fragmented markets

Today, Ferguson is focused on 14 businesses across three countries where we are well-equipped to win and make attractive returns. In the USA we operate nine strategic business units with a number one or two market position in the majority of them as shown in figure 2. There is a significant opportunity for strong growth and continued consolidation within each of these large, fragmented markets. Many customer projects require a range of products and services from across our business units and we leverage our scale and expertise across the organisation for the benefit of our customers, which provides the opportunity to make attractive returns for our shareholders.

We benefit from significant synergies as shown in the shared infrastructure table (figure 3), to help lower US costs and improve margins. We have chosen to operate in these markets because we can generate strong growth, decent gross and net margins and good returns on capital in each of these businesses, which is good for our customers, suppliers, associates and shareholders.

Figure 1: How we have improved our business

		2008	2019
Simpler	Business units	45	14
	Number of countries	27	3
	Presentational currency	£	\$
Stronger	Net debt: adjusted EBITDA	2.7x	0.7x
	Operating leases	(\$3.0bn)	(\$1.1bn)
	Pensions (deficit)/surplus	(\$0.5bn)	\$0.2bn
More profitable	Return on gross capital employed ¹	12.5%	26.2%
	Ongoing gross margin ¹	27.7%	29.4%
	Ongoing trading profit ¹	\$920m	\$1,601m

1. 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 notes 2 and 3 on pages 118 to 122.

Figure 2: Strong positions in fragmented markets* in the USA

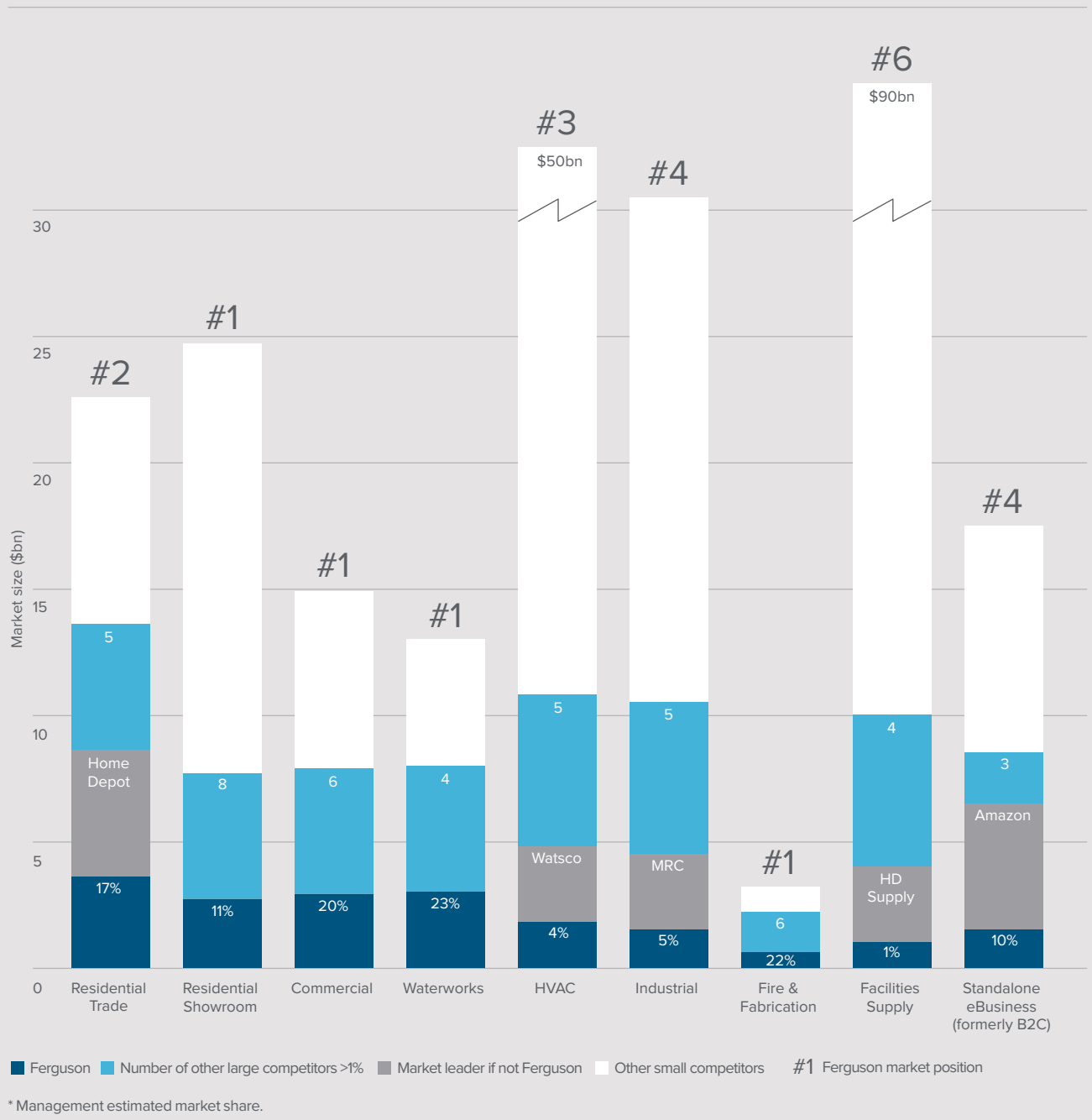


Figure 3: US shared infrastructure

The chart below shows the shared infrastructure between our strategic business units.

Shared...	Residential Trade	Residential Showroom	Commercial	Waterworks	HVAC	Industrial	Fire and Fabrication	Facilities Supply	Standalone eBusiness
Branches	Significant		Significant	Partial	Partial	Partial	Partial	Significant	
Distribution centres	Significant	Significant	Significant		Significant	Significant	Significant	Significant	Significant
ERP*	Significant	Significant	Significant	Significant	Significant	Significant	Significant		
Sourcing	Significant	Significant	Significant	Partial	Partial	Partial	Significant	Partial	Partial
Back office	Significant	Significant	Significant	Significant	Significant	Significant	Significant	Significant	
Own brand	Significant	Significant	Significant		Partial		Significant	Partial	Significant
Sales associates	Significant	Partial	Significant		Partial	Partial		Partial	
Other large competitors	Significant	Significant	Significant	Partial	Partial	Partial			Partial

■ Significant shared infrastructure ■ Partial shared infrastructure * Enterprise resource planning.

Group Chief Executive’s review (continued)

Figure 4: We differentiate ourselves through the unrivalled service we provide to our customers in the USA

Our customers return to us day after day for our expertise and relentless focus on service. Below are some examples of how we support our customers to deliver a wide variety of projects, from small residential repair jobs to major new construction work.

2. Differentiated service offering and dedicated associates

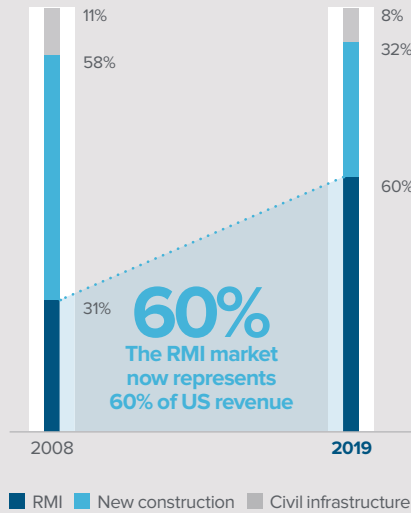
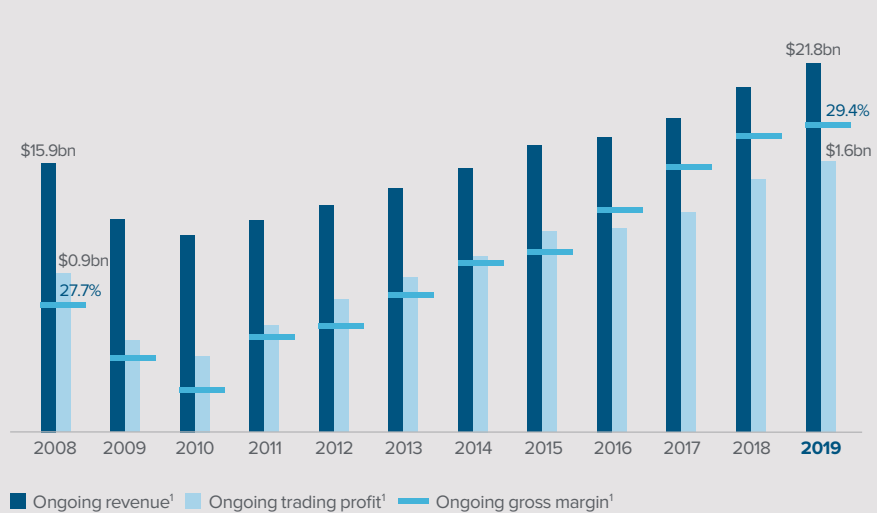
We have a highly valued and differentiated service offering, providing support for our customers’ projects and delivered by the best associates in our industry (see customer service in the KPI section on pages 20 and 21). Our customers are not completing a transaction, they are building, renovating, developing or installing projects in challenging environments to tight timescales, and their wants are complex.

Basic building blocks of our service include excellent availability, quick and reliable delivery, account-based credit and a large and convenient branch network. However, to keep our sustainable competitive advantage we must fulfil our customers’ “wants” (see figure 4). We provide unique value-added services, combined with industry leading service levels from our associates, to take market share and continue our sustainable, profitable growth. For example:

- We offer unrivalled delivery and pick-up options for our customers, some of whom want to come into the branch and get advice from our very knowledgeable associates.
- “Pro Pick-up” is a one-hour pick-up service available in 617 branches across the USA for those customers who are particularly time sensitive.
- Other deliveries can be set at later dates, for specific locations and times on different job sites and we offer specialist vehicles for products that require them.
- Approximately 50 per cent of US revenue comes through working with our customers when they are bidding or tendering for work. Our 2,000 sales associates work hard to understand our customers’ needs, identify the most appropriate products, source and price them. We help our customers win work and when they are successful, we are too.
- We operate a 24/7 water heater emergency support service across more than 150 branches focused on commercial properties. We deliver the water heaters with all the required fittings and arrange for the removal of the broken-down equipment.



After-sales support	Delivery options	Bidding and tendering	Sales channels
No hassle returns	Call off options (order book)	Value engineering	Inside sales
Credit	Multiple delivery locations	Take-off software	Online and EDI
Warranty support	Same-day delivery	Project-specific tendering	Outside field sales support
Project-based billing	Specialist delivery e.g. crane & FLT trucks	Customised solutions	Call centres
		Commercial water heaters	e-commerce call centre
Pick-up options	Product information	Kits	Showroom consultancy
24/7 secure access	Technical data and rich content	Pre-assembled units	“Provisions” bespoke catalogue/order service
Scheduled forward delivery dates		Fabrication	Appliance installation services
One-hour “Pro Pick-up”	Branch services	Valve actuation	Project management
	Product advice	Sourcing	Design services
	Emergency out of hours	Own brand	
		Exclusive distribution	
		Sourcing of non-stock items	

Figure 5: Focus on US RMI market**Figure 6: Great growth opportunities: Consistent Group revenue, gross margin and profit growth**

3. Growth opportunities

Our principal markets have good demographics which support continued growth. Population growth and expansion of household formation provide underlying demand for new homes and consumers demand more comfortable and better equipped homes and buildings (see Marketplace overview on page 11). Ferguson has a strong sales culture and our teams work hard to generate profitable growth above the market. There are also plenty of opportunities for profitable bolt-on acquisitions.

The Group is primarily focused on the repair, maintenance and improvement (“RMI”) market, which typically involves smaller, non-discretionary projects with short lead times. The RMI market has traditionally been less volatile than the new construction market and over the last 11 years we have focused our resources on it as part of a realignment towards more stable recurring income streams (see figure 5).

4. Strong, consistent returns

We are very results focused and we have improved returns substantially by a combination of driving profitability and careful balance sheet management, most notably working to ensure that we have the right inventory and we are commercially astute in the management of trade receivables.

As set out in figure 6, since 2010 we have grown ongoing revenue and trading profit every year. Our objective is that we should grow, profitably, above the market and we have consistently outperformed the market for the last 11 years. We have also completed selective bolt-on acquisitions that have added between one and two per cent of growth each year.

The expansion of our gross margins is also an important attribute of our business. We have aligned with the right vendors and carefully managed our product mix whilst developing our own brand, ensuring that we are adding value to our customers through our service and recovering that value in our pricing. We have typically achieved gross margin improvements of 10 to 20 basis points per year. Growing our own brand percentage of revenue remains an important key performance indicator (see pages 20 and 21).

In recent years we have exited a number of weaker or sub-scale markets where decent returns were not available. We now have a much stronger, simpler and more focused business with excellent positions in markets where we are well equipped to win. We are well placed to capitalise on the opportunities to consolidate and gain market share profitably and have excellent opportunities for profitable growth in our core markets for many years to come.

Health and safety

The safety of our associates and stakeholders impacted by our operations is our highest priority, consistent with our strategy of recruiting and developing the best associates in our industry.

We have made demonstrable improvements in the safety of our workplace over the last year, with a 22 per cent improvement in the Group’s Recordable Injury Rate and a 13 per cent improvement in the Lost Time Rate. These results, though, do not reflect the whole story. During the year we have institutionalised engagement conversations with our associates, site visits and ride-alongs by senior management dedicated entirely to safety. For major injuries, we stand down our operations to examine and discuss the cause of accidents and how we can improve our operations to avoid them in the future. We have specified the best personal safety wear for our associates and are investing in the most appropriate materials handling equipment in our warehouses and distribution centres (“DCs”). We are redesigning our Safety Development Programme for our drivers and have renewed our health and safety training to ensure that it is appropriate and reinforced at all levels throughout the organisation.

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Group Chief Executive's review (continued)

For the first time we have set out the safety behaviours we expect from ourselves and our associates and provided improved guidance on the rules we need to follow to avoid accidents. Our performance has improved but we have historically been too reactive. Today we have a clear roadmap to move towards our goals of leadership in safety in the distribution industry.

You can read more about our health and safety programme this year and our wider sustainability performance on pages 42 to 46.

Making a difference through our vision, mission and values

Good business is about great people and our associates are the driving force behind our Company. They are consistently focused on delighting our customers and developing our business. That's why our customers keep coming back to us. That is the essence of Ferguson and our vision is to be a trusted partner and deliver the best service to customers in our industry.

This year we have updated our vision, mission and values and you can read more about this on page 16 and examples of how our associates live our values on pages 28 to 39. Our vision, mission and values are a reminder of the goals we are working towards and how we expect to get there. They apply to all of our operations and business units. From our mission today to our vision for the future, our values underpin all that we do and help us to make the right decision when it counts, inform stakeholders about what we stand for and help attract and retain our talented associates. Our values engender great behaviours that we expect of ourselves in all the business that we do. They inspire us to serve our customers, to respect our fellow associates and stretch ourselves every day.

Acquisitions

The majority of our growth is organic and our first priority for the deployment of capital and resources is to support our organic growth. Our strategy is also to make selective bolt-on acquisitions that meet our investment criteria and where we can generate shareholder value. During the year, we acquired 15 businesses with annualised revenue of \$726 million in the USA and Canada.

UK demerger

In September we announced our intention to demerge our UK operations subject to shareholder approval. The decision marked the conclusion of a detailed review of the Group's assets over several years. On completion of the transaction Wolseley UK will become an independent listed Company serving residential and commercial tradespeople and customers. The separation will further simplify the Group and will enable Wolseley UK to pursue its independent strategy. Following the demerger Ferguson will be wholly focused on serving customers in North America. Wolseley UK has a strong market position, leading customer propositions and an experienced management team with significant opportunities for development in the large and fragmented plumbing, heating and infrastructure markets.

People and succession

I am stepping down as Chief Executive on 19 November 2019 after nearly 10 years with the Company. It's been a huge honour to serve Ferguson and I am extremely proud of our achievements, which are wholly attributable to our talented and dedicated associates. Ferguson today is in great shape, we are a focused distributor with the best management and associates in our industry, operating in attractive and fragmented markets with fantastic long-term opportunities for further profitable growth and expansion.

I am particularly pleased that my successor will be Kevin Murphy, Chief Executive of Ferguson Enterprises in the USA. Kevin is a highly respected leader with unparalleled experience of the plumbing and heating industry. I am confident that Ferguson is in safe hands and I wish both Kevin and all of our associates every success for the future.

Outlook

The Board expects to make further good progress in the year ahead. Whilst US market growth is currently broadly flat, consistent with the second half of 2019, we expect to continue to outperform. Our order books support continued modest growth in the months ahead and our business is performing well. We remain focused on maximising our organic revenue growth rate, gross margin expansion, tight cost control and strong cash generation.



John Martin
Group Chief Executive

Marketplace overview

Our markets are large and fragmented with strong growth characteristics

The USA continues to be our largest market with the greatest growth opportunities. It 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 four products valued at approximately \$500.



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 45,000 suppliers across the world.



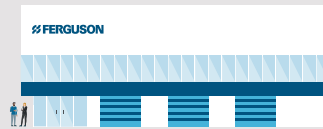
Clear need for distributors in the supply chain

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 in the USA

Population growth

>5%

Total population growth of more than 5 per cent is expected in the USA in the next decade.

Source: United Nations Department of Economic and Social Affairs.

Housing transactions

5.0-5.5m

Existing home sales continued to be in the 5.0-5.5 million range while remaining significantly below the previous peak.

Source: National Association of Realtors.

Consumer confidence

High

In the USA, consumer confidence in 2018/19 was high. 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

95%

95 per cent of new single family 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").

Strategic priorities

Our strategic priorities to drive performance

We focus on a number of strategic priorities to drive sustainable profitable growth. These set 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.



Engaged associates

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

Key achievements in 2018/19

Launched a Group-wide engagement survey with the same core engagement questions for all associates. The new engagement survey allows for better external benchmarking, see page 21.

Rolled out a number of development programmes to associates across branches and DCs in the USA. See page 17 for more information.

The Group's total recordable injury rate and lost time rate improved by 22 per cent and 13 per cent respectively compared to last year (see pages 42 and 43).



Excellent service ethic

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

Key achievements in 2018/19

Relaunched the one-hour pick-up service as "Pro Pick-up" and expanded the programme to 617 branches across the USA.

We are trialling the benefits of in-house installation teams for semi-custom and custom installation of appliances in our residential showroom business across Texas and Florida.

Implemented a new customer insights tool to measure Net Promotor Score and Overall Satisfaction ratings of customer interactions (see pages 20 and 21).



Strong sales culture

We 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.

Key achievements in 2018/19

Revenue growth is broadly based across all geographies in the USA.

Updated our company values to support a strong sales culture, read more about our values on page 16.

We have invested further in training and development for all our associates which you can read more about on page 17.



Organic expansion

Our aim is to accelerate profitable growth through above market revenue growth and targeted branch expansion.

Key achievements in 2018/19

We have continued to outperform markets in the USA and take share.

During the year the Group generated ongoing organic revenue growth of 4.4 per cent (see page 20).





Bolt-on acquisitions

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

Key achievements in 2018/19

We have invested \$657 million to acquire 15 businesses during the year with annualised revenue of \$726 million.



Adjacent opportunities

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

Key achievements in 2018/19

We have made acquisitions in adjacent areas to the business to help support our growth. These include cabinetry, valve and automation solutions and services, geotextiles and erosion control solutions serving customer irrigation needs. These acquisitions allow us to gain expertise and experience and reach a new customer base.



Operating model and e-commerce development

We 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.

Key achievements in 2018/19

We rapidly reduced the cost base given weaker market conditions in the USA in the second half of the year.

The Ferguson app was released in the USA which combines barcode scanning capabilities with existing functionality of Ferguson.com to provide trade professionals the tools they need on-the-go, anywhere.

Ferguson.com increased its range to over 1 million products.

Search results are more robust and allow users to filter results to easily and quickly find the products they need with more complete information.



Pricing discipline

We work constantly to understand our customers' needs more accurately and structure our pricing to be fair, consistent and competitive.

Key achievements in 2018/19

We continue to develop capabilities to analyse pricing in our bid and tender processes.

Implemented dynamic eBusiness pricing, enabling insight and the ability to adjust pricing in response to real-time trends.



Own brand penetration

We systematically build upon and extend our portfolio of own brand products 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.

Key achievements in 2018/19

Acquired a number of own brand businesses in the USA during the year to support growth such as Jones Stephens, Millennium Lighting and James Martin.

Launched two new own brand product ranges in Canada including Fredrick York, a decorative plumbing brand.

Extended our own brand product set in the USA to include vanities, lighting and plumbing, speciality plumbing and repair products.



Accelerate innovation across the Group

We work to identify new technologies and business models which customers will value in the future. We will also invest or partner with innovative businesses and people to stay at the forefront of our industry.

Key achievements in 2018/19

Five investments from 21 proof of concepts executed with startups and the establishment of two innovation labs.

Five partnerships focused on building capacity in the Virginia entrepreneurial ecosystem, including hosting the Ferguson Innovation Challenge with The College of William & Mary's top students selected as Innovation Lab interns.

Investment in startup Payzer, helping to accelerate the business in the HVAC and plumbing markets, resulting in new customers for Payzer.

Our business model

Creating value through superior service

We are a specialist distributor who creates value through the expertise of our people, our scale, bespoke logistics network, technology and the support and service we give our customers. We partner with them to improve their construction, renovation and maintenance projects.

Key resources and relationships

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

Over 45,000 reputable suppliers giving us access to a diverse and broad range of quality products

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

Find out more about our key resources and relationships

[+ Pages 16 to 19](#)

Fundamentals of our business

Source

45,000 suppliers

We have a diverse supplier base providing us with a wide range of over one million of products worldwide.



Distribute

15 distribution centres

We service our customers through a network of distribution centres and branches where we offer support and advice.

Category	Percentage
1	71%
2	10%
3	18%
4	1%

Sell

+1 million customers

We sell to and advise customers through branches, showrooms, e-commerce and central accounts.



Category	Percentage
1	52%
2	25%
3	15%
4	8%

What makes us different?

Best associates

We aim to recruit, develop and retain the best people with a passion for customer service. We have a strong sales culture which helps drive profitable growth.

Read more about our associates

[+ Pages 16 to 19 and 26 to 41](#)



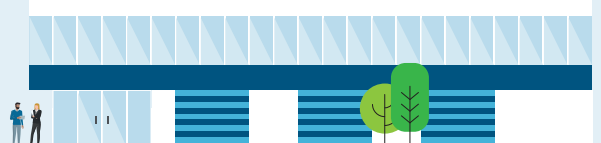
Customers value scale

We have market leading positions in the majority of our markets. These markets offer opportunities for strong growth and continued consolidation. As a market leader, we benefit from economies of scale across our supply chain network, sourcing and technology that many local competitors cannot compete with.

Read more about our markets

[+ Pages 6 to 11 and 26 to 41](#)

FERGUSON



For detail on the structure of our business and the markets in which we operate:

[+ See pages 4 and 5, 11 and 26 to 41](#)

Our strategy underpins our ability to create value, find out more:

[+ See pages 6 to 10 and 12 and 13](#)



Differentiated service offering

We are differentiated by the services we offer, which are highly valued by our customers. Our relentless focus on training and developing our associates and the service and the support they offer our customers is something that sets us apart.

It is an area that few of our competitors can match, with the added benefit of us being able to introduce our own trusted brands.

[Read more about our service offering](#)

[+ Page 8](#)

The value we create

Strong returns

We are able to generate strong returns by consistently winning market share and efficiently managing our operations. Our benefits of scale also help to improve our margins.

Our shareholders

We are committed to delivering long-term value to our shareholders and sharing in our success through dividends.

\$1,601m	\$1,609m	208.2c
ongoing trading profit 2018/19 +7.2%	cash generated from operations	dividend per share 2018/19 +10.0%

Ongoing trading profit is an APM, see note 2 and 3 on pages 118 to 122 for further information

Our customers

We provide essential products and services which enable them to run their operations efficiently.

We pride ourselves on our levels of customer service, which is reflected in our net promoter score in the USA.

57%

is amongst the highest in our industry (2018/19)

Our associates

We work hard to make sure associates are safe and have a place of work where they feel motivated and part of our success.

Society

We understand and respect our role in minimising our carbon footprint, focusing on eco-friendly products and playing our part in supporting a variety of community and charity initiatives.

Carbon emissions

12.9%

improvement versus 2015/16 baseline (23.3 to 20.3 tCO₂e per \$m revenue)

Total waste

8.1%

improvement versus 2015/16 baseline (3.7 to 3.4 US Tons per \$m revenue)

[Find out more about the outcomes of what we do](#)

[+ Pages 2 and 3, 16 to 19 and 42 to 46](#)



Key resources and relationships

What it takes to serve our customers

Our resources and relationships are critical to offering our customers industry leading service and ultimately driving profitable growth. Our associates are the driving force of the business and a key differentiator in how we create value. They are guided by our Vision, Mission and Values that are a reminder of the goals we are working towards and how we expect to get there.

Our Vision:

To be a trusted partner and deliver the best service to customers in our industry.

Our Mission:

Our associates provide expert advice and a range of products and services our customers want to improve their construction, renovation and maintenance projects.

Our Values:

Our values recognise the behaviours that guide our actions and those of our Company (as shown below).

[+ Pages 26 to 41](#)

Delfino Cervantes
Lead Counter Representative,
Waterworks



People

We recruit passionate people and provide excellent development opportunities.



Safety

We are accountable for our own safety and the safety of others.



Service

We source great products, provide unrivalled service and build enduring relationships to deliver value to our customers.

Integrity

We act fairly, honestly and with integrity.



Results

We have high expectations and drive performance to deliver excellent results.

Innovation

We encourage innovation to improve our customers' solutions.

Our people

35,000
associates

Our associates are key to the success of our business. They demonstrate our values (page 16) every day by providing superior customer service, working with the utmost integrity, delivering exceptional results, thinking innovatively, keeping themselves and others safe and limiting the impact on the environment. They foster our culture by maintaining lasting relationships with customers whilst delivering excellence at all levels. You can read more about our values on page 16 and how our associates embody these values on pages 28 to 39.

+ Pages 28 to 39

Leadership

Continuously improving our business relies on the effectiveness of our leaders and how they manage our associates. As with last year, we continue to see a number of external and internal succession appointments within the USA, Canada and the UK to leadership positions this year, enabling us to broaden the experience, knowledge and diversity of our leaders. How we develop all our associates, including our leaders, is discussed in the “Talent management and development” section below.

Talent management and development

To ensure we can connect our associates to the overall direction of the business we have updated the Group’s Mission, Vision, and Values. These underpin all that we do and help us to make the right decision when it counts, inform stakeholders about what we stand for and help attract and retain our talented associates. Our values encourage great behaviours and inspire our associates to give the best customer service, respect our fellow associates and stretch ourselves every day.

In 2018/19, we invested in our talent management model which includes a comprehensive talent review and succession planning process for leadership roles. This effort focuses on development of high potential individuals, identifying emerging talent, as well as business critical key roles across the organisation. In 2019 we welcomed over 1,200 college graduates to the US business, more than double compared to last year, bringing our total number of associates with higher education degrees to almost 8,200.

In the USA, we launched a comprehensive branch management development programme comprised of virtual, classroom and a hands-on immersion to practise new skills and behaviours. A distribution centre management development programme also launched in July 2019. This year, the US had over 220,000 enrolments in web-based training and micro-learnings on topics ranging from compliance, safety, product knowledge, management, systems, and sales with an additional 6,600 completions of instructor-led development courses including our College of Ferguson trainee programme. We continue to add to the curriculum to develop our associates.

In both the UK and Canada, we are building organisational capabilities focused on developing the core skills of leaders and associates, as well as delivering exceptional customer service.

Diversity and inclusion

We want access to the best talent irrespective of race, colour, religion, gender, age, sexual orientation, marital status, disability or any other characteristics that make people unique. The Board has a 50:50 balance of males and females in our Non Executive Directors. The percentage of women in senior management positions across the Group was 24 per cent. Detail on the Board’s approach to diversity, including the Board Diversity Policy and performance against its specified objectives, can be found on page 75.

We have rolled out our new Group Diversity and Inclusion framework which builds on our current practices where we continue to identify and remove any potential for unconscious bias in our employment, promotion and succession practices.

Ferguson is committed to developing a diverse workforce and an inclusive working environment in the communities where we operate. We continue to review our progress as we make strides in delivering improvements in workforce diversity. We believe that creating a more diverse and inclusive organisation that reflects our communities provides us with a competitive advantage in all areas of our business.

Diversity and inclusion gender breakdown

	Unspecified	Total men	Total women	% women
Non Executive Directors (Board)		4	4	50%
Directors (Board)		8	4	33%
Senior leadership ¹		67	21	24%
Total associates ²	82	27,176	8,209	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 and is correct as at 30 June 2019.

2. The total average individual associate number of 35,467 is reported above (total men plus total women plus total unspecified) including all continuing businesses.

Community Spotlight: California wildfires

Our widespread logistics and distribution network, and tireless business continuity planning offers Ferguson an opportunity to help our communities and associates impacted by natural disasters. During the year, our Build.com associates faced the devastating Camp Fire, the deadliest and most destructive wildfire in Californian history. Ferguson provided immediate and long-term assistance to associates impacted by this tragedy through the Ferguson Family Fund, which was established in 2007 to assist associates and their families with financial support during times of emergency need. This fund has also provided support to those impacted by hurricanes, flooding and other severe weather events, granting over \$2 million to date.

To achieve our objectives, all people decisions at Ferguson are based on merit, where the best candidates are hired and promoted within the organisation and associates are encouraged, supported and developed to reach their full potential. To ensure success, senior leaders are participating in training sessions focused on reducing unconscious bias in order to continue to support an environment that is free from discrimination and harassment, where all associates are treated with dignity, fairness and respect. In the coming year, we will be forming business resource groups across the Group to ensure that all our associates feel a sense of belonging and inclusion. Our recruitment practices factor in under-represented groups and we insist on diverse candidate slates when using executive search firms. In the UK, the Government requires certain businesses to declare their gender pay gap. Our UK business has a 5.02 per cent gap in base pay compared to the UK average of 17.9 per cent. We are continuing to deploy strategies and develop new initiatives to eliminate the pay gap.

All material issues relating to our people directly affect our strategic priorities on pages 12 and 13. The effectiveness and level of engagement of our people is critical in delivering on our strategy and maintaining the success of the business.

Key resources and relationships (continued)

Competitive pay and reward

We use our reward programmes to celebrate success, reinforcing the way we do business. Every year our incentive programmes across the Group are reviewed, to ensure they drive business performance by rewarding the right behaviours, supporting our values and continuing to reward high performance. We typically incentivise associates based on combinations of improvements in trading profit and average cash-to-cash days.

In the USA, we have a number of well-established recognition programmes, these include 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. All these programmes are structured to recognise our values and reward both exceptional performance and outstanding contributions that support profitable growth in the field. In addition, we also have the Bob Wells Leadership Award, which is presented to a remarkable Ferguson sales associate who consistently demonstrates exceptional performance and sales leadership.

In the UK we have launched "The Wolseley's" to align recognition to our strategic objectives, bringing together sales, operations and business support for an annual awards event. We are also developing new approaches to bring to life recognition on a daily basis to further develop our performance culture.

In Canada, we are focusing on our pay-for-performance culture with emphasis on targeted incentive programmes that reward associates for delivering on our strategic priorities. We are also launching a national recognition programme that uses an advanced technology platform to recognise employees who demonstrate our values and contribute to our strategy. Special annual awards will be granted to outstanding employee performance in critical areas such as innovation and safety.

During the year we redesigned our Group-wide long-term incentive programme, rewarding our leaders and senior managers for improved trading profit performance in their business. Our investment in this programme is overseen by the Remuneration Committee.

For more information on Directors' remuneration please see pages 80 to 106.

[+ Pages 80 to 106](#)

People spotlight: Kathy Scull, District Manager, DC Metro, USA

Kathy Scull is a great example of the opportunities Ferguson provides for associates to grow and develop into future leaders. Kathy joined Ferguson in 1997 as a showroom inside sales associate in Gainesville, Virginia. Since then, she has had a diverse career path with stints in sales, operations and branch management which allowed her to find her passion for developing people and provided her with the leadership skills needed to run DC Metro, the fifth largest Blended Branches district in the USA.



Associate engagement

During the year, we launched a new global associate engagement survey, ensuring we understand in detail the drivers impacting engagement, retention and advocacy. Centred on four key engagement dimensions, with standard global questions, as well as business specific questions, our survey results are now benchmarked in each country of operation, allowing us greater insight into how we compare externally. This year serves as a new benchmark for how each business measures progress, while correlating results with other data elements such as customer satisfaction and business performance. Insights from the global survey will inform business priorities and direct efforts to create high performing teams. Development of rigorous action plans are underway. See our KPIs on pages 20 and 21.

Employee Engagement Director – "Beyond the Boardroom"

During the year, Alan Murray, Senior Independent Director, was appointed Employee Engagement Director. In this role he will enhance communication channels between associates and the Boardroom, providing the Board with additional insight into the views and concerns of associates in their discussions and decision-making. Alan has begun to host a series of meetings with our associates across the Group to further understand their thoughts and opinions. These sessions will be held four times a year and are an opportunity to foster a transparent discussion, understand any challenges and identify areas for improvement.

Sessions will have representatives from all subsidiaries, functions and business groups in the region. The first of these meetings took place in the USA in July 2019 with discussion focused on several key topics including safety, customer service, culture, the use of technology, sustainability and the future of Ferguson.

Health and safety

For information on health and safety and 2018/19 performance, see the Sustainability section on pages 42 and 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. The standards that we expect of our associates and our stakeholders are set out in our Code of Conduct which was updated during the year. This includes examples of how our associates can practically apply our values to situations that may arise in our everyday lives and provides guidance where there is doubt over how to proceed.

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. During 2018/19, we re-launched training to our associates in the USA based on our updated Code of Conduct.

For information on ethical behaviour in our supply chain and a summary of the Group's Modern Slavery Act statement please refer to pages 41 to 46.

[+ Page 41 to 46](#)

Our customers

over
1 million
customers

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 8 in the Chief Executive's review.

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.

Our suppliers

45,000
suppliers

We have approximately 45,000 reputable suppliers that give 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 another 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.

Channels to market

2,259
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 whenever it is required.

We manage our locations 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.

For information about our environmental efficiency efforts see pages 44 and 45.

[+ Pages 44 and 45](#)

For information about our health and safety programme see pages 42 and 43.

[+ Pages 42 and 43](#)

Technology

18%
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 continue to implement 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, customer service and relationships.

Distribution network

6,100
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 in large metropolitan areas we aim to use more specialist market distribution centres to centralise final mile logistics and reduce fleet and distribution costs.

More than half our carbon footprint is generated by transport. Within the distribution network we have reduced our carbon emissions through improved fleet operations. 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 pages 42 to 46.

Key performance indicators (“KPIs”)

How we measure
our progress

We have reviewed and aligned our KPIs to our strategic priorities set out in detail on pages 12 and 13.

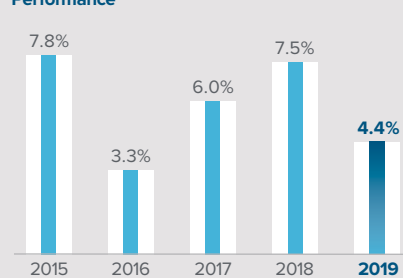
Ongoing organic revenue growth¹

Definition

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



Performance



+4.4%

Organic revenue growth was 4.4 per cent in 2018/19. Growth was due to a strong outperformance of the market in the USA, see pages 26 to 39 for further details.

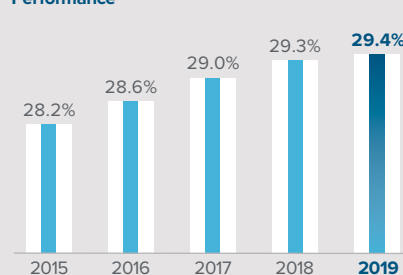
Ongoing gross margin¹

Definition

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



Performance



+0.1%

Gross margin improved by 10 basis points compared to 2017/18 principally as a result of disciplined pricing controls combined with the favourable impact of acquisitions.

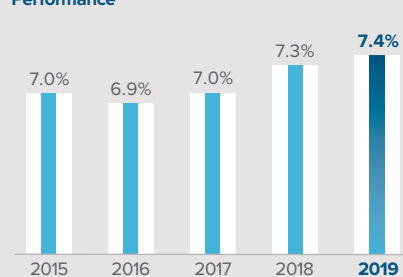
Ongoing trading margin¹

Definition

The ratio of ongoing trading profit to ongoing revenue.



Performance



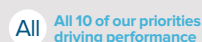
+0.1%

The trading margin rose to 7.4 per cent. Trading margin expansion was due to gross margin improvements and operating cost efficiencies.

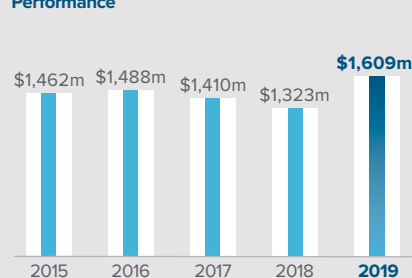
Operating cash flow

Definition

Cash generated from operations before interest and tax.



Performance



\$1,609m

Cash flow from operations was \$1.6 billion in the year. This improvement was mainly due to a strong performance in the US business for 2018/19 and a one off payment to pension plans in 2017/18. Continued good cash flow is a key part of the Group's long-term generation of cash to fund investment and returns to shareholders.

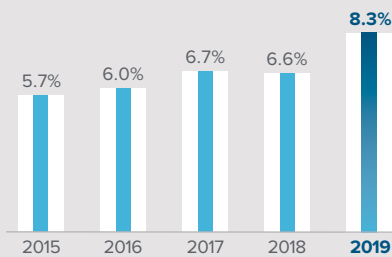
1. This is an APM, for further information on APMs, including a description of our policy, purpose, definitions and reconciliations to equivalent IFRS statutory measures, see notes 2 and 3 on pages 118 to 122.

Own brand percentage of revenue

Definition

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

Performance



+1.7%

The percentage of own brand revenue increased by 1.7 per cent in 2018/19 to 8.3 per cent. All regions grew own brand revenue with acquisitions also contributing significantly to the overall increase.



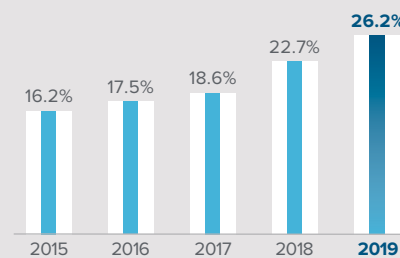
Own brand penetration

Return on gross capital employed¹

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



26.2%

Return on gross capital employed was 26.2 per cent with the increase partially due to the divestment of businesses carrying lower returns than the remaining Group. This is in line with our investment case and long-term objective of generating attractive returns on capital.



Engaged associates



Excellent service ethic



Strong sales culture



Operating model and e-commerce development



Pricing discipline



Own brand penetration

Associate engagement

Definition

In 2018/19 we launched a new Group-wide associate engagement survey ensuring we understand the drivers impacting engagement, retention and advocacy. The survey offers global and country specific benchmarks allowing us greater insight into how we compare externally. The survey focuses on four engagement questions on advocacy, pride, satisfaction and commitment. Associates must agree with all four questions to be recognised as "engaged".

Performance

The initial survey result across the Group was 51 per cent. This sets a high bar as "engaged associates" must agree with all four engagement questions. This demanding score will now act as a baseline for performance moving forward and we will report on improvement actions in the Annual Report next year. We will conduct future global surveys every 18 months. N.B. The global survey results are not comparable with previous country surveys published in prior year Annual Reports.



Engaged associates



Excellent service ethic

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.

Performance

57%

57%

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.

The methodology was changed in 2019 to align to industry best practice whilst also collating a broader number of responses. As such, prior year scores are not comparable.



Engaged associates



Excellent service ethic

Group recordable injury rate

Definition

Total number of injuries per 200,000 worker hours. The change to 200,000 hours (from 100,000 hours last year) is in line with globally recognised standards (including the US Department of Labor's Occupational Safety and Health Administration regulations). The injury number is based on associates receiving medical treatment beyond first aid that requires them to leave the workplace. 2017/18 figures have been restated in line with this calculation.

Performance

3.80

22% improvement

The Group recordable injury rate improved by 22 per cent compared to the previous year. This is primarily as a result of our continued focus on health and safety, a robust associate engagement programme, senior leadership commitment and deployment of safety professionals in the field to focus on areas such as material handling and training. See the Sustainability section for more information on pages 42 to 46.

2.96

2.96

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2.96



Engaged associates



Operating model and e-commerce development

Financial review

Strong
operating
performance

Ferguson performed strongly in 2018/19 with organic revenue growth in the US of 6.2 per cent and substantial investment in acquisitions to further consolidate our market leading positions. Markets weakened in the second half but our well-executed approach to expanding gross margins and decisive cost control measures ensured strong profit delivery.

Key highlights

- Revenue growth of 6.1 per cent including ongoing organic revenue growth of 4.4 per cent
- Ongoing gross margin expansion of 10 basis points, ongoing trading profit margin up 10 basis points
- Completed 15 acquisitions for total consideration of \$657 million
- Returned \$595 million to shareholders during the year including \$150 million of the \$500 million share buyback announced in June 2019
- Return on gross capital employed increased from 22.7 per cent to 26.2 per cent

Statutory results

The financial results have been prepared under IFRS and the Group's accounting policies are set out on pages 113 to 117.

	2019 \$m	2018 \$m
Continuing operations		
Revenue	22,010	20,752
Operating profit	1,402	1,360
Net finance costs	(74)	(53)
Share of profit after tax of associates	2	2
Gain on disposal of interests in associates	3	–
Impairment of interests in associates	(9)	(122)
Profit before tax	1,324	1,187
Tax	(263)	(346)
Profit from continuing operations	1,061	841
Profit from discontinued operations	47	426
Profit for the year attributable to shareholders	1,108	1,267

Revenue of \$22,010 million (2017/18: \$20,752 million) was 6.1 per cent ahead of last year.

Operating profit of \$1,402 million (2017/18: \$1,360 million) was 3.1 per cent higher than last year, with trading profit growth in the operating segments partially offset by an increase in the amortisation of acquired intangible assets.

Profit for the year attributable to shareholders decreased to \$1,108 million (2017/18: \$1,267 million) as last year there was a large gain on disposal within profit from discontinued operations which was not repeated.

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 non-recurring 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 118 to 120 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:

	2019 \$m	Restated 2018 \$m
Ongoing trading profit	1,601	1,493
Non-ongoing trading profit	5	14
Continuing trading profit	1,606	1,507
Amortisation of acquired intangible assets	(110)	(65)
Exceptional items	(94)	(82)
Statutory operating profit	1,402	1,360

Operating profit

Performance of the ongoing business

	2019 \$m	Restated 2018 \$m	Growth %	Growth at constant exchange rates %
Revenue	21,771	20,334	+7.1%	+7.9%
Gross profit	6,396	5,948	+7.5%	+8.2%
Operating expenses	(4,795)	(4,455)	+7.6%	+8.4%
Trading profit	1,601	1,493	+7.2%	+7.5%
Gross margin	29.4%	29.3%	+0.1%	
Trading margin	7.4%	7.3%	+0.1%	

Ongoing revenue of \$21,771 million (2017/18: \$20,334 million) was 7.9 per cent ahead at constant exchange rates and 4.4 per cent ahead on an organic basis. Inflation in the year was approximately 3 per cent. Ongoing gross margins of 29.4 per cent (2017/18: 29.3 per cent) were 10 basis points ahead as a result of disciplined pricing controls combined with the favourable impact of acquisitions. Operating expenses in the ongoing business were very well controlled with organic growth restricted to 3.6 per cent.

Ongoing trading profit was \$1,601 million (2017/18: \$1,493 million), 7.5 per cent ahead of last year at constant exchange rates. The ongoing trading margin was 10 basis points ahead of last year at 7.4 per cent. There was one fewer trading day compared to the prior year, which reduced trading profit by about \$12 million. Acquisitions generated revenue of \$760 million and trading profit of \$45 million, net of \$14 million of transaction and integration costs which were charged to trading profit. Foreign exchange rate movements decreased ongoing revenue by \$155 million and trading profit by \$4 million.

Non-ongoing trading profit

The Group's non-ongoing businesses, which comprised a small non-core UK business and the Group's Dutch business, Wasco, generated revenue of \$239 million (2017/18: \$418 million) and trading profit of \$5 million (2017/18: \$14 million).

Amortisation of acquired intangible assets

Amortisation of \$110 million (2017/18: \$65 million) represents the charge in respect of the Group's acquired intangible assets. The increase is due to the timing of the more significant acquisitions in the current and prior year.

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 \$1,656 million (2017/18: \$1,408 million), remains on the balance sheet and is supported by value in use calculations.

Exceptional items

Net exceptional charges in operating profit totalled \$94 million in the year (2017/18: \$82 million), comprising a \$23 million gain on disposal of businesses, \$108 million business restructuring charges and \$9 million of other exceptional charges in relation to the UK defined benefit pension plan. The restructuring charges were in relation to programmes undertaken in the US, UK and Canada and the change of Group corporate headquarters.

Net finance costs

Net finance costs were \$74 million (2017/18: \$53 million). The increase was principally due to a higher level of average net debt in the year, as last year the Group was in receipt of proceeds of disposal of non-core operations for part of the year.

Tax

The Group generates 92 per cent of its ongoing trading profit in the USA, 4 per cent in the UK and 4 per cent in Canada 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 \$263 million (2017/18: \$346 million) on profit before tax of \$1,324 million (2017/18: \$1,187 million) resulting in an effective tax rate of 19.9 per cent (2017/18: 29.1 per cent). The ongoing tax charge is \$344 million (2017/18: \$363 million) which equates to an ongoing effective tax rate of 22.5 per cent (2017/18: 25.1 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 \$1,529 million (2017/18: \$1,445 million). The decrease is primarily due to the reduction in US statutory tax rate and a change in profit mix.

The wider macro political and economic situation is uncertain in some of the main territories in which Ferguson operates and changes could adversely impact the Group's business as well as the Group's future tax rate. A combination of growing international trade pressures, including trade-related actions taken by the US and China and rising debt levels, is creating political and regulatory uncertainty which could lead to changes to the prevailing tax regime and adversely impact the Group's results. The Group 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.

Financial review (continued)

The Group paid \$242 million (2017/18: \$234 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. The result from discontinued operations is comprised as follows:

	2019 \$m	2018 \$m
Discontinued trading profit	5	59
Finance income/(costs)	1	(6)
Exceptional items before tax	45	404
Tax	(4)	(31)
Profit from discontinued operations	47	426

Discontinued trading profit in the prior year represents the results of the Nordic region for the eight months of ownership and the results relating to the remaining French property assets.

Discontinued exceptional items primarily relate to the disposal of several Nordic property companies. The prior year discontinued exceptional items included the significant gain on disposal of Stark Group.

Earnings per share

Headline earnings per share increased by 16.4 per cent from 444.4 cents to 517.4 cents. Basic earnings per share from continuing operations were 460.9 cents (2017/18: 342.3 cents) and diluted earnings per share were 457.5 cents (2017/18: 339.8 cents).

Total basic earnings per share, including discontinued operations, were 481.3 cents (2017/18: 515.7 cents) and total diluted earnings per share were 477.8 cents (2017/18: 511.9 cents).

Cash flow

The Group has continued to generate strong cash flows during the year with cash generated from operations of \$1,609 million (2017/18: \$1,323 million) and a good cash conversion ratio of cash generated from operations/adjusted EBITDA of 90 per cent (2017/18: 76 per cent). Cash generated from operations in the prior year includes one-off payments to pension plans of \$99 million. Without this, the cash conversion ratio would have been 81 per cent.

	2019 \$m	2018 \$m
Cash generated from operations	1,609	1,323
Interest and tax	(319)	(287)
Acquisitions and capital expenditure	(1,075)	(715)
Disposal proceeds	303	1,440
Dividends paid	(445)	(1,359)
Share buyback	(150)	(675)
Purchase of shares by Employee Benefit Trusts	(38)	(41)
Foreign exchange and other items	–	(60)
Movement in net debt	(115)	(374)

Acquisitions and capital expenditure

Acquisitions are an important part of our growth model and during the year we invested \$657 million in 15 bolt-on acquisitions, principally in the USA. Since the year-end, the Group has acquired one business in the UK.

The strategy of investing in the development of the Group’s business models is supported by capital expenditure of \$418 million (2017/18: \$299 million). The increased investment was primarily for one new freehold distribution centre in the USA. The Group also continues to invest in strategic projects to support future growth such as distribution hubs, technology, processes and network infrastructure.

Leases

As at 31 July 2019, the Group had total operating lease commitments of \$1,126 million (2017/18: \$1,081 million).

On 1 August 2019, the Group adopted IFRS 16 “Leases”. The Group is using the modified retrospective approach to transition. The impact on the opening balance sheet at the date of initial application will be the creation of a right of use asset of \$1.2 billion and a lease liability of \$1.5 billion. The lease liability on transition is greater than the operating lease commitments due to the inclusion of options to extend which the Group is reasonably certain to exercise, partially offset by the effect of discounting.

The net impact on profit for the year (year ending 31 July 2020) is not expected to be material, however, adjusted EBITDA will improve due to the reduction in rental charges which will be broadly offset by an increase in depreciation and interest charges.

There is no economic impact on the cash flows of the Group as a result of the adoption of IFRS 16 although the presentation in the cash flow statement will change to increase cash generated from operations and increase interest paid and cash used by financing activities.

Returns to shareholders

The Group paid an interim dividend of 63.1 cents per share (2017/18: 57.4 pence per share) amounting to \$146 million. A final dividend of 145.1 cents per share (2017/18: 131.9 pence per share), equivalent to \$332 million is proposed. This brings the total ordinary dividend for 2018/19 to 208.2 cents per share, an increase of 10.0 per cent.

In June 2019, the Group announced its intention to return \$500 million to shareholders by way of a share buyback programme. As at 31 July 2019, the Group had completed \$150 million of the \$500 million share buyback and had irrevocably committed to complete a further \$159 million. The Group expects to complete the remainder of the share buyback over the next 12 months.

Return on gross capital employed

Return on gross capital employed increased from 22.7 per cent to 26.2 per cent. The increase was partially due to the divestment of businesses carrying lower returns than the remaining Group. This is in line with our investment case and long-term objective of generating attractive returns on capital.

Net debt

Net debt increased during the year by \$115 million to \$1,195 million at 31 July 2019. Strong operating cash flow generation of \$1,609 million and disposal proceeds of \$303 million were more than offset by acquisition and capital expenditure of \$1,075 million, interest and tax payments of \$319 million and shareholder returns of \$595 million.

Pensions

At 31 July 2019, the Group's net pension asset of \$153 million (2017/18: \$174 million) comprised assets of \$1,904 million (2017/18: \$1,945 million) and liabilities of \$1,751 million (2017/18: \$1,771 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 24 (iv) on page 143.

The UK defined benefit pension plan is in the process of its next triennial valuation.

In 2018/19, the Group offered deferred members of the UK defined benefit pension plan an enhanced transfer value to settle their benefits accrued under the plan. This resulted in a small charge to exceptional costs and a reduction in the defined benefit obligation relating to the members who exited the plan.

Other 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 2019, the Group had total committed facilities, excluding bank overdrafts, of \$3,870 million (2017/18: \$3,470 million). Of the Group's committed facilities at 31 July 2019, \$1,573 million (2017/18: \$1,940 million) was undrawn. \$1,610 million (2017/18: \$984 million) of the total facilities mature after more than five years.

Change of corporate headquarters

Following a thorough review of the location of the Company's headquarters, the Board concluded that the interests of the business and shareholders would be best served by establishing a new corporate structure with the Group headquartered and tax-resident in the UK. The move facilitates the continued simplification of the Group's corporate structure in line with its strategy.

The move was executed through a Scheme of Arrangement on 10 May 2019, when a new parent company was introduced. On 9 May 2019, prior to the Scheme of Arrangement, all Treasury shares held by Ferguson were cancelled.

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 47 to 53.



Mike Powell
Group Chief Financial Officer

Regional performance and overview

USA

We have progressively focused more resources on our business in the USA where we generate the most attractive returns for our shareholders.

Key highlights

- Organic revenue growth of 6.2 per cent
- Ongoing trading profit growth of \$102 million
- Continued market share gains across all end markets
- 14 acquisitions completed in the year

Business units

We operate nine strategic 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.

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.

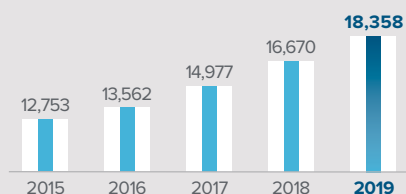
Ferguson operates 1,491 branches serving all 50 states with approximately 27,000 associates. The branches are served by 10 distribution centres, providing same-day and next-day product availability, a key competitive advantage and an important requirement for customers.

Each strategic business unit provides a different customer offering, with the majority predominantly serving trade customers. Each business unit supports differentiated customer types and therefore provides bespoke services and requirements, see pages 28 to 39 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.

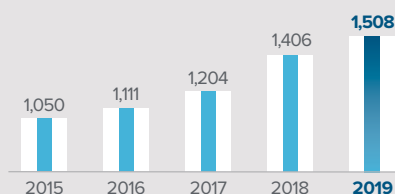
Five-year performance

\$m

Ongoing revenue¹



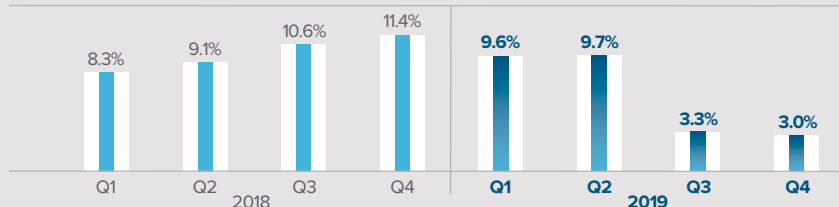
Ongoing trading profit¹



1. 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 notes 2 and 3 on pages 118 to 122.

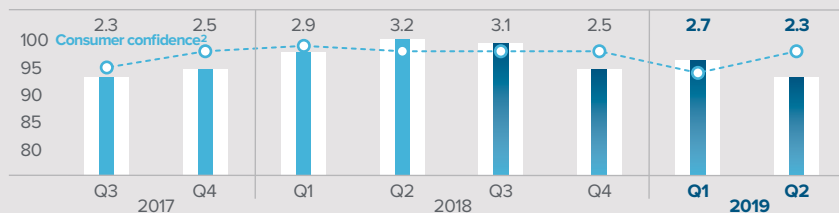
Quarterly organic revenue growth

%



GDP growth¹

% change per calendar year



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

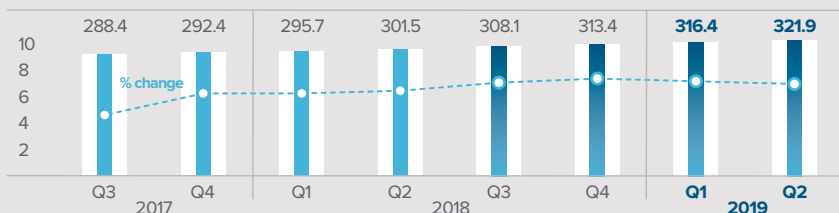
Source: OECD.

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.

Leading Indicator of Remodelling Activity (“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.

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 in the USA has slowed slightly over the past year but remains positive, indicating expansion in the economy.

The unemployment rate has held at historical lows and currently remains below four per cent.

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 for the year ahead have weakened but still remain positive.

In addition, existing single-family home sales is a good indicator of the strength of the housing market and tends to be a driver of remodelling spend. The seasonally adjusted annual rate of sales has remained at between 5.0-5.5 million throughout the last 12 months.

US new residential construction data, released by the U.S. Census Bureau, provides data on the number of building permits and new housing starts. Building permits, a leading indicator, have averaged 1.3 million through 2018/19 whilst housing starts have averaged 1.2 million units. These measures have been broadly flat over the past couple of years.

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. An index score above 50 indicates growth. The index has averaged above 50 for the last 12 months but dipped below 50 in two months throughout the year.

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 reflects the historical amount spent each month on construction. The value of non-residential spending rose year-over-year in all quarters throughout the financial 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 2018/19 indicating continued growth in the market in that period.

Operating performance

The US business grew by 6.2 per cent on an organic basis with acquisitions generating 4.2 per cent of additional revenue growth. Price inflation was about 3 per cent.

Blended Branches continued to grow well across all geographic regions including 6.0 per cent in the East, 6.0 per cent in the West and 5.8 per cent in the Central region. Waterworks grew very well and Industrial and HVAC revenue growth was particularly strong. Standalone eBusiness was slightly lower as we continued to consolidate pay-per-click advertising spend around fewer trading websites.

The organic revenue growth by end market can be seen in figure 1.

In line with recent guidance, the market growth moderated in the second half and we continued to outperform. Our largest quoted suppliers' grew at an average rate of 0.8 per cent in the quarter ended 30 June 2019 which compares to Ferguson's Q3 organic revenue growth rate of 3.3 per cent. Our orderbooks have grown year-on-year suggesting continuing modest growth over the coming months.

Gross margins were well controlled with good pricing discipline and the favourable mix impact of recent acquisitions.

In light of the tighter market environment in the second half we took decisive action to control cost growth, particularly labour which comprises about 60 per cent of operating costs. Since the start of the calendar year we reduced headcount significantly and this led to strong trading profit delivery in the final months of the financial year, despite modest organic growth rates. Actions also included a voluntary early retirement programme and some selective closures of underperforming branches. These reductions will enable us to fund pay rises for our associates and continue with ongoing investments in our business.

Fourteen bolt-on acquisitions were completed in the year with total annualised revenues of \$715 million. In addition to those previously announced we acquired Mission Valley Pipe & Supply, a plumbing distributor in San Diego, Action Plumbing Supply, a leading supplier of commercial and industrial products in Florida, and Innovative Soil Solutions, a Texas-based specialist in geosynthetics and erosion control solutions which will support our focus on this exciting area of our Waterworks business. We incurred integration costs of \$14 million which have been charged to trading profit, the majority of which related to the Blackman and Wallwork businesses.

Trading profit of \$1,508 million (2017/18: \$1,406 million) was 7.3 per cent ahead of last year and the trading margin was 8.2 per cent (2017/18: 8.4%).

1. Refers to published data for the relevant divisions of Fortune Brands, Masco, Lixil, Whirlpool, A O Smith.

Figure 1: Estimated end market growth

Growth by customer end market	% of USA revenue	Estimated market growth H1 2018/19	Estimated market growth H2 2018/19	Estimated market growth 2018/19	2018/19 organic revenue growth
Residential	~50%	6%	1%	3%	+5%
Commercial	~35%	5%	2%	3%	+7%
Civil/Infrastructure	~7%	5%	2%	3%	+6%
Industrial	~8%	13%	–	6%	+9%
		6%	1%	3%	+6.2%

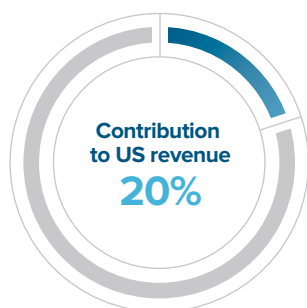
Regional performance and overview (continued)

Residential Trade

Residential Trade is part of our Blended Branches business unit and serves the residential RMI and new construction sectors with a large proportion of sales through the branch counters.

Key highlights this year

- Continued to increase proportion of own brand sales
- Rebranded and expanded the number of locations offering our one-hour “Pro pick-up” service
- Acquisition of Blackman Plumbing Supply in the Northeast



Key products and services

Plumbing supplies

Pipes, valves and fittings

Bathroom fixtures

Water heaters

Plumbing counters

Pro pick-up

Sales are typically made to plumbing contractors across both RMI and new construction. RMI contractors usually operate with a small number of vehicles and employees, working on small projects and day-to-day residential repair work. In these instances, their work is awarded based on their availability, price and severity of plumbing problem. The business is characterised by high order volumes though average order size for RMI customers tends to be small. New construction contractors work on a range of projects from single homes to mid-sized housing developments and are typically contracted by construction firms. This type of work is usually awarded through a tender process in advance of the project.

During the year we successfully rebranded our one-hour pick-up service for customers as “Pro pick-up” and expanded this to an additional 430 locations across the USA, bringing the total number of locations for this service to 617. This service is available to customers through every order channel.

During the year we acquired Blackman Plumbing Supply, one of the Northeast’s largest distributors of plumbing supplies and a leading supplier of HVAC and Waterworks products and solutions. The acquisition of Blackman significantly improves our presence in New York and New Jersey and we now have 103 locations across the region.

Own brand continues to be a key part of our strategy and we have made good progress in this area over the year. These products offer higher gross margins than branded equivalents and provide additional customer choice. We continue to increase own brand sales as a proportion of the overall product mix.

We continue to diversify our product offering through multiple brands to attract and retain a larger base of customers whilst aligning prices based on our cost to serve. We also continue to work on our digital presence providing mobile apps and inventory management for our customers.

Ferguson is the number two in residential trade in the USA with an estimated market share of 17 per cent. The estimated combined market share of the top three companies is 54 per cent with much of the market fragmented between mid-size regional distributors and small, local distributors. For more information on market size and position see page 7.

See pages 26 and 27 for relevant residential market indicators and trends.

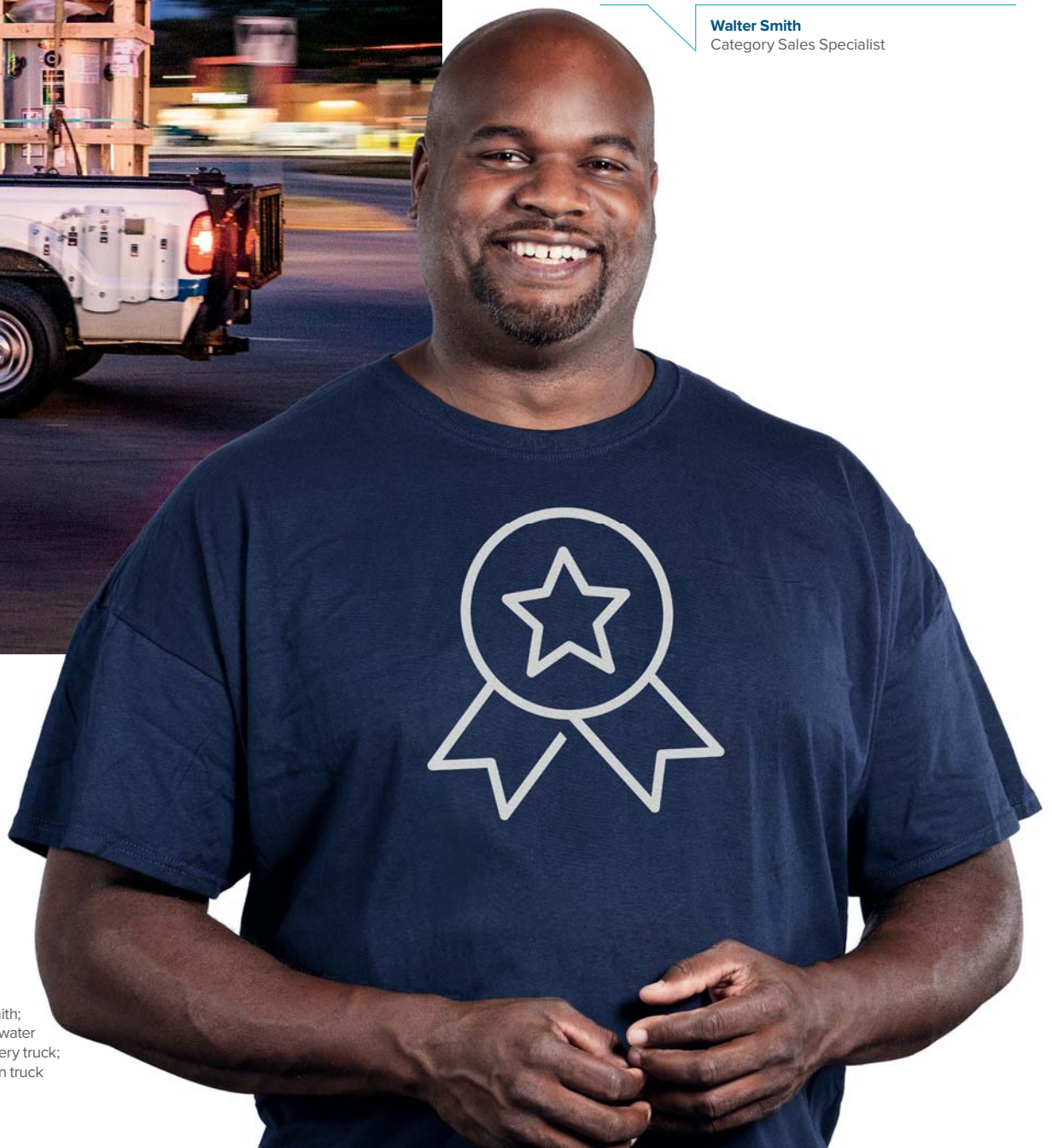




Our values in action: **Service** Nursing home emergency

“It was late on a Friday afternoon when I got the call that two boilers had gone down at a nursing home with an immediate need for replacement parts. Without hot water and an immediate fix, the nursing home would need meals catered or have to relocate residents to alternative locations – both costly options and disruptive to the elderly residents. Time was of the essence. I quickly picked up the replacement parts from the supplier representative and drove three hours to the customer’s location, arriving at 9:30p.m. Ten minutes after I left, the customer called to let me know they were up and running. Through our 24/7 Commercial water heater programme, Ferguson is available around the clock to provide delivery to the point of installation and offer haul-away and disposal of old units. But to me, service is just what we do. It’s the friendship and the service that creates customer loyalty and repeat business.”

Walter Smith
Category Sales Specialist



Images

Right: Walter Smith;
Top: Securing a water heater to a delivery truck;
Above: Ferguson truck out on delivery.

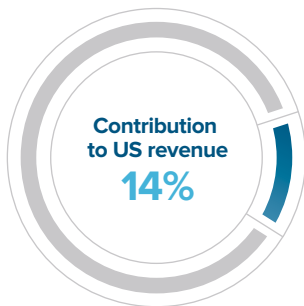
Regional performance and overview (continued)

Residential Showroom

Residential Showroom is part of our Blended Branches business unit and operates a national network of 277 showrooms, serving consumers and trade customers.

Key highlights this year

- Continued expansion, both organically and through acquisitions
- Improved customer service with strategic new hires
- Enhanced our “final mile” installation of appliances



Key products and services

Kitchen and bathroom plumbing supplies

Lighting and fans

Heating and cooling

Consultation, advice and project management

White glove, two person delivery

Showrooms display bathroom, kitchen and lighting products and assist customers by providing advice and project management services for their home improvement projects.

Customers include consumers, builders and remodellers. The builders and remodellers utilise the showroom network to help their clients, typically homeowners, to select the products they wish to install for their bathroom, kitchen and lighting projects. These contractors expect Ferguson to understand their business requirements and assist their client through the selection process in our showrooms.

We also sell into the new construction market with customers working with us for our significant product range, know-how and the timely delivery of products. In most instances this work is awarded in contracts at the regional or national level.

Over the year we have improved our “final mile” installation of appliances by standardising the process and integrating customer feedback. This has allowed us to create actionable areas of focus to improve customer service.

We continue to expand organically and through acquisitions. During 2018/19 we have successfully integrated a number of bolt-on acquisitions into our showroom business. For example, we acquired Capital Distributing in Dallas, Texas which has increased our market share, enhanced our appliance installation services and expanded our local relationships. We also acquired Kitchen Art, a high-end custom kitchen cabinetry design, installation and remodelling business. Its successful integration has given us industry expertise and it will also serve as a centre for further expansion into this market.

A number of other initiatives focused on improving our customer service included online bookings, new hires and after sales care. To enhance the customer experience we have implemented software to allow customers to book online appointments to meet with our showroom consultants in store. We have also made numerous strategic hires of product category experts that will improve customer service.

Ferguson is the market leader with an estimated 11 per cent market share, the next largest competitor is about half of the size. For more information on market size and position see page 7.

See pages 26 and 27 for relevant residential market indicators and trends.





Our values in action: **Safety** Safety observations key to raising awareness

“We started safety observations this year, a programme where executives observe and ask questions to front-line associates to learn about the risks associates face every day. I wrongly assumed that branch associates would not want to participate, but they embraced the opportunity to share feedback. They appreciated that we not only cared enough to implement new programmes to create a safer work environment, but that we followed up to see how things were going. They were eager to share what was working and what could be improved. It was also a great opportunity to get in front of our associates and let them know we value their contributions. I found myself being more attentive and questioning behaviours after the visit. Safety moments, stand downs, safety observations – they are all part of creating a safe environment and building our First in Safety culture that absolutely leads to better service.”

Todd Young
Vice President, Commercial



Images

Left: Yareli Wario, Warehouse associate;
Above left: Todd Young during a safety observation;
Above right: Safely moving heavy products.

Regional performance and overview (continued)



Our values in action: **Results**
Partnering with customers
for win-win results

“We expanded our influence beyond our typical customer base and worked with a general contracting team that is building a stadium in Los Angeles. Understanding the customer’s wants and needs was critical, and Quotations Manager Willie Worthan worked tirelessly on a competitive bid while I managed the relationship. We specified a balanced product bundle of branded manufacturers’ products and own brand products at competitive prices that would fulfil their needs. The large order resulted in Ferguson supplying PROFLO™ toilets, from our own brand range, and other plumbing products for the stadium.”

David Richeal
Commercial Area Sales Manager

Images

Below: Willie Worthan, Quotations Manager, Commercial; Above: David Richael (left) working with Jose Mejia Jr., counter associate (right); Top right: The L.A. stadium; Right: Jose Mejia Jr.





Commercial

Commercial is part of our Blended Branches business and provides commercial plumbing and mechanical contractors with products and services including bidding and tendering support and timeline planning to assist with their construction projects.

Key highlights this year

- Diversified our product range by partnering with new suppliers
- Focused on integrating Building Information Modelling (“BIM”) systems with our software to improve ordering efficiencies
- Broadened offerings to include equipment and other technical products



Key products and services

Plumbing parts and supplies

Pipes, valves and fittings

Hangers, struts and fasteners

Quotation services (partnering with customers on bids/tenders)

Jobsite deliver and logistics

Projects span weeks or months with Ferguson’s established supply chain logistics ensuring the appropriate products are delivered at the correct time throughout the course of the job.

We typically serve plumbers and mechanical contractors focused on new commercial construction projects including schools, hospitals, office buildings and hospitality venues. The plumbing contracts are often awarded based on bids from a set of building plans and specifications. For the mechanical contractor, whose primary focus is the heating, cooling and water delivery systems in the building, contracts are awarded based on bids and specifications but also take into account the relationship and service provided when supporting the design of these intricate systems. We also sell to service contractors affiliated with either customer type mentioned above focused on smaller jobs, remodels and immediate service needs in those building types.

During the year we have continued to expand our supplier base, diversifying our product range and reducing the risk of supply disruption. For example, in one of many key product categories, copper press fittings, we have added three new supplier partners and successfully integrated them into our supply chain. In line with our strategy, our own brand sales growth continues to outpace the growth of sales for the commercial business overall.

When it comes to digital innovation we are leading the way in integrating our ordering systems with customer BIM systems. This makes the ordering process highly efficient to our commercial customers who use BIM as the system maps what products are required when and where for the construction project. The idea being that the customer can place an order for a construction project with the systems working together seamlessly to co-ordinate products and delivery schedules.

In 2018/19 we focused on expanding our services to facilitate sales growth in equipment and other technical products, increasing our value to the mechanical contractor. We also added project managers to our inside sales support team across all markets and geographies with the aim to provide a higher level of focused support to help our contractor partners bring a job to completion on time and under budget.

Ferguson is the number one in the USA with an estimated market share of 20 per cent, roughly twice the size of its nearest competitor. For more information on market size and position see page 7.

See page 26 and 27 for relevant commercial market indicators and trends.

Regional performance and overview (continued)

Waterworks

Waterworks distributes pipe, valves and fittings (“PVF”), hydrants, meter systems and related water management products alongside related services including water line tapping and pipe fusion.

Key highlights this year

- Enhanced our project management, quotations and computer assisted design offerings for water and wastewater customers
- Established a central estimating team to support customers in major metro areas
- Continued focus on the stormwater and geotextile segments



Key products and services

Pipes, valves and fittings

Valve insertion

Irrigation and drainage

Water meters and automation

Advanced metering infrastructure

Geosynthetics and stormwater management

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, sewer and stormwater management markets.

Municipal customers purchase products to repair their water and sewer systems or for capital improvement projects such as meter systems or pipelines. We sell to utility contractors who tend to focus on water, sewerage and storm drainage construction for residential or commercial construction projects. Water treatment plant contractors, which are large regional or national players, typically work on very large long-term capital intensive projects. We also sell to utility pipeline contractors who install and maintain publicly funded water and sewage line projects.

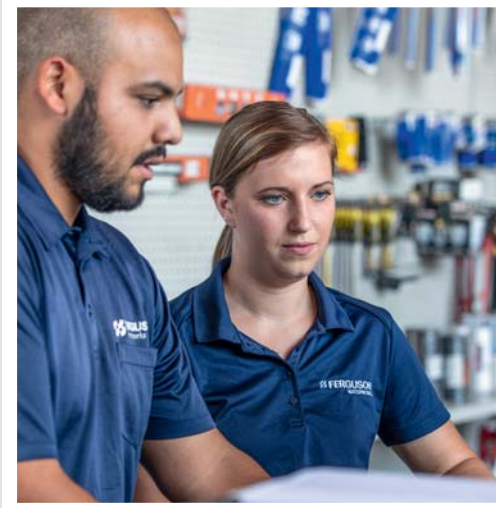
During the year we enhanced our project management, quotations and computer assisted design offerings for water and wastewater customers. We also established an estimating team that acts as a centre of excellence supporting customers in a number of major metro areas across the USA.

Organic expansion continued in 2018/19 with a number of new greenfield sites in locations where we had identified strong growth potential. We continue to focus on the stormwater segment and enhancing our offerings in adjacent markets such as geotextiles and erosion control products. The acquisition of Texas-based Innovative Soil Solutions has assisted this expansion. Investing in our associates remains a priority as we further develop our water plant and municipal sales teams to offer customers additional specification support during tenders.

We regularly review historical project pricing to ensure we remain competitive for our customers and are able to successfully convert more bids.

Ferguson is the largest operator in the USA, with an estimated market share of 23 per cent, slightly higher than the number two. Outside the top two, no other company holds greater than 5 per cent market share.

See pages 26 and 27 for relevant civil/infrastructure market indicators and trends.





Our values in action: People College of Ferguson

“Through the College of Ferguson, I learned so much about the industry, our customers and the products we sell in just five short months. All new sales trainees go through a similar training programme. The programme provided a combination of hands-on learning, supplier site visits and classroom training. I saw how different types of pipe are made and the real-life application of our products. I spent two months in the warehouse, learning how to pick orders, drive a forklift and doing a variety of warehouse operational tasks. I shadowed Inside Sales, Outside Sales and the Estimating teams to learn more about our customers, their needs and the solutions Ferguson provides. Product knowledge training was a huge part of the experience. The programme helped me see the full picture of the Waterworks business. Learning to listen to our customers’ needs and solve their problems is a huge part of what I do. This programme prepared me for a career at Ferguson, not just a job, and the experience was invaluable. The culture of the associates and environment makes the job feel welcoming and excites me for the future.”

Brittany Kinsella
Inside sales representative, Waterworks



Images

Below: Brittany Kinsella;
Top left: Brittany on a sales call;
Bottom left and right: Brittany working with other Ferguson associates.



Regional performance and overview (continued)

HVAC

HVAC distributes heating, ventilation, air conditioning and refrigeration equipment, parts and supplies for use in the residential and commercial markets.

Key highlights this year

- Continued expansion focused on major metro markets
- Acquired Wallwork, a leading supplier of heating and cooling products across New York and New Jersey
- Enhanced digital offerings to better support customers



Key products and services

Fans and ventilation

Air conditioners

Heat pumps

Variable refrigeration flow training and systems

Repair and maintenance parts

We partner with a variety of HVAC manufacturers, providing distribution services across different geographies in the USA.

Typical customers include specialist contractors focused on installing, repairing and maintaining HVAC units serving single and multi-family residential developments.

We also sell to contractors working on large RMI contracts in the commercial market with the majority of trade going through the branch network.

We have continued to expand, both organically and by acquisitions during the year. The expansion to our geographic footprint has focused on major metro markets such as the Wallwork acquisition in New York City. Our HVAC business also maintains close relationships with the Commercial business unit where we are able to leverage our HVAC knowledge on large commercial project tenders.

We have enhanced digital offerings in the year to further support customers and assist them in growing their businesses. These offerings give the customer choice over how they place orders with Ferguson and enable them to review their specific product pricing, previous invoices and delivery notes.

Ferguson is the third largest wholesale distributor in a large highly fragmented market with an estimated market share of approximately 4 per cent. The market leader is about twice the size of Ferguson.

See pages 26 and 27 for relevant residential and commercial indicators and trends.



Images

Below: Jack DiFranco; Top left: Jack discussing product specifications; Right: A solar operated valve.





Our values in action: Innovation Innovation in the oilfields

“Automated valve technology is key for water disposal operations in the midstream oil and gas market. Engineers from a water gathering company brought us a unique challenge to solve – no power to operate the valves. By calculating the number of cloudy and sunny days in the oilfields, our team determined that we would need to design and install 22 solar-power control stations, each with its own solar panels to generate the electricity needed to power the actuator for five strokes per day, over a five-day period, with little or no sunlight. The system also includes a low-voltage alarm that notifies pipeline operators if the power from the solar system has dropped below the level required for valve operation and the valves can be operated remotely. With solar power, we developed a reliable, environmentally friendly solution that was less expensive than running power, while building our credibility – a true win-win for our US industrial business and the customer.”

Jack DiFranco
Category Sales Specialist, US Industrial

Industrial

Industrial offers products and services across the full range of industrial sectors.

Key highlights this year

- Strong market conditions during the year
- Focus on growing the valve automation business
- Secured several new larger PVF maintenance, repair and operations (“MRO”) contracts whilst also successfully retaining a number of renewals



Key products and services

Pipes, valves and fittings

Supply chain services

High-density polyethylene resin fabrication, fusion and rental services

MRO products

Supplies pipe, valves & fittings (“PVF”) as well as specialised services including valve automation and supply chain management. Customers rely on our technical expertise when building, maintaining and repairing infrastructure for the industrial market.

The Industrial business operates across all sectors including energy, pulp and paper, chemical, mining and food and beverage. Customers include industrial contractors where Ferguson typically provides PVF products. We also sell directly to end users and manufacturers where we can offer both a wide variety of products and specialised services to ensure that facilities continue to operate efficiently. Average order sizes in Industrial tend to be larger than the remainder of the Ferguson business.

During the year, the Industrial business benefited from strong end market demand across all industries.

Growing the valve automation business continues to be a priority. We integrated Action Automation, an Illinois-based acquisition focused on valve automation products and services in the year.

Another area of focus is MRO where we have seen several successful PVF contract renewals as well as new contract awards during the year and continue to develop the Industrial MRO service offering.

The industrial market is fragmented, we estimate our market share to be 5 per cent, with the market leader nearly three times larger.

See pages 26 and 27 for relevant industrial market indicators and trends.

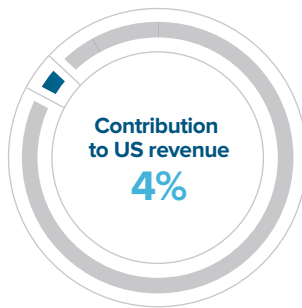
Regional performance and overview (continued)

Fire and Fabrication

Fire and Fabrication supports our customers working on fire protection systems in commercial buildings.

Key highlights this year

- Expanded own brand product offerings
- Broadened the fabrication services we offer to customers
- Opened a number of new locations during the year and expanded the size of several existing locations to support customer demand



Key products and services

Sprinkler systems

Hangers, struts and fasteners

Pipe fittings

Pipe fabrication

Pipes and tubing

Fire hydrant repair

Fabricates and supplies fire protection products, fire protection systems and bespoke fabrication services to fire contractors. These contractors work on new installations, renovations and servicing of fire systems principally in commercial buildings. Purchasing decisions are made based on service, relationships and inventory availability.

Product offerings include sprinklers and pipework, fittings, hangers and supplies. We offer fabrication services to customise the product offering based on our customers' needs. We also supply materials to large government, manufacturing and sports facilities.

Organic expansion during the year has included opening several new locations and expanding a number of existing fabrication facilities to support continued growth. We continue to expand our own brand product offerings and broaden the fabrication services we offer.

Ferguson is the number one in the USA with an estimated 22 per cent market share. The three next largest competitors hold approximately 37 per cent market share between them.

See pages 26 and 27 for relevant commercial market indicators and trends.

Facilities Supply

Facilities Supply provides products, services and solutions to enable reliable maintenance and renovation of commercial facilities.

Key highlights this year

- Excellent growth in multi-family and hospitality sectors
- Continued to use technology to increase productivity and improve customer service
- Leveraged ferguson.com to free up associate time to serve our customers



Key products and services

Janitorial supplies

Door and cabinet hardware

Appliances

Lighting

Paint equipment

Facilities Supply operates across several repair, maintenance and improvement markets. The majority of deliveries are made directly from Ferguson's distribution centre network to customer store rooms within a facility. Customers include multi-family properties, government agencies, hospitality, education, healthcare, commercial properties or building service contractors.

During the year the business grew well with excellent growth in the multi-family properties and hospitality sectors. The renovation business side of Facilities Supply has continued to grow organically and with the acquisition of Dogwood Supply.

We continue to use technology to increase productivity and improve customer service. Our outside sales team is using customer mapping technology to increase efficiency when calling on customers and we have developed an in-depth customer feedback process to help us identify and improve customer service in real-time. We encourage customers to use ferguson.com and system to system integrations freeing up associate time to serve our customers.

The market is both large and highly fragmented with no competitors holding more than 3 per cent market share. Ferguson's market share is estimated at approximately 1 per cent.

See pages 26 and 27 for relevant commercial market indicators and trends.



Our values in action: Integrity Helping those in need

“Ferguson comes to the rescue when no one else can, especially in times of natural disaster. Initially we support communities by supplying items such as generators and drinking water to help communities get back on their feet. Through our vast distribution network and wide product range, we work to help with the rebuild process. Recent examples are Puerto Rico and the US Virgin Islands. I go in, assess the situation and bring in Ferguson resources and supplies that will help get people back on their feet. The sooner our customers place purchase orders, the quicker we can get to rebuilding the lives of the people in these ravaged communities. There are billions of dollars earmarked from the federal government for disaster work. We need to be fast and efficient and demonstrate our value to government agencies in rebuilding communities. If we have products in customers’ hands when they need them, then we’ve done our job, connecting our resources to the people who need them most.”

Matt Lowry
Business Development Manager



Images

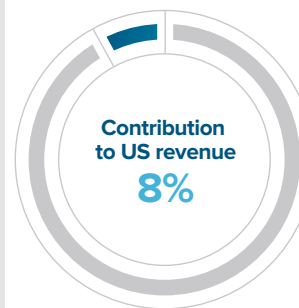
Left: Matt Lowry;
Above: Destruction caused by Hurricane Maria across the US Virgin Islands, Puerto Rico and Dominica.

eBusiness

eBusiness leverages our US product categories and supply chain with the majority of revenue generated through Build.com.

Key highlights this year

- Enhanced capabilities to deliver to more than 70 per cent of the US population in one day
- Created augmented and virtual reality functionality for thousands of plumbing and lighting products in app
- Continued to focus on trade customers to reduce pay-per-click spend



Key products and services

Bathroom, kitchen and lighting products

Door and cabinet hardware

Appliances

Call centre support and advice

Furniture and decor

eBusiness sells home improvement products directly to professional trade customers and consumers online predominantly using the Group’s existing product lines and distribution network. The majority of eBusiness is conducted through the brand Build.com, which is supported by a call centre. The call centre is staffed with knowledgeable consultants who deliver expert advice across all product categories. This differentiation gives us a competitive advantage against the other large competitors in the space.

eBusiness continues to evolve to support both professional trade customers and consumers driving a best-in-class experience through an improved website, mobile app and call centre. During the year we have created a tool on the website allowing customers to envision and design their projects in a simple, user-friendly way. Our mobile Build.com app has been enabled to support augmented and virtual reality for thousands of plumbing and lighting products, achieving nearly half a million downloads.

Our supply chain at Ferguson enables us to deliver to more than 70 per cent of the US population in one day, which we are now promoting on the website. We will continue to integrate across Ferguson’s branch network to support a more robust omni-channel experience for the customer.

During the year we continued to consolidate pay-per-click advertising spend around fewer trading websites and really focus on Build.com due to its excellent customer experience, well-known brand and search engine optimisation. Our dynamic pricing strategy and own brand penetration meant that gross margin held up well in the year.

The market is predominantly comprised of large competitors with the top four businesses holding an estimated 67 per cent of the market. Ferguson is estimated to be number four, down from last year as we consolidated pay-per-click advertising spend around fewer trading websites.

See pages 26 and 27 for relevant residential market indicators and trends.

Regional performance and overview (continued)

UK

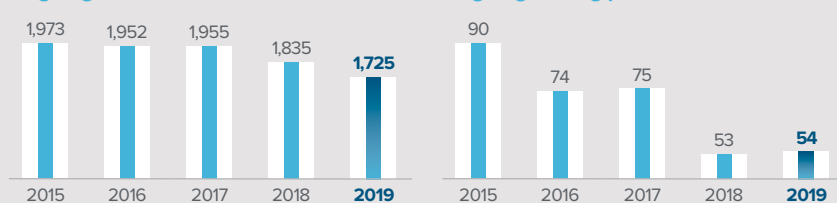
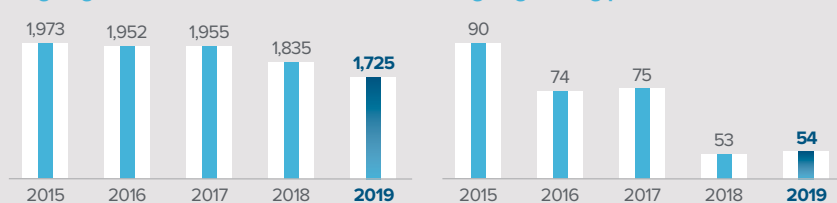
A leading trade distributor operating in the large and fragmented UK plumbing, heating and infrastructure markets. In September 2019, we announced our intention to demerge the UK operations subject to shareholder approval (see page 10 for further information).

Key highlights

- Like-for-like revenue growth of 0.6 per cent
- UK trading profit ahead in constant currency
- Markets remain challenging
- Preparing for proposed demerger

Five-year performance

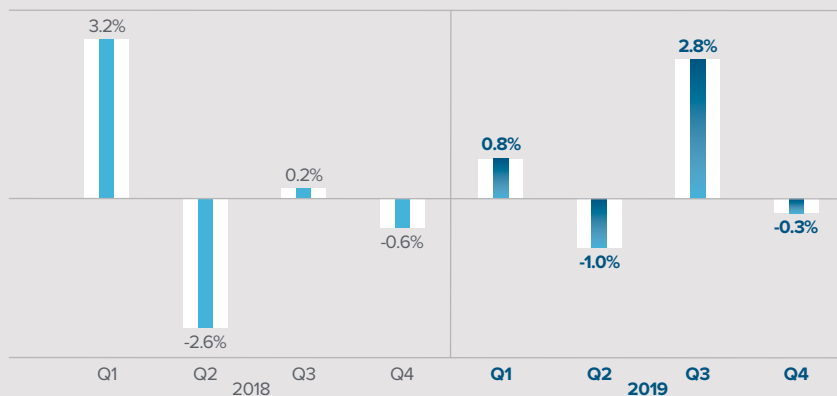
£m

Ongoing revenue¹Ongoing trading profit¹

1. 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 notes 2 and 3 on pages 118 to 122.

Quarterly like-for-like revenue growth

%



Business profile

The UK principally operates under the Wolseley brand serving the trade market through 551 branches and four 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 the year-end, Wolseley had over 5,000 associates.

Business units and market position

Blended Branches is the largest business within the UK, generating 82 per cent of the revenue. This business provides plumbing and heating products, air conditioning and refrigeration products and the associated pipes, valves and fittings to customers in the residential and commercial sectors. It also provides specialist above ground drainage products. Wolseley is the second largest merchant distributor in the UK.

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 1.6 per cent in the first quarter to 1.2 per cent in the final quarter. Consumer confidence has been negative for the last 12 months.

Operating performance

Like-for-like revenue growth in the UK was 0.6 per cent. Repairs, maintenance and improvement markets were flat. Gross margins were slightly ahead due to improved product mix. Ongoing trading profit of \$69 million was ahead on a constant currency basis and the trading margin was ahead at 3.1 per cent (2017/18: 2.9 per cent).

We continue to focus on the execution of our strategy and the focus of the business under new management over the last 18 months has been on industry leading availability, in-night branch fulfilment and outstanding customer service. We also made good progress on rationalising the logistics and supply chain network, closing the Leamington distribution centre in the second half with no disruption to customer service.

Canada

A wholesale distributor of plumbing, heating, ventilation and air conditioning, refrigeration, waterworks, fire protection, pipes, valves and fittings and industrial products.

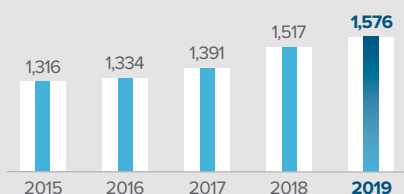
Key highlights

- Organic revenue decline of 1.1 per cent
- Ongoing trading profit flat in constant currency despite challenging market conditions
- Markets weakened through the year
- One acquisition completed in the year

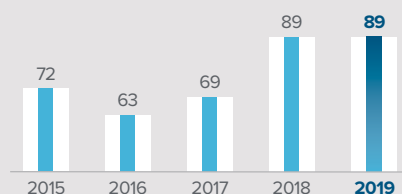
Five-year performance

\$CADm

Ongoing revenue¹



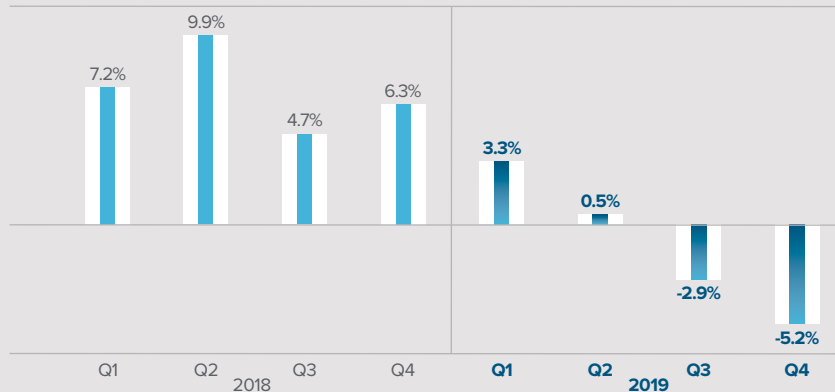
Ongoing trading profit¹



1. 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 notes 2 and 3 on pages 118 to 122.

Quarterly organic revenue growth

%



Business profile

Wolseley Canada predominantly serves trade customers across the residential, commercial and industrial sectors in both RMI and new construction. The business operates 217 branches with one distribution centre. At the year-end Canada had approximately 3,000 associates.

Business units and market position

Canada operates primarily under the Wolseley brand and supplies plumbing, heating, ventilation, air conditioning and refrigeration products to residential and commercial contractors. It also supplies specialist water and wastewater treatment products to residential, commercial and municipal contractors, and supplies PVF solutions to industrial customers. The business is the second largest in the market.

Market trends

Canadian GDP growth has decreased through the year from a high level in the first quarter of 2.0 per cent to 1.6 per cent in the final quarter. Consumer confidence has been high through the year with an average of approximately 55, a score above 50 indicates an expectation of growth.

Operating performance

In Canada, organic revenue was 1.1 per cent lower. Residential markets weakened throughout the year as a result of government measures to restrict mortgage credit, the impact of foreign buyer taxes and rising interest rates. Acquisitions contributed 5.0 per cent of additional growth. Gross margins were ahead of last year and operating expenses were well controlled. Trading profit of \$67 million was \$3 million ahead of last year when adjusted for the one-off gain of \$6 million from a legal settlement in 2017/18. The trading margin was 5.6 per cent (2017/18: 5.9 per cent). As previously announced, we completed one acquisition in the year with total annualised revenue of \$11 million.

Sustainability

Our sustainability programme

Our sustainability programme concentrates on three key focus areas which actively support our growth, improve associate engagement, address our top risks and compliance requirements or are important to our customers, suppliers and shareholders.

Key focus areas

During the year the Group Sustainability team conducted a detailed review of our sustainability programme to continue to align it with the latest best practice, utilising the guidance and methods provided by the Sustainability Accounting Standards Board. We also surveyed over 4,000 associates and a number of suppliers and customers to understand what they considered the key material issues that would most influence the long-term success of the Company. The results were reviewed by the Executive Committee to ensure that our programme continues to align with our strategic objectives. Consequently, our sustainability strategy has evolved this year to address the following three important focus areas:

1 Best associates



2 Efficient operations



3 Sustainable products and solutions



1. Best associates

As our associates are our most important asset, this focus area includes health and safety, diversity and inclusion, compensation and benefits, development and retention and social investment. For more information on our associates, see pages 16 to 19.



Health and safety

The health and safety of our associates, customers and suppliers is a fundamental value of the Group (see our values on page 16). We continue to invest in this area to address the causes of injuries, and engage with our associates, empowering them to do what is right. We have made encouraging improvements in our overall performance this year and there is much more still to do and we must never become complacent. An engaged, knowledgeable and empowered workforce is critical to our focus in health and safety. We are committed to investing the time and resources to continue improving our health and safety performance. This year, we embarked on improvement programmes that focus on proactively leading safety such as the following:

“For the first time we have set out the safety behaviours we expect from ourselves and our associates and provided improved guidance on the rules we need to follow to avoid accidents. Our performance has improved but we have historically been too reactive. Today we have a clear roadmap to move towards our goal of leadership in safety in the distribution industry.”

John Martin
Chief Executive



Expected safe behaviours and safety rules:

We have rolled out a defined set of expected safe behaviours for all associates to follow. The safety rules provide guidelines on safe practices around high-risk activities. Both the expected safe behaviours and safety rules underpin our safety value (see pages 16 and 31).

Closing the knowledge gap: We have developed a new safety programme for our leadership teams and all new associates. The aim of the new programme is to develop our safety leadership and empower our associates to take control of their safety and look out for their colleagues. This safety programme will be rolled out to all associates.

Leadership engagement: Tone from the top is critical and this year senior leaders were challenged to make site visits and engage associates in safety conversations about the risks they face on a daily basis at work. They were also asked to participate in behavioural observations and identify any good or unwanted practices and share those with associates in real time. These engagements encourage collective learning, increase awareness of safety challenges among our leaders and provide timely feedback on safe and unsafe work practices. For an example of this in action see our safety value case study on page 31.

Workplace improvement: We have provided our associates with the necessary tools needed to reduce disabling workplace injuries from material handling which is an ongoing challenge given the nature of our business. We have identified common risk factors in handling products and the appropriate equipment required to reduce the risk while equipping our branches with ergonomically designed equipment to help prevent injuries.

Driver safety: With over 5,000 drivers on the road it is critical to protect our drivers and other road users. This year we revised our driver safety programme with an emphasis on safe driving by incorporating Smith System's (a leading accident avoidance training company) Safe Driving Programme into our overall driver safety training.

Health and safety performance in 2018/19

Figure 1: Group total recordable injury rate

Group 2018/19 Total Recordable Injury rate: 2.96 – 22% improvement (3.80 in 2017/18)

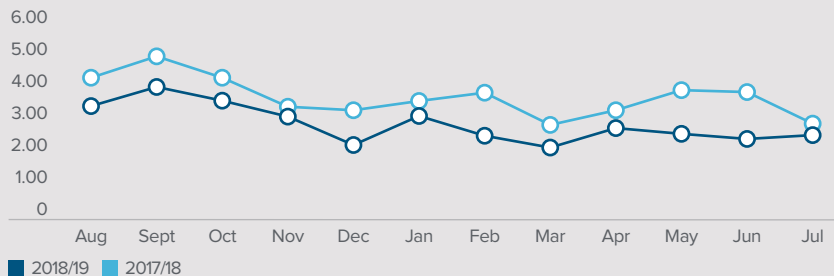
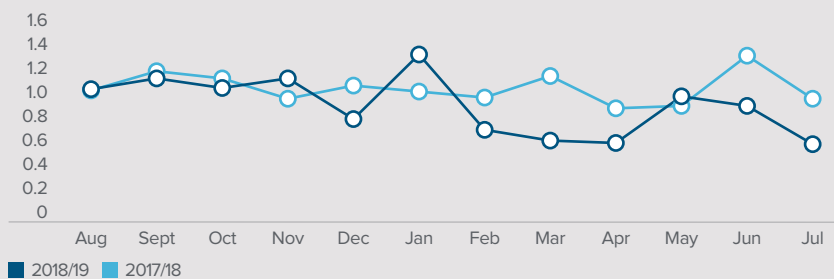


Figure 2: Group lost time rate

Group 2018/19 Lost time rate: 0.97 – 13% improvement (1.11 in 2017/18)



Total recordable injury rate: Total number of injuries per 200,000 hours (this represents 100 associates working 40 hours per week for 50 weeks). The change to 200,000 hours (from 100,000 hours last year) brings us in line with the US Occupational Safety and Health Administration guidelines. The injury number is based on associates receiving medical treatment beyond first aid that requires them to leave the workplace. The hours worked are calculated using full-time equivalent associate numbers and average days by business and assume an eight-hour working day.

Lost time rate: An injury case that involves at least one day absent following the day of an injury authorised by a registered medical professional.

In 2018/19 the Group's total recordable injury rate and lost time rate improved by 22 per cent and 13 per cent respectively compared to last year (see figures 1 and 2). This improvement is due to robust associate engagement programme, senior leadership commitment and engagement from all management levels, allocation of safety resources and deployment of safety professionals in the field to focus on areas such as material handling and training.

Focusing our social investment

Our associates are incredibly generous with their time and talents in the communities we serve, and the Group is committed to supporting our four key priorities for social investment following engagement with our associates:

Skilled trade: The skilled labour gap remains a challenge for many of our customers, and Ferguson is committed to ensuring that more plumbers, HVAC technicians, electricians and welders enter the workforce. In 2018/19, our US business reiterated its commitment to investing in the Skilled Trades by supporting the mikeroweWORKS Foundation through funding of their Work Ethic Scholarships.

Founded upon the mission to change the perception that a four-year degree is the best path to success, the mikeroweWORKS Foundation is committed to challenging the stigmas and stereotypes that discourage individuals from pursuing the millions of available jobs. Since its inception, mikeroweWORKS has granted or helped facilitate the granting of more than \$5 million in Work Ethic Scholarships and other like-minded programmes that also work to close the skills gap. The Foundation is Ferguson's second major partnership in the skilled trades. In 2017/18 we signed an agreement to support SkillsUSA, a partnership of students, teachers and industry professionals working together to ensure the USA has a skilled workforce.

Clean water and sanitation: Given our size and national footprint in the USA, we are uniquely positioned to assist those in our communities that lack access to running water and sanitation. Recognising this opportunity, the US business committed to a three-year partnership with Dig Deep, a non-profit organisation working to provide access to clean water for underserved communities.

An estimated 1.6 million Americans still lack access to clean water and Ferguson will be providing both monetary and product donations to help address this issue. Specifically, the donations from Ferguson will be used to fund the Community Plumbing Challenge, an annual project to expand water access in the Navajo Nation.

Not only does this project measurably improve access to clean water and sanitation in these communities, but also brings together the skills of water industry professionals with students learning to enter a career in the skilled trades.

Hunger: Every spring, Ferguson associates across the USA participate in the Feed the Need challenge to help eradicate hunger in the communities we serve. Collectively, Ferguson associates collected more than 50,000 pounds of food and provided 43,000 meals for our neighbours in need. Every year the three locations that collect the most food receive a corporate donation of \$5,000 to their local community food bank.

This year, our Richland Distribution Centre associates won the competition by collecting over 11,900 pounds of food to donate to their community partner, Tri City Foodbank.

Housing: Ferguson continues to support Homes For Our Troops, a non-profit organisation dedicated to building and donating specially adapted custom homes for severely injured veterans. Ferguson's recent acquisitions to our Own Brand portfolio, including Safe Step, which offers walk-in tubs, allows us to provide not only financial support to Homes For Our Troops, but also product donations.

Front Royal distribution upcycles waste

Recycling and fitness don't necessarily go hand in hand – but at Ferguson, they do! We have high standards for product quality and our Front Royal Distribution Centre associates upcycle water tubing that doesn't make the cut, building hula hoops for local public schools. We've donated over 400 hula hoops every year, for eight years.



Sustainability (continued)

2. Efficient operations

Initiatives that support this focus area include energy management, supply chain management, fuel consumption and emissions reduction.

**Goals**

Ferguson strives to increase accuracy in our environmental data wherever possible, and in 2018/19 our estimates of historical data were replaced with actual data where available. We improved methods for estimating outsourced transportation data and air emissions resulting from business travel. For consistency, we also removed data for non-ongoing businesses Wasco and Soak.com. Further detail on the data provided can be found in the "Basis of Reporting" document on the Ferguson plc website www.fergusonplc.com.

Our five-year carbon and waste reduction goals set in 2015/16:

Reduce carbon emissions**-10%****Reduce total waste****-15%****Achieve recycling rate of****40%**

Performance at the end of 2018/19, three years into the target period, is as follows:

Carbon**-12.9%****Total waste****-8.1%****Total waste recycled****24.1%**

In September 2019 Ferguson was included in the Dow Jones Sustainability Europe Index. We achieved a perfect score of 100 in the environmental reporting category, reflecting the commitment to meet our sustainability goals and to continually improve reporting transparency. Launched in 1999, the Dow Jones Sustainability Index is the longest-running global sustainability index worldwide and tracks the sustainability performance of the world's largest companies.

Carbon emissions

Our carbon emissions per \$ million revenue, (shown in figure 1) improved by 12.9 per cent compared to the 2015/16 baseline (20.3 tCO₂e per \$m revenue in 2018/19 compared to 23.3 tCO₂e per \$m revenue in 2015/16). The significant improvement year-over-year was as a result of carbon reduction initiatives in the year. We also benefited from a continued reduction in Scope 2 emissions due to a cleaner conventional electricity grid mix in the countries where we operate.

The Group grew in both size and revenue in 2018/19, and as a result, our Scope 1 and Scope 3 emissions grew year-over-year. Scope 1 emissions increased as our businesses experienced a higher number of heating days in 2018/19, which increased our natural gas usage. Our owned fleet vehicles also contributed to the increase in our Scope 1 emissions and we are currently implementing a new transportation management system to ensure we are minimising our fleet emissions.

In the USA, we introduced feasibility studies targeting introducing renewable energy projects to our distribution centres. With Scope 3 emissions driven largely by our outsourced transportation partners, we connected with our three largest US suppliers to ensure that they are reducing their carbon emissions and improving their fuel efficiency. Each of these carriers maintains US Environmental Protection Agency's SmartWay Transport Partnership status and received 2018 SmartWay Excellence Awards.

In 2018/19, branch closures in the Wolseley UK business contributed to a reduction in energy usage and reduced Scope 2 carbon emission. Additionally, 100% of the energy required to power the Wolseley UK head office was sourced from a mixed renewable blend, including biomass, wind and solar.

Wolseley Canada's Scope 3 emissions increased slightly year-over-year due to vehicle fuel usage. Our Canadian business is exploring technology and fleet incentives to achieve future reductions in this area.

Decreasing our carbon footprint

Our fleet of trucks and vans are essential for getting products to customers on-time. Always looking for ways to use less fuel, we implemented an innovative solution for 50 vehicles within the US business: applying regenerative braking technology developed by XL Hybrids. By adding this to our vehicles, we saved over 22,000 gallons of fuel last year.

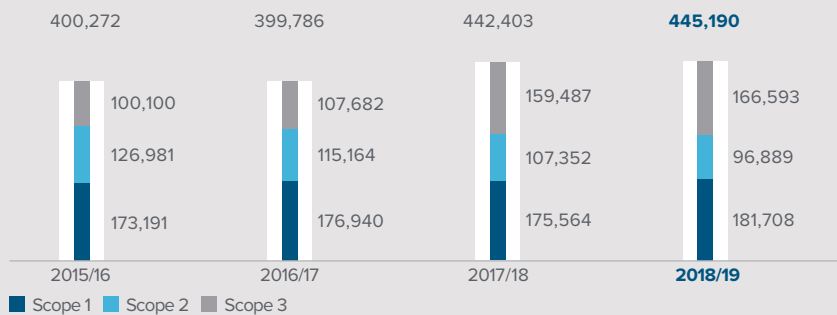
Waste

During 2018/19, total waste has decreased 8.1 per cent relative to revenue versus our base line in 2015/16 (3.4 US Tons per \$m revenue in 2018/19 versus 3.7 US Tons per \$m revenue in 2015/16) due to our waste reduction initiatives and revenue growth outpacing increases in total waste. The total waste recycled during the year was 24.1 per cent.

As part of our waste reduction initiatives, we added over 60 new recycling locations in the US business and continue to recycle significant volumes of corrugated cardboard, shrink wrap, pallets, scrap metal and bottles and cans. We also introduced new waste minimisation strategies including providing reusable totes in distribution centres and donating discontinued products to charities. However, hard-to-recycle commodities including fibreglass and acrylic products remain a challenge and we are conducting research on innovative ways to divert these from landfill to ensure we meet our recycling goals.

Figure 1: Carbon emissions**Metric tonnes of CO₂ equivalent per million US dollars of revenue**

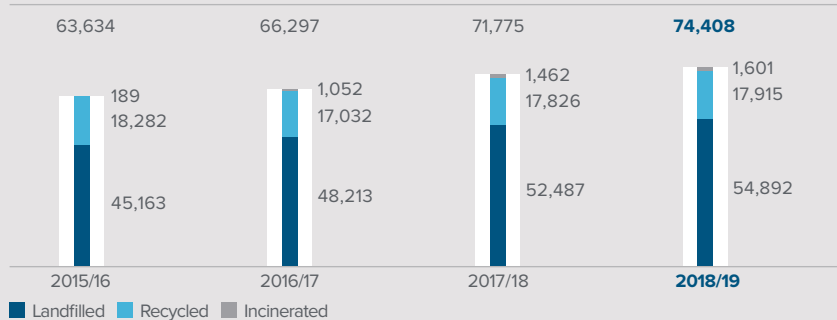
Carbon emissions	2015/16	2016/17	2017/18	2018/19	Increase/ (reduction) from 2017/18	Increase/ (reduction) from 2015/16
Scope 1 and 2 emissions	17.5	15.7	14.0	12.7	(9%)	
Scope 3 emissions	5.8	5.8	7.9	7.6	(4%)	
Total emissions	23.3	21.5	21.9	20.3	(7%)	(12.9%)

Total carbon emissionsMetric tonnes CO₂ equivalent**Figure 2: Waste generation****Relative waste – US Tons per \$ million revenue**

Carbon emissions	2015/16	2016/17	2017/18	2018/19	Increase/ (reduction) from 2017/18	Increase/ (reduction) from 2015/16
Landfilled and incinerated	2.6	2.6	2.7	2.6	(4%)	
Recycled	1.1	0.9	0.9	0.8	(11%)	
Total waste	3.7	3.5	3.6	3.4	(6%)	(8.1%)

Total waste generation

US Tons



Our approach to measuring carbon was developed in accordance with the Greenhouse Gas Protocol. Emissions are calculated using the carbon factors from the Department for Environment, Food & Rural Affairs in the UK, the International Energy Agency in France and the Environmental Protection Agency in the USA and are reported as tonnes of CO₂ equivalent (abbreviated as tCO₂e) based on the Global Warming Potential of each of the “basket of six” greenhouse gases, as defined by the Kyoto Protocol. Due to rounding of the figures in the bar charts and tables there is not always a precise correlation with the sub-total and total performing figures.

Our waste data accuracy in the UK improved as we switched to a new supplier for wood pallet recycling. While we previously received estimated weight tickets for the pallets recycled across the UK business, our actual data reflected a higher amount of recycling than previously stated. Our waste diversion numbers have been appropriately restated to capture this improvement in data.

Walseley Canada reduced the amount of total waste generated year-over-year, but saw no growth in the rate of recycling for the business. The business will be focusing on this area of improvement in 2019/20.

Further detail on the data provided can be found in the “Basis of Reporting” document on the Ferguson plc website www.fergusonplc.com.

Reducing waste and helping communities

Focusing on our waste footprint is critical to achieving our recycling target, and our associates are making a difference every day by helping us focus on this goal. Eduardo Gomez, an associate in Pomona, California, enlisted the help of Good360 to repurpose discontinued items destined for landfill. 50 toilets and 30 porcelain sinks were sent to help disaster recovery efforts in Florida and areas affected by Hurricane Harvey. These efforts were not a one-off: we are in the process of donating additional products to Good360.

“People are still putting their lives together after the hurricanes. We’re happy these products found a second life, helping people who lost their homes to natural disasters.”

Eduardo Gomez
Configuration Analyst, Pomona

Sustainability (continued)

3. Sustainable products and solutions

Projects within this focus area include product quality and integrity, product packaging and design, and lifecycle impacts of the products and services we offer.

**Product quality and integrity**

We require all our major suppliers to sign a Supplier Code of Conduct (or operate under its own comparable business conduct principles) and reserve the right to terminate a business relationship with any supplier that violates any of our principles. This agreement includes requirements for social responsibility, including human rights and labour standards, standards for meeting environmental regulations and providing safe working conditions, measures for anti-bribery and corruption and supply chain transparency. During 2018/19 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. Each business also 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.

A new role of Director of Quality was recruited in 2018/19 to focus on our own brand suppliers and oversee a quality assurance team that performs on-site audits for all new suppliers. The team uses a checklist to measure supplier performance against criteria for quality, labour, wages and working hours, health and safety and environmental protection, and ensures that on-site conditions meet Ferguson standards.

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 45,000 suppliers in over 40 countries, we source over 95% of our manufactured goods from suppliers in North America and Western 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 2018/19, key milestones included:

- **Continuing to commit suppliers to Ferguson's anti-slavery standards.** In total, over 1,800 major suppliers have contractually pledged to abstain from use of child, forced, or involuntary labour in their operations. Approximately 14 per cent of these suppliers are in countries with a prevalence of modern slavery according to The Global Slavery Index.
- **Harmonisation of anti-slavery measures across our businesses.** Our businesses have continued the process of incorporating ethical and anti-slavery elements in their supplier audit methodologies, best practices from our acquired businesses (e.g. Jones Stephens).
- **Launching a new risk assessment tool to enhance the effectiveness of our anti-slavery engagement with our international suppliers.** We have implemented a new risk assessment tool that flags potential high-risk suppliers for further inquiry, based on geographic location (linked to The Global Slavery Index 2018 and Transparency International's Corruption Perceptions Index).

We are determined in our commitment to eradicate any form of modern slavery in our global supply chain.

Additional details of our anti-slavery practices and activities during 2018/19 are set out in our annual statement in accordance with section 54 of the Modern Slavery Act, available here www.fergusonplc.com.

Sustainability and product design

Offering a range of products with lower environmental impact is important for our customers and we are focusing on the sustainability benefits of the products that we sell, particularly in our own brand range. Ferguson received four Platinum ADEX awards for products in our Mirabelle and Park Harbor lines. This recognition, provided by the Awards for Design Excellence, was based on the design and sustainability of the products designed by Ferguson. They included the Mirabelle Sitka one-piece high efficiency skirted toilet, the Park Harbor Woodbury LED exterior wall lantern, the Park Harbor LED bath light and the Park Harbor LED chandelier.

Climate-related risks and opportunities

Following the recommendations from the Task Force for Climate-related Financial Disclosures ("TCFD"), Ferguson has convened subject matter experts from across the business to examine the specific risks and opportunities to the business posed by climate change. For additional information on the climate-related risks and opportunities specific to Ferguson, please refer to our public Climate Change CDP Response, available at www.cdp.net. You can view our climate-related risks and opportunities online at www.fergusonplc.com.

Section 172 of the Companies Act 2006

Information on how the Directors have had regard to the provisions of section 172 of the Companies Act 2006 is available on pages 14 to 19, 42 to 53 and 64 and 65.

Non-financial information statement

In December 2016, the UK Government published new regulations implementing the European Union Directive on disclosure of non-financial and diversity information (the "Non-Financial Reporting Directive"). The regulations amend the Companies Act 2006 requirements for the strategic report and include diversity requirements in the Disclosure and Transparency Rules. Ferguson falls within the scope of the Non-Financial Reporting Directive and sets out the required information below:

- Environmental matters (including the impact of the Company's business on the environment) on pages 42 to 46.
- The Company's employees on pages 16 to 19 and 42 to 46.
- Social matters on pages 42 to 46.
- Respect for human rights on pages 16 to 19 and 42 to 46.
- Anti-corruption and anti-bribery matters on pages 16 to 19.

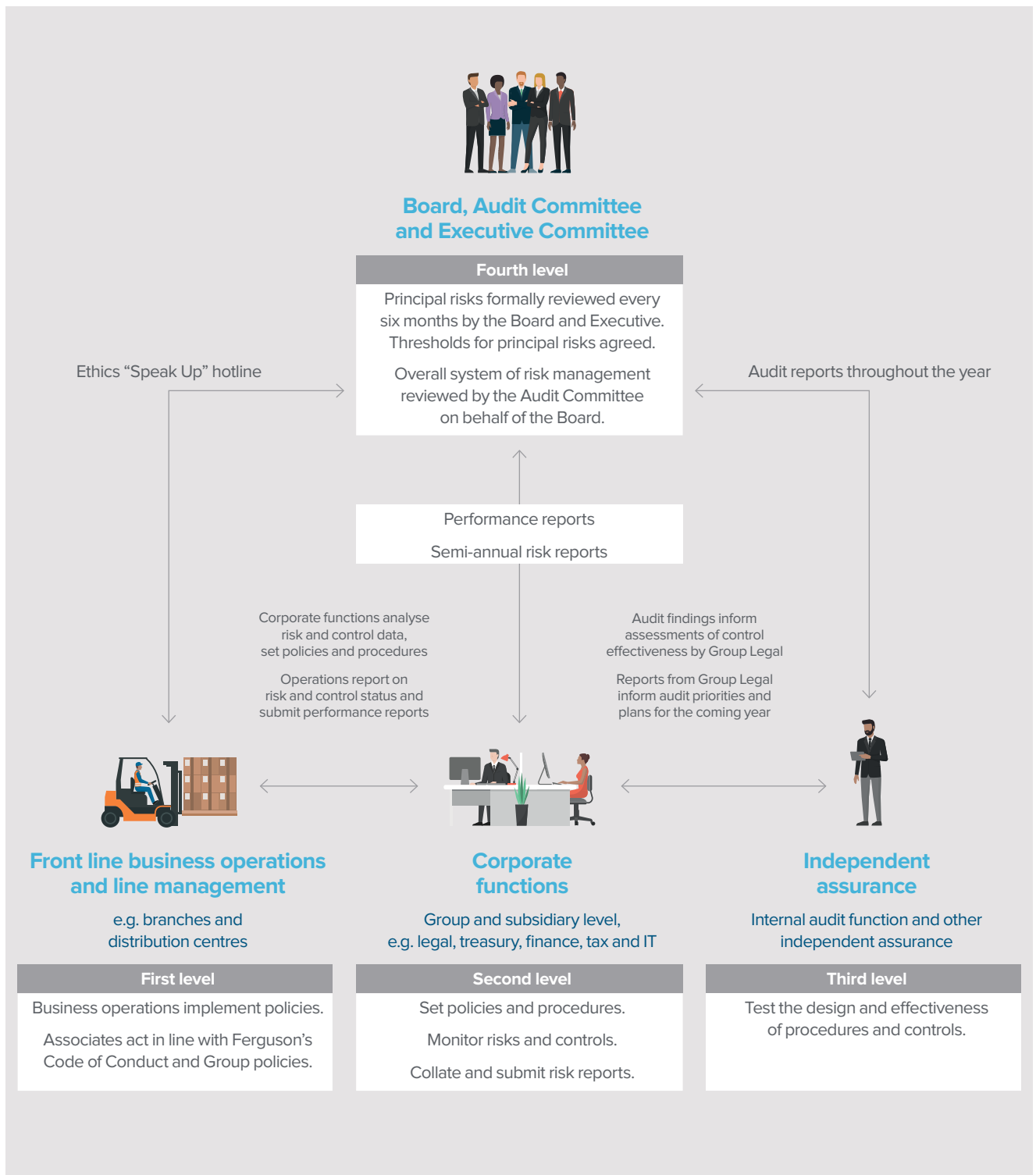
The Directive also requires references to a description of the Group's business model (pages 14 to 19), principal risks, including those relating to the matters identified above, (on pages 47 to 53), and key performance indicators (on pages 20 and 21).

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 assurance.



Principal risks and their management (continued)

Risk analysis during the year

2018/19 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 2019, the Board provided its perspective on risks relating to the Group's strategy for 2019/20 and beyond. The Board's assessment was then combined with bottom-up risk reports received from business units in February and August 2019 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 July 2019. The mitigation in place for each principal risk was then reported to and reviewed by the Audit Committee in March 2019 and in September 2019.

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 2019. Related risks considered by the Board in January and July 2019 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, 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	With the appointment of a new General Counsel, the Group will be conducting a broader assessment of the Group's compliance programme in 2019/20. The status of the Group's anti-bribery programme was reported to the Audit Committee in January 2019.
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 2018 and March 2019. The Group is focused on the ongoing uncertainty regarding tariffs and international trading (in particular between the USA and China) and responding with appropriate actions.

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 2022 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 and future prospects are described on pages 2 and 3 and 6 to 19. 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 2019. 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 Macro political tax risk
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 77.

UK withdrawal from the European Union

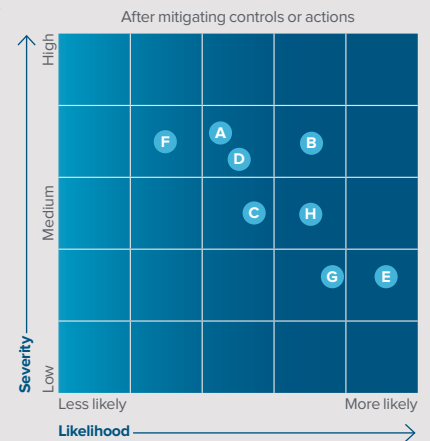
The UK leaving the European Union ("EU"), and the uncertain terms of such withdrawal, continues to produce some market uncertainties including volatility in the sterling exchange rate against the US dollar. From 2018 the Group changed the presentation of its financial statements from sterling to US dollars 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 UK domestic demand which could have a negative impact on the business. Leaving the EU without future certainty over future tariffs and regulations could impact the UK's supply chain and lead to inventory shortages which could adversely impact demand. In addition, disruption in the financial markets could adversely affect the share price. The Group will continue to monitor developments.

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.

The chart shows management's assessment of material risks. 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.

As part of the ongoing risk management process, the Board and the Group's management have identified and assessed emerging risks, and worked with stakeholders to evaluate the impact of such risks to the business. Although none of these risks are deemed to be significant and are consequently not listed as one of the Group's principal risks, they are tracked in case they evolve to become more significant. One such risk relates to the geographical composition of the Group's shareholder register. If shareholders resident in the USA exceeds 50% of the total, the Group would be subject to additional US regulatory requirements, most notably SEC registration and reporting and Sarbanes Oxley compliance. A detailed beneficial ownership study is conducted on an annual basis to ensure compliance.

Another emerging risk is climate change and the impact of this on our business. During the year, the Group commenced a project to get more clarity on the risk climate changes presents. During the year, the Group has convened subject matter experts from across our businesses to examine the specific risks and opportunities to the Group posed by climate change.

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 25.

Principal risks and their management (continued)

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

Strategic priorities

Operating model
and e-commerce
development

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

Ferguson Ventures has continued its partnerships with, and investments in, a range of technology companies that are operating in our markets and solving industry problems, and participating in new business models. During the year, we set up the Ferguson Ventures Innovation Lab (based in Atlanta, Georgia), which is focused on exploring areas of innovation and disruption by evaluating consumer and industry evolution in technology and service design.

In addition, during the year, our businesses have adopted next generation technology and the latest digital tools in order to improve customer service and effective information sharing (for example, the Group's deployment of Microsoft's Teams platform and a shift to channel-based communications).

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.

B Market conditions

Risk is higher 

Inherent risk level

High

Trend

Higher

Strategic priorities

Organic
expansionPricing
discipline

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 11 and 26 to 41.

Changes during the year

This risk has increased during the year as US market growth moderated in the second half.

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 pages 48 and 49.

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 49).

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

Strategic priorities



Organic expansion



Operating model and e-commerce development



Pricing discipline

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 year, 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 10 basis points ahead in 2018/19 with growth driven by improved product mix and procurement efficiencies.

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, own brand, and other growth sectors continue to grow and the Group has made acquisitions in these areas during 2018/19. Refer to pages 10 and 146 and 147 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 ("IT")

Risk is unchanged 

Inherent risk level

High

Trend

Unchanged

Strategic priorities



Operating model and e-commerce development

Definition and impact

Technology systems and data are fundamental to the day-to-day operations and future growth and success of the Group. The Group is increasingly dependent on sophisticated information technology and infrastructure. 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 clearly defined global technology strategy and roadmap (see page 19).

Under the management of the Chief Information Officer, the Group has made progress in implementing its technology strategy and roadmap, including commencing significant upgrades to its enterprise-wide resources planning systems.

IT General Controls were independently tested by Internal Audit and findings reported to the Audit Committee. This process now falls under the normal Internal Audit Committee reporting throughout the year.

Briefings on the status of the Group's IT strategy, and its implementation have been 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.

Implemented a rolling three-year 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.

Principal risks and their management (continued)

E Health and safetyRisk is unchanged **Inherent risk level**
Medium**Trend**
No change**Strategic priorities** Engaged associates Excellent service ethic**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



The Group's strategic plan is focused on the elimination and control of risks causing disabling injuries, improving our safety culture and closing the safety, health and environmental knowledge gap among our associates. The hiring and deploying of health and safety professionals in the field provides businesses with technical resources to more effectively mitigate risk. Our efforts in these areas have improved the overall performance of the Group, see pages 42 and 43 for more information.

Mitigation

Health and safety is a fundamental value in our organisation.

Our leaders have specific roles to play and are required to actively engage with our associates in ensuring a healthier and safer workplace. Our performance is reported and discussed at both the Executive Committee and Board meetings.

The Group maintains a health and safety policy, with detailed minimum standards, and standard operating procedures which sets out requirements for all businesses. Branches are audited against these standards and businesses are implementing fundamental changes to transform our culture. For more detail see pages 42 and 43.

F RegulationsRisk is lower **Inherent risk level**
High**Trend**
Lower**Strategic priorities** Organic expansion Own brand penetration**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

There has been no major change in the level of regulation applying to the Group this year. Following the adoption of GDPR, the procedures and controls implemented by the relevant businesses within the Group to ensure compliance were reviewed and improvement measures put in place.

The Group's Code of Conduct was updated during the year and is focused at clearly setting out the standards that are expected from our associates. This includes the commitment to strict compliance with the various laws and regulations that apply wherever the Group operates.

Further information on the Group's ethics and compliance programme can be found on pages 18 and 46.

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 retentionRisk is unchanged **Inherent risk level**
Medium**Trend**
No change**Strategic priorities****All** All 10 of our
priorities driving
performance**Definition and impact**

As the Group develops new business models and new ways of working, it needs to develop suitable skillsets.

Furthermore, as the Group continues to execute a number of strategic change programmes, it is important that existing skillsets 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.

Kevin Murphy, the US CEO, will succeed John Martin as Group Chief Executive on 19 November 2019. For further information, see pages 2 and 3, 10, and 72 to 75.

Talent management procedures were reviewed during the year (see page 17 for 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.

A new talent review process was launched across the Group to be aligned with our organisational strategy.

The Group continues to invest in associate development.

H Macro political tax riskRisk is unchanged **Inherent risk level**
High**Trend**
No change**Definition and impact**

The wider macro political and economic situation is uncertain in some of the territories in which Ferguson operates and changes could adversely impact the Group’s business as well as the Group’s future tax rate. A combination of growing international trade pressures, including trade-related actions taken by the USA and China and rising debt levels, is creating political and regulatory uncertainty which could lead to changes in the prevailing tax regime and adversely impact the Group’s results.

Changes during the year

The Group’s headquarters were relocated from Switzerland to the UK which facilitated the continued simplification of the Group’s corporate structure in line with its strategy.

Group Tax continues to allocate 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 Group assesses, and takes appropriate action to respond to, the impact of the introduction of, and/or change to, customs duties and tariffs on imported products.

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














John Martin
Group Chief Executive

Governance

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Our strategic priorities to drive performance

On the following pages the symbols below indicate where the activity of the Board and its Committees related to the strategic priorities to drive performance set out on pages 12 and 13.

-  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
-  Accelerate innovation across the Group
-  All 10 of our priorities driving performance



Governance overview

Leadership and effectiveness

Dear Shareholder

I am pleased to present the Company's Corporate Governance Report for the financial year ended 31 July 2019.

This has been a year of significant change for the business as we continue to increase our geographic focus on attractive North American markets and we have continued to make excellent progress implementing our succession plans and reshaping the Board to ensure we have the right balance of Executive and Non Executive skills and experience to support the business over the long term.

As ever, ensuring that Ferguson maintains a robust strategy to deliver profitable growth was an important area of focus for the Board this year. Details on how the Board has overseen the development and implementation of the Group's strategy is set out on page 61. Outside of the regular discussion of strategy at Board meetings, we have continued our programme of visits to the US business with Board and Committee meetings coupled with site visits in Atlanta and New York during the year. This has allowed the Board to meet directly with our associates and customers, and to experience the drive and passion that makes Ferguson a company that I am proud to have been a part of for the last 16 years.

As noted in my statement on pages 2 and 3, this year we have significantly reshaped the Board to support our strategy. In September, we announced that John Martin will step down as Group Chief Executive on 19 November 2019 and that he will be succeeded by Kevin Murphy, currently CEO of our US business. In May we announced the appointment of Geoff Drabble as a Non Executive Director. Geoff will, subject to shareholder approval, succeed me as Chairman of the Company and Chairman of the Nominations Committee after our 2019 AGM. On 1 October 2019, we announced that Darren Shapland would step down as a Non Executive Director and Chairman of the Audit Committee following the conclusion of the 2019 AGM and that he will be succeeded as Audit Committee Chairman by Alan Murray, our Senior Independent Director. Additionally, two new Non Executive Directors, Cathy Halligan and Tom Schmitt, joined the Board during the year. These changes have continued to strengthen the profile of the Board, further aligning it with the profile of the Company. I am also pleased to report that our new Non Executive Directors have integrated well, contributing fully to Board discussions and helping us to provide support and constructive challenge to management. Further information on succession and the Board appointments made during the year can be found in the Nominations Committee report on pages 72 to 75.

Diversity is a source of strength for our business, and I am pleased to report that we have continued our oversight of the Group's diversity initiatives and that management, led by the Group Chief Executive and Chief Human Resources Officer, is making progress in enhancing our diversity and inclusion programme. Further detail on the Board's approach to diversity, including the Board Diversity Policy and performance against its specified objectives, can be found on page 75 and further detail on how we have approached diversity across the Group, including our gender pay gap information, can be found on page 17.

The Board also continues to look for ways in which it can improve and develop and I am pleased to report that good progress has been made against the areas for improvement identified during the externally-facilitated effectiveness review conducted in 2017/18. This year we conducted an internally-facilitated review of Board and Committee effectiveness and further information on that review can be found on page 63. In addition to the priorities identified by the effectiveness review, ensuring smooth CEO succession and supporting Kevin as he settles into his new role will be a key priority for the Board next year.

I am proud of the work we have done during my tenure to foster an effective governance framework that supports the Group's core values and underpins our ability to set the overall strategic direction of the Group. It is my belief that corporate purpose and values properly embedded in a business and aligned with strategy create a culture that optimises performance. I am pleased that the Board approved a refreshed Group vision, mission and values statement during the year and you will find examples of how our fantastic associates, who are the heartbeat of this business, have lived these values throughout this report.

For the financial year ended 31 July 2019, we are reporting against the 2016 version of the UK Corporate Governance Code (the "Code") and confirm full compliance with its provisions. A copy of the Code can be found on the Financial Reporting Council website www.frc.org.uk. This section, together with the reports from the Nominations, Audit and Remuneration Committees provide a description of how the Company has applied the main principles and complied with the relevant provisions of the Code. In this report we have used its core principles as the framework to explain our governance practices and the boxes at the bottom of this page direct you to further detail.

The existing Code will be replaced by the 2018 UK Corporate Governance Code (the "2018 Code") as the standard against which the Company measures itself in 2019/20. During 2018/19, we reviewed our corporate governance processes against the requirements of the 2018 Code and agreed a number of enhancements to ensure that we are compliant with the 2018 Code. The steps we are taking include:

- Reviewing and approving refreshed Group vision, mission and values.
- Reviewing how the Board engages with key stakeholders and appointing Alan Murray as Employee Engagement Director.
- Reviewing and enhancing the process for Board members accepting external appointments.
- Reviewing and approving updated governance documents.
- Enhancing the way in which Board papers address issues relating to our stakeholders and alignment with the Group's values.

Finally, I would like to take this opportunity to thank our shareholders for their support over the past 16 years. I, along with the Board and my successor, will be available to respond to any questions on this report or any of the Board's activities at the 2019 AGM and I look forward to seeing you there.



Gareth Davis
Chairman

Core principles

Leadership

Continued close focus on strategy and its execution.

+ Pages 55 to 63, 65 and 72 to 75

Effectiveness

A strong, open and effective Board.

+ Pages 55 to 63, 65 and 72 to 75

Accountability

Close scrutiny of risks and controls.

+ Pages 66 to 71 and 76 to 79

Remuneration

Prudent oversight of executive remuneration.

+ Pages 80 to 106

Relations with shareholders

Open engagement with shareholders.

+ Page 64

Board of Directors

**Gareth Davis**

Chairman
(stepping down on 31 January 2020)



Appointed Chairman: January 2011

Appointed to the Board: July 2003
(as a Non Executive Director)

Key strengths and experience:

- Extensive international board and general management experience
- Exceptional chairmanship experience

Gareth has served on and chaired various company boards for many years including eight years as Chairman of William Hill PLC. He spent 38 years in the tobacco industry in a variety of operational management and leadership roles and was Chief Executive of Imperial Tobacco Group plc from its incorporation in 1996 until May 2010.

Other principal appointments:

Chairman of DS Smith Plc.

**Geoff Drabble**

Independent Non Executive Director and
Chairman designate



Appointed: May 2019

Key strengths and experience:

- Extensive leadership experience in the distribution, technology and manufacturing sectors
- Deep knowledge of US markets and operating conditions

Geoff served as Chief Executive of Ashtead Group plc, the FTSE 100 industrial equipment rental company, for 12 years during which he presided over a period of unprecedented growth in the business and was instrumental in creating a strong culture. He was previously an executive director of The Laird Group plc, where he was responsible for its Building Products division, and held a number of senior management positions at Black & Decker.

Other principal appointments:

Non Executive Director at Howden Joinery Group Plc.

**John Martin**

Group Chief Executive
(stepping down on 19 November 2019)



Appointed Group CEO: September 2016

Appointed to the Board: April 2010
(as Group Chief Financial Officer)

Key strengths and experience:

- Extensive operational and financial management experience running large international businesses
- Strong leadership capabilities and significant experience in strategic development and driving improvements in operational performance

John has a deep understanding of Ferguson having joined the Company as Group Chief Financial Officer in 2010 and he assumed management responsibility for the Group's Canadian business from 2013 until his appointment as Group Chief Executive in 2016. Prior to joining Ferguson, he was a partner at Alchemy Partners, the private equity group, and Chief Financial Officer of Travellex Group and Hays Plc.

Other principal appointments:

Non Executive Director at Ocado plc.

**Cathy Halligan**

Independent Non Executive Director



Appointed: January 2019

Key strengths and experience:

- Experienced senior executive with extensive board experience
- Extensive digital transformation, digital commerce, data analytics and marketing experience

Cathy has a strong track record in the retail, e-commerce and multi-channel arenas. She has served as the Chief Marketing Officer at Walmart.com, the SVP Sales and Marketing at PowerReviews and held senior marketing and internet roles at retailer Williams-Sonoma Inc., where she was responsible for leading efforts to launch its brands, such as Pottery Barn, on the web. She was an independent board director at Wilton Brands from 2016 to 2018.

Other principal appointments:

Non Executive Director at FLIR Systems, Inc. and Ulta Beauty, Inc.

**Alan Murray**

Independent Non Executive Director



Appointed: January 2013

Key strengths and experience:

- Considerable international operational experience
- Extensive executive management experience within global businesses

Alan is a qualified chartered management accountant with extensive business leadership skills, executive and board experience and global business and financial reporting expertise. From 2002 to 2007, Alan served as Group Chief Executive of Hanson plc, where he had previously served as Finance Director and Chief Executive of Hanson Building Materials America. He served on the Management Board and Supervisory Board of HeidelbergCement AG and as a Non Executive Director of International Power plc.

Other principal appointments:

Non Executive Director of Owens-Illinois, Inc.

**Tom Schmitt**

Independent Non Executive Director



Appointed: February 2019

Key strengths and experience:

- Significant operational experience
- Extensive knowledge of US and international logistics and supply chain businesses

Tom is an experienced CEO with significant first-hand leadership experience of the markets in which the Group operates and a track record of driving accelerated profitable growth and promoting integrity, transparency and values-based leadership. His career started at BP and McKinsey and has encompassed leadership roles at FedEx, AquaTerra Corporation and Schenker AG. He served as a Non Executive Director of Zooplus AG from 2013 to 2016.

Other principal appointments:

Chairman and Chief Executive Officer of Forward Air Corporation, Inc.

Key to Board and Committee Membership

Audit	Treasury
Disclosure	Employee Engagement Director
Executive	Senior Independent Director
Nominations	Committee Chair
Major Announcements	
Remuneration	

Appointments and other Board and Committee members

With the exception of Geoff Drabble, Cathy Halligan and Tom Schmitt, who were appointed on 22 May 2019, 1 January 2019 and 11 February 2019 respectively, each Board member listed on this and the following page served throughout the financial year ended 31 July 2019.

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.



Kevin Murphy

Chief Executive Officer, USA
(Group Chief Executive from 19 November 2019)



Appointed: August 2017

Key strengths and experience:

- Strong leadership skills with a strong track record of driving profitable growth
- Deep company and industry knowledge

Kevin is responsible for all of the Group's businesses based in the USA. He joined Ferguson in 1999 as an operations manager following the acquisition of his family's business, Midwest Pipe and Supply. He held a number of leadership positions in the Company's Waterworks division and was Chief Operating Officer of Ferguson Enterprises from 2007 to 2017.

Other principal appointments:

None.



Mike Powell

Group Chief Financial Officer



Appointed: June 2017

Key strengths and experience:

- Considerable financial management and operational experience
- Experience of running multi-national businesses with significant US operations

Mike is a chartered management accountant with significant experience leading finance teams at large listed companies. Prior to his appointment at Ferguson he was Group Finance Director of BBA Aviation plc, a leading provider of aviation support services with significant US operations, and CFO of AZ Electronic Materials plc and Nippon Sheet Glass as well as spending 15 years at Pilkington plc in a variety of operational and finance roles.

Other principal appointments:

Non Executive Director of Low & Bonar plc.



Tessa Bamford

Independent Non Executive Director



Appointed: March 2011

Key strengths and experience:

- Broad business knowledge
- Extensive boardroom and City experience

Tessa has held senior advisory roles in both the UK and USA across a range of sectors. She held a variety of roles, including corporate finance, at J Henry Schroder & Co and Barclays de Zoete Wedd. She was a founder and Director of Cantos Communications and a Non Executive Director of Barratt Developments plc.

Other principal appointments:

Consultant at Spencer Stuart.



Darren Shapland

Independent Non Executive Director
(stepping down on 21 November 2019)



Appointed: May 2014

Key strengths and experience:

- Considerable experience of commercial, operational and financial management
- Broad public company experience in major consumer businesses

Darren has significant corporate finance and accounting experience gained from a variety of senior finance and operational positions held at Carpetright plc, Superdrug Stores plc, the Burton Group and Arcadia. He held board level positions at J Sainsbury plc, Carpetright plc, Poundland Group plc and Ladbrokes plc. Darren is a chartered certified accountant.

Other principal appointments:

Chairman of Topps Tiles Plc.



Nadia Shouraboura

Independent Non Executive Director



Appointed: July 2017

Key strengths and experience:

- Considerable expertise in running complex logistics and supply chain activities
- Extensive experience of cutting edge technology and e-commerce

Nadia has substantial experience of the consumer and technology sectors. She was a Vice President at Amazon.com, Inc. and held management positions at Exelon Power Team, Diamond Management and Starlight Multimedia Inc. She held board level positions at Hointer Inc. and Cimpress N.V.

Other principal appointments:

Member of the Supervisory Board of X5 Retail Group N.V.



Jacky Simmonds

Independent Non Executive Director



Appointed: May 2014

Key strengths and experience:

- Extensive expertise in executive remuneration and human resources within large international businesses
- Significant knowledge of talent management and employee engagement

Jacky has experience across a number of sectors. She has worked as a HR Director in a number of different consumer facing businesses, including easyJet plc and TUI Travel plc. She was 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.

Why you should vote to elect your Board

In accordance with the Code, all Directors will stand for election at the 2019 Annual General Meeting ("AGM"), with the exception of John Martin and Darren Shapland who will step down from the Board on 19 November 2019 and 21 November 2019 respectively.

Further details on the AGM can be found on page 166 and at www.fergusonplc.com. Subject to their election, Gareth Davis will be replaced as Chairman by Geoff Drabble following the 2019 AGM. Mr Davis will remain on the Board until 31 January 2020 to provide support to Mr Drabble and complete a thorough handover.

In line with the findings of the internally-facilitated Board and Committee effectiveness review, further details of which can be found on page 63, and evidenced by their biographies, the Directors possess a broad range of experience and skills from a variety of industries and advisory roles, which fully complement each other. Appointments made during the year have continued to strengthen the profile of the Board with particular enhancements to the level of US, distribution, logistics and e-commerce experience helping to more closely align the Board's profile with that of the business. As such, the Board believes that the 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, provides shareholder safeguards similar to those of a UK registered company, has regard to relevant institutional shareholder guidelines and complies with the dilution limits detailed in the Investment Association's Principles of Remuneration.

The table below describes the Company's governance structure, an overview of the roles and responsibilities of the key Committees of the Board and other administrative committees during the financial year ending 31 July 2019.

Further information on the Board, its Committees and our governance practices can be found at www.fergusonplc.com.

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

- Responsible for establishing the Group's vision, mission and values and ensuring alignment with culture
- Collectively responsible for the long-term success of the Group
- Accountable to shareholders and responsible for the proper conduct of the business
- Setting the overall strategic direction of the Group
- 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 Group'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 66

[+ Page 66](#)

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 72](#)

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
- Reviews workforce remuneration and related policies throughout the Group and the alignment of incentives and rewards with culture

[+ Page 80](#)

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 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

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:

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

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

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 discussions with the Non Executive Directors

Change of corporate headquarters

Following a thorough review of the location of the Company's headquarters, the Board concluded that the interests of the business and shareholders would be best served by establishing a new corporate structure with the Group headquartered and tax-resident in the UK. On 26 March 2019, Ferguson announced a proposal to put these changes into effect. This proposal was approved by shareholders and became effective on 10 May 2019. Further information on the change of corporate headquarters is included on pages 3 and 25.

2018/19 scheduled Board and Committee meeting attendance (eligibility)¹

	Board ²	Committees		
		Audit	Rem	Nom
Chairman				
Gareth Davis	7 (7)			6 (6)
Executive Directors				
John Martin	7 (7)			
Kevin Murphy	7 (7)			
Mike Powell	7 (7)			
Non Executive Directors				
Tessa Bamford	7 (7)	5 (5)	7 (7)	6 (6)
Geoff Drabble ³	2 (2)	1 (1)	2 (2)	1 (1)
Cathy Halligan ⁴	5 (5)	3 (3)	5 (5)	4 (4)
Alan Murray	7 (7)	5 (5)	7 (7)	6 (6)
Darren Shapland	7 (7)	5 (5)	7 (7)	6 (6)
Tom Schmitt ⁵	4 (4)	2 (2)	4 (4)	3 (3)
Nadia Shouraboura ⁶	6 (7)	4 (5)	6 (7)	5 (6)
Jacky Simmonds ⁷	7 (7)	4 (5)	7 (7)	6 (6)

The Major Announcements Committee meets as required and was not required to meet during the year. In addition to the members detailed on pages 56 and 57, Ian Graham, Group General Counsel, and Mark Fearon, Group Director of Communications and Investor Relations, are members of that Committee.

1. The details of meeting attendance and eligibility noted in this table and throughout this report include meetings of the Group's previous holding company Ferguson plc (now known as Ferguson Holdings Limited) prior to the re-domiciliation, which became effective on 10 May 2019, and all subsequent Board and Committee meetings of Ferguson plc, the Group's new holding company.
2. An additional, unscheduled, Board meeting was held on 12 July 2019 which was attended by all Board members.
3. Appointed as a Non Executive Director and Chairman Designate on 22 May 2019.
4. Appointed as a Non Executive Director on 1 January 2019.
5. Appointed as a Non Executive Director on 11 February 2019.
6. Dr. Shouraboura was unable to attend the November Board and Committee meetings due to an unavoidable scheduling conflict.
7. Ms Simmonds was unable to attend the July Audit Committee meeting due to an unavoidable scheduling conflict.

How the Board operates

Meetings and decision-making

The Board provides strong leadership to the Company and continues to benefit from a strong mix of complementary skills and experiences, as well as relationships and a dynamic that allows for open debate, challenge of existing assumptions and asking difficult questions. The Board's effectiveness has been enhanced during the year through the recruitment of three new Non Executive Directors who further align the Board's profile with the Group's strategic direction.

The Board held seven scheduled meetings, as well as one unscheduled meeting, during 2018/19. Board and Committee meetings were scheduled over two- or three-day periods with meetings structured to allow open discussion. Individual Director attendance at Board and Committee meetings during the year is set out in the table on page 59. To facilitate an efficient and effective Board, meetings follow an agreed format. A formal agenda is developed by the Chairman and Group Company Secretary, with relevant input from other Directors, in the weeks and months prior to a meeting that ensures that all relevant matters are prioritised, given sufficient time and focus and are put forward for discussion at the appropriate time. Each meeting agenda builds on the Board's long-term forward agenda plan and takes into account the financial and reporting cycle, the Group's strategy, relevant internal and external developments, the location of the meeting and stakeholder feedback.

Certain strategic decisions and authorities 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 58. The schedule of matters reserved for the Board, a summary of which can be found at www.fergusonplc.com, allows that decisions of a substantive nature may be delegated to such special purpose committees. Where action was required to facilitate the implementation of the Board's decisions or to consider specific matters in further detail between scheduled meetings, such committees were approved by the Board and convened.

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.

Values and culture

Culture and good governance are inherently linked and the Board recognises the fundamental importance of a corporate culture that is aligned with and supportive of the Group's long-term strategic objectives. However, culture is, ultimately, an output resulting from the individual and collective actions of the Group's associates.

During the year the Board approved a new Group vision, mission and values statement. You will find further information on our vision, mission and values on page 16 and examples of how our associates live these values every day are included throughout the strategic report. Our vision, mission and values are a reminder of the goals we are working towards and how we expect to get there. They apply to all of our operations and business units and are applicable to every role and function throughout the Group.

Whilst culture is woven into the fabric of Board discussions, specific sources of cultural indicators provided to the Board and Committees include business-specific reports from the Group Chief Executive and other senior management, feedback from employee engagement surveys, whistleblowing reports, the performance of the Group's health and safety programme, updates on the Company's compliance with relevant legal and regulatory requirements, Internal Audit reports and progress in the Group's diversity and inclusion programme.

Oversight of risk and internal controls

The Board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives and for maintaining sound risk management and internal control systems. During the year, the Board and its Committees carried out a robust assessment of the risks facing the business. This assessment included a review of environmental, social and governance risks as appropriate as well as considering emerging risks. The Directors' assessment of the Group's longer-term viability and the viability statement are set out on pages 48 and 49.

The principal risks which the Board has focused on are set out in the Principal risks and their management section on pages 47 to 53. Whilst risk can never be eliminated entirely, it is also vital that the Board ensures the Company maintains sound risk management and internal control systems in order to mitigate risks. The effectiveness of these systems is reviewed through the work of the Audit Committee, described on pages 66 to 71.

What the Board has done during the year

Leadership and effectiveness

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 reported to the subsequent Board meeting.

Principal areas of focus during 2018/19 All

Further information
Strategy

- Reviewed and approved the Group's new vision, mission and values statement See page 16
- Commenced a detailed review of the Group structure See page 10
- Commenced a review of the Company's listing domicile See page 2
- Received reports from the Group Chief Executive on progress with strategy at every meeting See pages 6 to 13
- Regularly reviewed the Group's strategy and held in-depth discussions on the strategic plans of the Group's businesses and the Group's IT strategy See pages 26 to 41
- Reviewed the Group's sustainability strategy and performance See pages 42 to 46
- Approved the proposal to move the Group headquarters from Switzerland to the UK See page 25
- Approved the \$500 million share buy back programme See page 76
- Reviewed and approved the \$750 million bond offering See page 133
- Reviewed and approved business acquisition and capital investment proposals and conducted regular post-investment reviews See pages 146 and 147
- Annual budget reviewed and approved
- Approved the disposal of the Group's business in the Netherlands See page 23
- Reviewed and approved the Group's Modern Slavery Act Statement See page 46
- Reviewed succession plans for the Executive Committee and other senior executives See pages 72 to 75
- Reviewed and approved the Group's diversity and inclusion programme See page 17

Performance

- Received regular reports from the Group Chief Financial Officer on financial performance See pages 22 to 25
- Received regular presentations from management on the performance of the Group and its business units See pages 26 to 41
- Reports on health and safety performance reviewed at every meeting See pages 42 and 43
- Reviewed and approved full year and half-year results and other announcements See www.fergusonplc.com
- Regular updates on investor relations including detailed feedback from shareholders following investor meetings See page 64

Governance

- Reviewed the results of the Board and Committee effectiveness review See page 63
- Received reports from the Nominations Committee on succession planning and approved the appointment of three new Non Executive Directors including the new Chairman See pages 72 to 75
- Reviewed and approved changes to the Group's governance processes to ensure compliance with the 2018 Code, including the appointment of the Employee Engagement Director See page 55
- Regularly reviewed the Group's principal risks and risk appetite See pages 47 to 53

Board visit to Atlanta

In January 2019, the Board and Committee meetings were held in Atlanta. Atlanta is one of the largest markets in the USA and the Group is creating a technology centre and setting up the primary Ferguson Ventures Innovation Lab there. At their meetings the Board received presentations from US senior management on e-commerce and disruption and IT strategy implementation and development as well as an in-depth presentation from Build.com, the Group's California-based online business, on their strategy and plans to establish a second hub in Atlanta. Atlanta is also home to Supply.com, an online business acquired by the Group in 2017. As part of the trip, the Board visited Supply.com and its executive team introduced its business expansion and customer marketing plans and explained how customer service standards were maintained. Board members also met with Supply.com associates and were impressed by their passion and commitment to delivering excellent customer service and the excitement with which they viewed the business's expansion plans.

Board visit to New York

In July 2019, the Board and Committee meetings were held in New York. New York is one of the largest metro markets in the USA and an area of significant opportunity for the Group to build on its existing business there. Whilst there the Board met with associates and received in-depth presentations from US management on the US Commercial Business Group, its strategy, performance and market opportunities, and on the market opportunities in the New York Metro Area. During their visit the Directors were taken by one of the business's customers on a tour of One Vanderbilt, a \$3.2 billion skyscraper combining office and retail space currently under construction in midtown Manhattan. The tour enabled Directors to meet with, and talk directly to, customers working at the site and to see first hand how Ferguson's service proposition is helping its customers meet the demands of a significant commercial construction project in a major metropolitan area.

Board composition and development

Board composition and independence

As at the date of this report, the Board consists of 12 members including the Chairman, three Executive Directors and eight Non Executive Directors. One-third of the Directors are female. The biographies of the Directors (set out on pages 56 and 57) demonstrate that the Board possesses strong and diverse experience that is relevant to the sector in which the Company operates and aligned with its strategy.

The Nominations Committee keeps Board composition under regular review to ensure that the Board maintains an appropriate balance of skills, experience, independence, knowledge and diversity to support the successful execution of the Group's long-term strategy. Further information on the Nominations Committee's work on Board succession planning and Non Executive Director recruitment is provided on pages 72 to 75.

The Board reviews the independence of the Non Executive Directors as part of the annual Board and Committee 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 several factors that should be considered when determining the independence, including length of tenure. Each Non Executive Director has served for six years or less with the exception of Tessa Bamford and Alan Murray. As required by the Code, Ms Bamford and Mr Murray's reappointments for a third three-year term, in March 2017 and January 2019 respectively, were subject to a particularly rigorous review, that carefully considered 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 and offer appropriate levels of challenge.

Development of the Board

All Directors are provided opportunities for further development and training and, during the year, each Director discusses development with the Chairman. The Board receives regular updates on governance, legal and regulatory matters relevant to the Group's operating environment and receives detailed briefings from advisers on a variety of topics that are relevant to the Group and its strategy.

The annual Board and Committee effectiveness review provides the Directors with an opportunity to assess individual and collective effectiveness. During the 2017/18 effectiveness review the Board identified increased opportunities for Non Executive Directors to contribute to the Board's agenda planning and a continued increase in the Board's focus on innovation, disruption and digital transformation as areas for improvement. Draft agendas were shared with Board and Committee members in advance of meetings for any input they might have. Additionally, the Chairman met with Non Executive Directors periodically throughout the year to discuss the content of, and provide feedback on, Board meetings and the items considered by the Board. The Board received regular briefings and presentations throughout the year on the design and implementation of the Group's IT strategy as well as in-depth presentations on disruption, investment in innovation and e-commerce and brand strategy as well as visiting the offices of Supply.com, a US online business. Increased Board exposure to key stakeholders was also identified as an area for improvement during the 2017/18 effectiveness review. During the year careful consideration was given to the structure of Board meetings and site visits in order to provide further opportunities to meet with the Group's key stakeholders, such as customers and associates, and ensure that information relevant to stakeholder groups was provided to the Board as part of regular presentations. Additionally, Alan Murray was appointed Employee Engagement Director. A series of employee engagement meetings hosted by Mr Murray commenced during the year and Mr Murray will provide feedback from these discussions to the Board on a regular basis.

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.

During the year, Cathy Halligan and Tom Schmitt undertook tailored induction programmes following their appointments as Non Executive Directors. Following his appointment as a Non Executive Director and Chairman-designate, on 22 May 2019, Geoff Drabble commenced a thorough induction programme which is ongoing at the date of this report. An example of how induction programmes are put together and the value of them to new Directors is set out below in Cathy Halligan's description of her induction experience.

Cathy Halligan's induction

"As a new Non Executive Director, it is important to me to gain an understanding of the people and business as soon as possible in order to fully engage and contribute to Board discussions. The induction programme I undertook following my appointment was thoughtfully structured and comprehensive, designed to provide information and insight on the Company's customers, competitors, value proposition, people, culture and operations across several markets. Throughout my induction, I was inspired by the commitment and passion our associates, from executive leadership to the shop floor, bring to their roles and their dedication to providing excellent service to our customers. It is this passion, dedication and focus that makes Ferguson a great business, and one to which I'm excited to be associated.

In addition to meetings with the Chairman, my Board colleagues, executive management from the Group and business units, along with the Company's advisers, the initial phase of my induction focused on detailed information on the history and dynamics of the Company and included briefings on investors, strategy, disruption and technology and the legal and regulatory framework within which the Company operates. The second phase immersed me in our core business and provided me with a good commercial feel for Ferguson. I visited several markets, and spent a few days in each, to tour branch and showroom locations and distribution centres, to experience competitors, to spend time with the consumer e-commerce business, with inside sales and on the road with a salesperson meeting customers, and to attend College of Ferguson sessions.

I will of course continue to learn and expand my knowledge of the people, business and its markets over the months and years to come but I feel that my induction is a solid foundation of the Company to contribute effectively to the Board as we continue to shape the future of this amazing Company."

Cathy Halligan
Independent Non Executive Director



Evaluating the performance of the Board of Directors

Leadership and effectiveness

Board and Committee effectiveness review 2019

The Board undertakes a formal review of its performance and that of its Committees each year, with an external evaluation every three years. An externally-facilitated effectiveness review was conducted in 2017/18. This year's Board and Committee effectiveness review was facilitated internally. It is expected that the next externally-facilitated effectiveness review will be conducted during the year ending 31 July 2021.

During the year ended 31 July 2019, the Board and Committee effectiveness review was conducted using an online survey with follow-up discussions between the Chairman and individual Board members. The survey was structured around open questions that encouraged honest feedback. The main areas covered by these questions were Board composition, stakeholder oversight, Board dynamics, management of meetings, Board support, strategic oversight, risk management and internal controls and succession planning and human resource management. Overall the Board's performance was highly rated with particularly positive feedback given in relation to the composition of the Board and the atmosphere at meetings, which were felt to be open and transparent with candid discussion and equal contribution encouraged. The results of the effectiveness review were discussed by the Board and priority actions for further enhancements to the Board's effectiveness were identified. Overall, following consideration of the findings of the 2018/19 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 2018/19 effectiveness review is detailed below. As noted in the Chairman's introduction on page 55, ensuring smooth succession of the Group CEO role and supporting Kevin Murphy as he settles into his new role will also be a key priority for the Board in 2019/20.¹

Areas of focus and key findings

Improvement actions

Succession planning

Following the appointment of three new members during the year, making a successful transition of the changes in the Board, and particularly having a smooth Chairman transition, was identified as a top priority. The importance of managing and onboarding the new Non Executive Directors and creating an aligned team was emphasised and the increase in the number of Board members with less than three years' tenure was noted.

Given the importance of the Chairman to facilitating the effective operation of the Board, ensuring the successful transition of responsibilities to the new Chairman was identified as a key priority for the Board in the coming year. Additionally, it was felt that although the Board regularly reviewed its composition and succession plans this could be further improved through enhancing the reviews of executive succession plans to ensure they are aligned with the strategy of the Group.

The Board to ensure sufficient time is allocated to implement a successful transition and handover of responsibilities to the new Chairman. The Chairman and the Chairman designate to work closely together both before and after the 2019 AGM.¹

The Chairman and Group Company Secretary to ensure more time is allocated to succession planning during the year.

Technology

The review found that whilst the Board's understanding of technological opportunities and risks was improving, especially with the recruitment of new Board members with relevant experience in recent years, there was scope for further improvement, especially as the Group continued to advance its capabilities in this area.

Enhancing the Board's understanding and oversight of the Group's information technology capabilities and projects was identified as a priority.

The Group Chief Information Officer to provide more regular briefings to the Board on the technology opportunities and risks and the Group's ongoing and planned technology projects.

Culture

The review considered the effectiveness with which the Board monitors the culture and behaviours throughout the organisation. Though the Board's oversight of culture and behaviours was rated as satisfactory it was felt that the Senior Independent Director's appointment as Employee Engagement Director would lead to enhanced oversight.

The importance of continuing to enhance the Board's oversight of culture and behaviours, including ensuring that they are fully aligned with the Group's values, was identified as a top priority for improving the Board's effectiveness.

The Chairman and Group Company Secretary to ensure that regular and sufficient time is allocated for the discussion of culture. Management to review how information relevant to the Group's culture is presented to the Board.

1. As at the date of this report, actions relating to Chairman and Group CEO succession have already commenced.

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 continued to be highly effective in his role. Board meetings were well chaired, and open and constructive discussions were encouraged. The Chairman had continued to devote sufficient time and attention to his role and had made himself available to Directors whenever necessary outside of Board meetings. He was open to improvement suggestions and had taken on constructive ideas for improvements to the way in which the Board operated following the 2017/18 Board effectiveness review. Overall the Chairman continued to perform strongly, and the Board had no concerns regarding his performance. A review of the new Chairman's effectiveness will be undertaken during 2019/20.

Individual Non Executive Director effectiveness review

The Chairman maintains frequent contact with each Director throughout the year on an individual basis and provides feedback where relevant. The Chairman considers all Directors to have engaged fully throughout the year, openly sharing their views and experience at Board and Committee meetings and providing constructive challenge and support to management as required. The ability of Directors to devote sufficient time to their respective roles is also monitored by the Chairman on an ongoing basis and he continues to be satisfied that each Director has been able to do so during the year under review, with full attendance at all scheduled Board and Committee meetings with the exception of the November meetings which Nadia Shouraboura was unable to attend and the July Audit Committee meeting which Jacky Simmonds was unable to attend. The Chairman was consulted before these meetings by Dr Shouraboura and Ms Simmonds and was satisfied that they were unable to attend for valid scheduling conflict reasons and not as a result of an inability to devote sufficient time and attention to their duties. Dr Shouraboura and Ms Simmonds received and reviewed the packs for the meetings they were unable to attend. The Chairman and the Board continue to consider each of the Directors to be effective and to demonstrate commitment to his or her role.

Actions taken following the 2017/18 effectiveness review

Progress against the priorities and action points identified following the externally-facilitated review undertaken in 2017/18 is reflected in the principal areas of focus table on page 61 and outlined in the description of the Board's development activities on page 62.

Relations with stakeholders

Engaging effectively with our stakeholders is central to how we do business and the effective delivery of our strategy. Ferguson has 6,884 registered shareholders, 35,000 associates, 45,000 suppliers and more than a million customers who we serve through a network of 2,259 branches and 15 distribution centres. The individuals, businesses and communities that form our stakeholder groups are all integral to our business.

On this and the following page you will find examples of how we have engaged with our key stakeholders and considered them during the year. Under section 172 of the UK Companies Act 2006, boards have a duty to promote the success of their company for the benefit of their members whilst having regard for the interests of associates, the success of their relationships with suppliers and customers, the impact of their operations on the community and environment and maintaining a reputation for high standards of business conduct. As it is Jersey incorporated, the UK Companies Act 2006 has no legal effect on the Company. However, as a matter of good governance, stakeholder considerations are part of business as usual and are woven throughout all of the Board's discussions and decisions.

Further information on how the Directors have had regard to the provisions of section 172 of the UK Companies Act 2006 is available in the strategic report, on pages 14 to 19 and 42 to 53.

Shareholders

Board considerations

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

How we engaged during the year

- Regular, detailed feedback provided to the Board on the key issues raised during discussions with institutional shareholders by the Group Director of Communications and Investor Relations.
- All Directors then in office, with the exception of Nadia Shouraboura, attended the 2018 AGM in Zug, Switzerland where they answered a wide range of questions from shareholders.
- A regular programme of engagement with institutional investors and analysts involving the Group Chief Executive, Group Chief Financial Officer and Investor Relations team.
- Released regular updates on the financial performance of the Group incorporating revenue, profitability by region, net debt and appropriate commentary on key business trends.
- The Chairman engaged with larger institutional shareholders to discuss matters including the Board, strategy, remuneration and corporate governance.
- Consulted with shareholders representing approximately 64.5 per cent of the Company's issued share capital on proposed changes to the Company's Remuneration Policy. See pages 80 and 81 for further detail.
- Addressed the issue of listing structure through a consultation with shareholders representing approximately 60 per cent of the Company's issued share capital as a precursor to the assessment of the Company's listing structure. As announced on 3 September 2019, this assessment is currently ongoing.
- Met with the UK Shareholders' Association to enable individual shareholders to engage with the Group Chief Executive and Group Director of Investor Relations and Communications.
- All communications from individual shareholders reviewed by management and provided with a response.
- Ensured that all shareholders have equal access to information by making all documents presented at investor meetings available on www.fergusonplc.com.

2019 AGM

Following the re-domiciliation of the Company's headquarters from Switzerland to the UK, undertaken during the year, the 2019 AGM will be held at the Lincoln Centre, 18 Lincoln's Inn Fields, London WC2A 3ED on 21 November 2019. Shareholders will be able to engage with the Board during the meeting. Further details of the 2019 AGM are contained in the Notice of AGM and are available on www.fergusonplc.com.

Associates

Board considerations

Our associates are our most important asset and having the best associates in our industry is a key part of Ferguson's culture. The Board is committed to supporting all the Group's businesses in attracting, developing and retaining the best available talent by promoting competitive compensation and benefits, an inclusive culture and fair labour practices.

How we engaged during the year

- Appointed Alan Murray as Employee Engagement Director and instituted employee engagement meeting series. See page 18 for further detail.
- The Board received regular reports from the Group Chief Executive which include details on customer satisfaction and net promoter scores.
- The Board engaged directly with the Group's associates during site visits and meetings with local management in an informal environment. See page 61 for further detail.
- The Board received reports on health and safety at every meeting, including from the Group Chief Executive and the Vice President of Health and Safety. See pages 42 and 43 for further detail.
- The Executive Directors regularly engaged with senior associates on performance and strategy.
- The Board discussed talent management and succession planning.
- The Board reviewed and discussed the Group's diversity and inclusion programme and, along with the Nominations Committee, continues to monitor progress in this area. See page 17 for further detail.

Suppliers

Board considerations

Having a great range of products that our customers value and our associates really believe in is central to the delivery of our strategic vision. The Board is mindful of the importance of ensuring that Ferguson is able to source a broad range of high-quality products from a base of well-respected suppliers and of being a trusted partner for our suppliers.

How we engaged during the year

- The Board received reports on the Group's Product Integrity programme.
- Regular management reports and presentations to the Board included information relevant to understanding the Company's suppliers.
- The Company sought input from its top 100 USA suppliers on the design of its sustainability programme. See pages 42 to 46 for further detail.
- Payment practices are monitored on a monthly basis and consistently show that 90 per cent of invoices are paid within agreed terms. Further information on the UK business's payment practices performance can be found at www.gov.uk/check-when-businesses-pay-invoices.
- The Board reviewed and approved the Company's Modern Slavery Act statement.

Customers

Board considerations

Ferguson's core vision is to be a trusted partner and deliver the best service to customers in our industry. 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.

How we engaged during the year

- The Board engaged directly with customers by meeting them during site visits and undertook a tour of One Vanderbilt, a \$3.2 billion building project with office and retail space that represents a major project for the US business. See page 61 for further detail.
- Regular management reports and presentations to the Board included information relevant to understanding the Company's customers and received a detailed report on the changing expectations of US commercial customers.
- The Board sought to further their understanding of the role of digital technology in the customer experience through regular discussion and management presentations and also received an in-depth presentation from US management on their omni-channel strategy.
- The Board received a detailed presentation from US management on the customer journey of a commercial contractor from initial project specification, design and tendering through to construction and completion.

Communities and environment

Board considerations

We operate our business responsibly and contribute actively to the communities in which we operate. The Board understands that our products and services help to build and maintain the fundamental infrastructure and safety systems essential for economic growth and development.

How we engaged during the year

- The Board reviewed and discussed enhancements to the Group's sustainability programme including the alignment of the programme with the Group's strategy. The enhancements were designed to raise the profile of the Group's work on sustainability and support the achievement of goals set by the Board and included initiatives to increase recycling rates, improve vehicle fuel efficiency and, in the US business, introduce solar power capabilities. See pages 42 to 46 for further detail.
- The Board reviewed and approved a new Group Sustainability Policy. See www.fergusonplc.com for the Group's newly published Sustainability Policy.
- The Board offered suggestions regarding reducing packaging waste, specifically in regard to own brand products, and discussed ways to enhance environmental efficiency.

Audit Committee

Committed to independent oversight



Darren Shapland
Audit Committee Chairman

Audit Committee members

Membership	Meetings attended (eligibility)
Darren Shapland ¹ (Chairman)	5 (5)
Tessa Bamford	5 (5)
Geoff Drabble ¹	1 (1)
Cathy Halligan	3 (3)
Alan Murray ¹	5 (5)
Tom Schmitt	2 (2)
Nadia Shouraboura	4 (5)
Jacky Simmonds	4 (5)

1. Qualified accountant.

Audit Committee overview

- Darren Shapland has served on the Committee since May 2014 and as Chairman of the Committee since November 2014. Darren will step down on 21 November 2019 and will be succeeded as Audit Committee Chairman by Alan Murray at the conclusion of the Company's 2019 AGM.
- During the year, Geoff Drabble, Cathy Halligan and Tom Schmitt joined the Committee.
- As at the date of this report, the Committee is made up of eight independent Non Executive Directors. Details of membership and attendance are set out in the table above.
- The Committee met five times during the year, including an extra meeting added to allow additional time after the financial year-end for the Committee to review the effectiveness of the financial reporting and external audit processes.
- Other attendees at meetings included the Chairman, Group CEO, Group CFO, CEO USA, Group Head of Internal Audit, Group General Counsel and representatives from Deloitte LLP ("Deloitte").
- The Board has reviewed the composition of the Committee and is satisfied that the Committee as a whole meets the requirements for sectoral competence and recent and relevant financial experience.
- Private sessions for Committee members are held before each meeting to enable the Committee members to discuss agenda items and Audit Committee business without management present.
- Deloitte, the Group Head of Internal Audit and the Group CFO meet with the Committee without the presence of management on a periodic basis.

An overview of the Committee's areas of responsibility is set out on page 58 and the Committee's Terms of Reference are available at www.fergusonplc.com.

Dear Shareholder

I am pleased to present the report of the Audit Committee for the financial year ending 31 July 2019.

On 1 October 2019 we announced that Alan Murray would succeed me as Chairman of the Audit Committee following the Company's 2019 AGM. It has been a great privilege to serve as a Non Executive Director and Chairman of this Committee and I am pleased that I am able to hand over to a successor with both a deep knowledge of the Group and robust financial knowledge.

The Committee plays a vital role in the Company's governance framework. Our purpose is to provide oversight of the Group's financial reporting procedures and internal control framework and to represent the Company's key stakeholders, including shareholders, by acting as a source of independent challenge to management and overseeing the effectiveness and independence of Deloitte.

During the year the Committee's principal focus remained on its core areas of responsibility. We maintained oversight of the Group's financial reporting processes by reviewing the application of financial and accounting policies, challenging the judgements made by management and the assumptions and estimates that underpin those judgements. We gained assurance on the continued effectiveness of the internal control environment by reviewing the work undertaken by Internal Audit as well as the risk and finance functions and also considered all matters raised through the Group's whistleblowing hotline. We conducted detailed reviews of the Group's risk assurance framework and IT controls environment and agreed and approved enhancements in these areas that will be implemented over the course of the coming year. As well as performing a review function, it is important that the Committee keeps an eye on the future. During the year we considered in detail the potential impact of IFRS 16 "Leases" and we have reviewed, and will continue to keep under review, changes to the UK audit market consulted on and proposed in the wake of the Competition and Markets Authority and Kingman Reviews.

I am committed to fostering a culture of continuous improvement in the Committee and in the functions and processes of which we have oversight. This year's annual effectiveness review found that the Committee is highly effective and helped to identify the Committee's priorities for 2019/20, which are:

- Continued oversight of cyber security.
- Focus on oversight of the proposed demerger of the Group's UK business.
- Continued focus on the Group's control environment, including more extensive reporting to the Committee from business CFOs on the actions that are being taken to improve controls in each business.
- Reviewing audit committee best practice and identifying further opportunities to enhance the Audit Committee's performance.
- Overseeing the further enhancement of the capabilities of the Internal Audit function, particularly in the areas of information technology and controls environment reviews.

Both Alan Murray and I will attend the Company's 2019 AGM, where we will be happy to respond to any questions on this report or any of the Committee's activities.

Darren Shapland
Chairman of the Audit Committee

How the Committee operates

Committee meetings

Meetings are scheduled to coincide with key dates in the financial reporting cycle and a forward agenda plan is agreed by the Committee and reviewed on an ongoing basis to ensure that the Committee's agenda continues to optimise its time and impact.

In order to ensure that appropriate information is provided and that meetings have optimal focus, the Committee Chairman conducts pre-Audit Committee meetings with senior management, Internal Audit and Deloitte. Information is delivered to Committee members in accordance with the process detailed for the delivery of information to the Board described on page 60.

Committee composition

The Nominations Committee and the Board keep the composition of the Committee under regular review.

All members of the Committee are Independent Non Executive Directors whose independence, in line with the definition provided in the Code, is reviewed on an ongoing basis. Between them, the members of the Committee possess significant logistics, distribution, commercial (including e-commerce), financial, human resource and listed company skills and expertise gained in large international businesses, which are relevant to an international specialist distribution company listed on the London Stock Exchange. Recent and relevant financial knowledge is provided by Darren Shapland and Alan Murray.

Mr Shapland and Mr Murray both possess professional qualifications in accountancy and have previously served as the Chief Financial Officer or Finance Director of large international businesses. Additionally Geoff Drabble began his career as a qualified accountant and has spent the past 12 years as the CEO of a large UK-listed company.

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 in their biographies on pages 56 and 57.

Committee effectiveness

This year, the Committee undertook an internally-facilitated effectiveness review. The review involved a survey of Committee members and attendees, follow-up discussions with the Committee Chairman and an in-depth review and discussion of the results by the Committee. Overall the review found that the Committee continued to be highly effective. The review also identified opportunities for further improvement and these are reflected in the Committee's 2019/20 priorities, which are outlined in the Committee Chairman's introduction on page 66.

Last year's effectiveness review highlighted three areas of focus for the Committee. Progress against the areas for improvement identified by last year's effectiveness review was actively monitored by the Committee throughout the year and progress was discussed at each meeting. Further information on the focus areas, along with the actions taken to address them, are detailed in the table below.

2018/19 area of focus	What the Committee has done
Continued review of cyber security, with a particular focus on prioritising areas of protection	<ul style="list-style-type: none"> – Thorough review of the Group's information security assurance strategy undertaken in September and areas of focus for the Committee identified. – Further reviews of the information security environment undertaken in January and July, including reviews of the Group's security incident response plan, escalation procedures and simulation testing.
Conduct a benchmarking exercise for Internal Audit and identify opportunities to enhance the performance of the function	<ul style="list-style-type: none"> – Group Internal Audit participated in an external benchmarking study that provided a comparison to internal audit departments with a similar revenue base, audit activities and industry. – Insights gained from the external benchmarking study were reviewed by the Committee and opportunities for improvement agreed and included in the three-year Group Internal Audit roadmap.
Review and assess the continued effectiveness of the Group's control framework, including enhancing the Committee's oversight of the IT control environment	<ul style="list-style-type: none"> – Review of the Group's IT control environment undertaken by the Group Chief Information Officer and Group Head of Internal Audit. – Regular reports received from the Group Head of Internal Audit on the testing of the Group IT control environment. – Group controls framework reviewed by the Committee on an ongoing basis. – Agreed an enhanced approach to the risk assurance reporting process, aligned to the three lines of defence methodology to be phased in and fully adopted by the end of 2019/20.

Audit Committee (continued)

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 2018/19 are summarised below.

Principal areas of focus during 2018/19	Further information
Financial statements	
– Held in-depth reviews of the Group's full and half-year results prior to their announcement and reported back to the Board. Reviews included the receipt and discussion of detailed reports and presentations from management.	See www.fergusonplc.com
– Received and discussed reports from the Group CFO on any accounting issues relevant to the consideration of the Group's financial statements well in advance of announcements.	See page 69
– Reviewed management's work in conducting a robust assessment of such risks as 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.	See pages 48 and 49*
– Received a management presentation on the potential impacts of IFRS 16 and held a full review and discussion of the indicative impact on the Group, other related considerations and proposed next steps.	See page 69
– Conducted a fair, balanced and understandable review of the 2018 Annual Report.	See page 69**
Internal control environment	
– Received a report at each Committee meeting on the results of audits performed by Internal Audit, testing of the internal control environment and progress against improvement actions identified during prior audits.	See page 71
– Received regular reports detailing matters reported through the Group's international confidential telephone reporting lines and secure website reporting facility, including a summary of every investigation into matters raised and details of any corrective action taken.	See page 71
– Received half-yearly risk management reports that identified significant existing and emerging risks facing the Group and described mitigating controls in place for each risk and undertook a review of the effectiveness of the overall risk management framework.	See pages 47 to 53
– Received reports on the strength and performance of the Group's information security systems that included detail on the IT security risks facing the Group and progress on key initiatives.	See page 51
– Received reports on the Group's IT controls on a regular basis. Updates on the testing of these controls were regularly provided as part of Internal Audit reports.	
– Received presentations from the Chief Financial Officers of each of the Group's major businesses that included detail on the effectiveness of the financial control environment and implementation of major initiatives.	
– Received a detailed report on the Group-wide application of the Company's base financial control framework.	
Internal Audit	
– Reviewed and approved the Internal Audit Charter and the Internal Audit plan for the financial year ending 31 July 2020.	See page 71
– Received reports from the Group Head of Internal Audit on the function's work at every meeting.	See page 71
– Met with the Group Head of Internal Audit privately on a periodic basis.	
External audit	
– Reviewed and approved the plan for, and scope of, the external audit and agreed Deloitte's fees, undertook a formal annual review of Deloitte's effectiveness and reviewed and approved details of the engagement of Deloitte for non-audit work at each Committee meeting.	See page 70
– Received regular reports from Deloitte on the results of their work including detailed reports received ahead of the half and full-year results announcements.	See pages 150 to 155
– Met with senior representatives from Deloitte privately on a periodic basis.	
Audit Committee effectiveness	
– Held a private session for Audit Committee members before each meeting, conducted a formal annual review of the Committee's effectiveness and received regular updates on progress against actions identified during the 2017/18 effectiveness review.	See page 67

* The information provided on pages 48 and 49 relates to the 2019 viability statement, which was carried out after the end of the financial year ended 31 July 2019. For further information on the 2018 viability statement, which was reviewed by the Committee during the year, please see page 45 in the Ferguson plc Annual Report 2018.

** The information provided on page 69 relates to the Committee's fair, balanced and understandable review of this Annual Report which was undertaken after the end of the financial year ended 31 July 2019. For further information on the review of the 2018 Annual Report please see page 66 in the Ferguson plc Annual Report 2018.

Financial reporting and significant financial judgements

The Committee considered the issues summarised below as significant in the context of the 2018/19 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. The information contained in the table below should be considered together with the independent auditor's report on pages 150 to 155 and the accounting policies disclosed in the notes to the financial statements as referenced in the table.

Item	Description	Audit Committee review and conclusions
Completeness of supplier rebates (recurring item)	<p>Supplier rebates 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.</p> <p>For further information please see note 1 of the consolidated financial statements on pages 113 to 117 and the independent auditor's report on pages 150 to 155.</p>	<p>The Committee review covered the processes and controls in place during the year and the level of adherence to the Group's accounting policies and procedures.</p> <p>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 \$321 million rebate receivable as at 31 July 2019 were prudent but appropriate and properly reflected in the consolidated financial statements.</p>
Inventory valuation (recurring item)	<p>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.</p> <p>For further information please see note 1 of the consolidated financial statements on pages 113 to 117 and the independent auditor's report on pages 150 to 155.</p>	<p>The Committee considered the level of provisions and the appropriateness and application of the policy, ensuring consistency across the Group in the current and previous financial periods. The Committee also sought the views of the external auditors.</p> <p>Following their review, which included consideration of the external audit findings, the Committee concluded that \$176 million provision for obsolete and slow-moving inventory was consistently calculated on a prudent basis, appropriate and fairly stated in the consolidated financial statements.</p>
IFRS 16 (one-off item)	<p>The adoption of IFRS 16 "Leases" is applicable to the Group from 1 August 2019. The impact of adoption is disclosed in the 2018/19 consolidated financial statements and is dependent on the judgements taken. The key judgements include the discount rate and the lease extension assumptions.</p> <p>For further information please see note 1 of the consolidated financial statements on pages 113 to 117.</p>	<p>The Committee reviewed the adoption process and the appropriateness of the key assumptions and judgements taken.</p> <p>Following the review, which included consideration of the external audit findings, the Committee concluded that the impact of adoption of IFRS 16 was fairly stated and properly disclosed in the consolidated financial statements. The impact of adoption includes the creation of a right of use asset of \$1.2 billion and a lease liability of \$1.5 billion on 1 August 2019 with an immaterial impact on profit for the year in 2019/20.</p>

Fair, balanced and understandable assessment

Overview

At the request of the Board, the Committee assessed whether the content of the 2018/19 Annual Report, full-year results announcement and the full-year results presentation taken as a whole, were fair, balanced and understandable.

In its assessment, consideration was given as to whether key information and key messages were included consistently across the announcement, presentation and Annual Report.

Assessment process

A formal process ensured access to all relevant information. Drafts of the Annual Report were received by the relevant Board and Committee members during the drafting process in sufficient time to allow for challenge to the disclosures. A report from management was also provided describing the approach taken in the preparation of the Annual Report and highlighting:

- the key messages and information;
- whether each of the key messages and information was positive, neutral, mixed or negative; and
- the relative prominence given to each key message.

Conclusion

The Committee advised the Board it was satisfied that, taken as a whole, this Annual Report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Audit Committee (continued)

External audit

During the year, the lead audit partner, together with other relevant and appropriate Deloitte partners, attended all the 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 2018/19 audit were reviewed and approved by the Committee. During the year, Deloitte provided external audit services for regulatory and statutory reporting. They are expected to report material departures from Group accounting policies and procedures identified in the course of their work to the Committee. At the date of this report, Deloitte's 2018/19 external audit plan has been successfully completed and their independent auditor's report can be found on pages 150 to 155.

Effectiveness

Following the completion of the external audit plan, the Committee conducts an annual review of external auditor effectiveness. The review survey is completed by each operating business, the Committee Chairman, Group CFO, divisional CFOs and the Chief Information Officer as well as the Group Finance, Internal Audit, Treasury and Tax teams. The results of the survey are reported to the Committee and form the basis of a thorough review of the external auditor's effectiveness. The survey requires respondents to rate Deloitte against a range of measures including: adequacy of planning, sufficiency of resource and thoroughness of review and testing; thoroughness and robustness of audit challenge; adequacy and application of knowledge of the Group; usefulness of feedback; and quality of reporting.

Deloitte's performance in 2017/18 was highly rated, and opportunities to further enhance their service were discussed and agreed with the Committee. The Committee was satisfied that Deloitte continues to provide an effective audit service.

Independence and objectivity

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 ("Ethical Standard"). 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.

Non-audit services policy

The appointment of the external auditor for non-audit work is made on a case-by-case basis. Before Deloitte is appointed to undertake any non-audit work, an assessment is made to consider whether their appointment is appropriate and in the best interests of the Company. The prior consent of the Committee Chairman is required before Deloitte is appointed to undertake non-audit work where the fee is expected to exceed \$65,000. Where the fee 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. The Committee reviews any new non-audit engagement and the level of fees at each meeting.

Audit and non-audit fees

During the year, Deloitte was appointed to undertake non-audit services. Fees for non-audit work performed by Deloitte as a percentage of audit fees for the year ended 31 July 2019 were 42 per cent (2018: 13 per cent). Further disclosure of the non-audit fees incurred during the year ended 31 July 2019, can be found in note 4 to the consolidated financial statements on page 123. Non-audit services related mainly to the issuance of the Group's \$750 million 4.5% senior unsecured notes in October 2018, the introduction of the new Group holding company and the half year review. The work relating to the introduction of the new Group holding company was the most significant of these and included a working capital report, profit forecast opinion and associated accounting and tax comfort letters. 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 Group. The Committee is satisfied that Deloitte's continued objectivity and independence was unaffected due to the nature and scale of the work undertaken.

Auditor reappointment

The lead audit partner, Ian Waller, has held the position for four years. Following the 2019/20 audit (his fifth year as lead audit partner), a new lead audit partner will be put in place.

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, the Competition and Markets Authority Order and the Statutory Audit Services Order 2014 during the year under review.

Deloitte was appointed as the Company's external auditor for the 2015/16 audit following a formal tender process. Deloitte's reappointment was approved by shareholders at the 2018 AGM and the Committee and the Board recommend that Deloitte be reappointed as the external auditor for the financial year ending 31 July 2020 at the 2019 AGM.

Internal control environment and risk management

Whilst ultimate responsibility for maintaining a robust internal control environment and effective risk management processes sits with the Board, oversight of the effectiveness of these systems of internal control has been delegated to the Audit Committee. The main features of the Group's internal control and risk management systems, and the Committee's oversight of them, are summarised below.

Internal Audit

Internal Audit is an independent, objective assurance and consulting activity designed to add value to, and improve, Ferguson's operations. The scope of its audit activities include corporate, financial controls, branch and IT (including IT general controls) audits. In addition to reviewing the effectiveness of these areas and reporting on aspects of the Group's compliance with relevant policies and procedures, the Internal Audit function makes recommendations to address issues identified as requiring remedial action.

Internal Audit's annual plan and budget is reviewed and approved by the Committee ahead of the start of each financial year and the scope of its activity is reviewed at each Committee meeting. Internal Audit's findings, along with detail of any recommended remedial action agreed with management, are reported to the Committee and the Group Head of Internal Audit provides progress reports on actions taken to address previously identified issues on an ongoing basis. The Committee discusses the reports in detail and considers the matters raised and the adequacy of management's response to them, including the time taken to resolve any such matters.

As well as a formal annual review of Internal Audit's effectiveness, the Committee monitors the function's effectiveness on an ongoing basis, receiving regular updates on progress against opportunities for improvement identified during previous reviews. Additionally, during the year an independent third-party review of the effectiveness of the Internal Audit function was conducted. The independent review found that the function is in conformance with the Institute for Internal Audit's International Standards for the Professional Practice of Internal Auditing. Following the annual effectiveness review, the Committee reviewed and discussed the Group Head of Internal Audit's plans for continuing to improve the effectiveness of the function. The Committee is satisfied with the effectiveness of the Internal Audit function.

Risk management

The Committee receives detailed risk management reports on a half-yearly basis. These reports summarise submissions from all areas of the business and include assessment of these risks from the Executive Committee and senior management. Risks relating to material joint ventures and associates are considered as part of this process. The reports identify the significant risks to the Group, review potentially significant emerging risks, provide an assessment of the controls in place and highlight the tolerance levels that the Executive Committee and, ultimately, the Board are prepared to accept.

During the year, the 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. Potential enhancements to the risk assurance framework were identified and agreed by the Committee. The Committee will monitor the implementation of these enhancements across the coming year.

The Committee also reviewed management's work in preparing the Company's viability statement, which can be found on page 49, at its meeting in September 2019.

Internal controls

The Group's internal control systems are designed to manage rather than eliminate risk and can only provide reasonable, but not absolute, assurance that risks are managed to an acceptable level. Their effectiveness is dependent on regular evaluation of the extent of the risks to which the Company is exposed.

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.

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. The Committee receives regular reports throughout the year to assure itself that the Group's systems comply with the requirements of the Code. The Committee can confirm that the Group'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 regularly reviewed by the Committee on behalf of the Board. Whilst the Committee is of the view that the Group has a well-designed system of internal control, enhancements to the control environment have been identified as priorities for 2019/20, as detailed in the Committee Chairman's introduction on page 66. Some of these enhancements are expected to provide additional mitigation of the information technology principal risk detailed on page 51.

Whistleblowing, anti-fraud and anti-bribery and corruption programmes

In line with its whistleblowing policy, the Group operates international confidential telephone reporting lines and secure website reporting facility, which are operated on its behalf by an independent third party. The whistleblowing policy encourages associates to raise concerns confidentially and disclose information they believe shows malpractice or a breach of ethical conduct. All matters reported are investigated by the relevant operating company and reported to the Committee, together with details of any corrective action taken.

The Group has anti-fraud and anti-bribery and corruption policies and programmes in place. All Group companies are required to implement these policies and all associates are required to comply with them. Compliance with the Group's anti-fraud and anti-bribery and corruption policies is actively monitored by Internal Audit. The Committee received reports on compliance with these policies during the year along with details of fraud losses.

This report was approved by the Audit Committee and is signed on its behalf by the Chairman of the Audit Committee.



Darren Shapland
Chairman of the Audit Committee
30 September 2019

Nominations Committee

Committed to enhancing Board effectiveness

Gareth Davis
Nominations Committee Chairman



Nominations Committee members

Membership	Meetings attended (eligibility)
Gareth Davis (Chair)	6 (6)
Tessa Bamford	6 (6)
Geoff Drabble	1 (1)
Cathy Halligan	4 (4)
Alan Murray	6 (6)
Tom Schmitt	3 (3)
Darren Shapland	6 (6)
Nadia Shouraboura	5 (6)
Jacky Simmonds	6 (6)

Nominations Committee overview

- Gareth Davis has served as Chairman of the Committee since January 2011. Gareth will step down as Nominations Committee Chairman following the conclusion of the Company's 2019 AGM when he will be succeeded by Geoff Drabble.
- Geoff Drabble, Cathy Halligan and Tom Schmitt joined the Committee during the year.
- As at the date of this report, the Committee is made up of eight independent Non Executive Directors and the Chairman. Details of membership and attendance are set out in the table above.
- To facilitate the additional workload required for the Chairman succession process, the Committee met six times during the year. The Senior Independent Director chaired the Committee during discussions on Chairman succession.
- The Group CEO, Group General Counsel and Group Chief Human Resources Officer and representatives of external search consultants attended Committee meetings as required.

An overview of the Committee's areas of responsibility is set out on page 58 and the Committee's Terms of Reference are available at www.fergusonplc.com.

Dear Shareholder

As I have consistently highlighted in these reports, continued focus on Board and senior leadership succession is the key priority for the Committee. This year we have continued to strengthen the profile of the Board, further aligning its skillset with the Company's strategy through the appointments of Geoff Drabble, Cathy Halligan and Tom Schmitt as Directors. I am very pleased that all three agreed to serve on our Board and welcome them to the Company. Further information on their appointments is set out on page 74 and a description of the process that culminated in Geoff Drabble's appointment as Chairman designate is provided on the following page by Alan Murray, our Senior Independent Director, who led this process. On behalf of the Board I wish to record our thanks to Alan for conducting such a professional and thorough process to a successful conclusion. The biographies of all members of the Board, which outline the skills and experience they bring to their roles, are set out on pages 56 and 57.

After the year end we announced that Kevin Murphy would succeed John Martin as Group Chief Executive on 19 November 2019 and that Alan Murray would succeed Darren Shapland as Audit Committee Chairman following the conclusion of the Company's 2019 AGM on 21 November. Further information on CEO and Audit Committee Chairman succession is included on page 74.

Whilst the Committee keeps the composition of the Board under regular review, the annual review of Board and Committee effectiveness provides an opportunity for reflection on how we can continue to enhance the profile of the Board. A summary of the Board effectiveness review is set out on page 63. This year's Committee effectiveness review was internally facilitated using an online survey. The results of the survey were presented at the May Committee meeting, where I led a discussion of the results. Overall, the review rated the work of the Committee positively. It also identified priority areas of focus for the coming year, which are:

- continuing to focus on Board composition and succession planning;
- continuing to enhance Executive Director succession planning and the oversight of the talent pipeline below Board level, including identifying skills and competencies in the workforce that should be fostered and supplemented to support the Company's future development; and
- continuing to monitor progress on the Group's diversity and inclusion programme.

Chairman-designate appointment

On 22 May 2019, we announced that Geoff Drabble would succeed me as Chairman following our 2019 AGM, when he will also succeed me as Chairman of this Committee. Geoff joins us following a 12-year period as Chief Executive of Ashtead Group plc, the FTSE 100 industrial equipment rental company.

He previously served as an executive director of The Laird Group plc and held a number of senior management positions at Black & Decker. He has also garnered non-executive experience from four years as a Non Executive Director at Howden Joinery Group plc, where he also serves on the Audit, Remuneration and Nominations Committees.

I am delighted to welcome Geoff to the Board and agree wholeheartedly with the Senior Independent Director and Nominations Committee's conclusion that he is the ideal candidate to succeed me as Chairman of the Company.

Chairman succession

“During the year the Nominations Committee has continued to review and develop the composition of, and succession plans for, the Board. An important part of this planning has been to ensure that we had appropriate succession plans in place for the Chairman.

Gareth Davis has been an excellent Chairman and has been instrumental in the successful development of the business over his tenure. The Committee recognised the enormous contribution that Gareth has made and looked to build upon that contribution as it developed and ultimately implemented the succession plan for the role of Chairman. Both the Committee and Gareth recognised that it was the right time to actively implement succession planning well ahead of the conclusion of Gareth's third three-year term as Chairman.

The Chair succession planning was led by me, in my role as Senior Independent Director. In accordance with good governance, and in line with the Code, I chaired Committee meetings whenever Chairman succession was discussed. The Committee reviewed and agreed the skills, experiences and competencies that a successor to the role should have, and was also mindful of the requirements of the 2018 Code. I was authorised by the Committee to engage independent external search consultants to assist the Committee to conduct a thorough and robust search and assessment of potential candidates. Russell Reynolds was appointed to provide this assistance and to advise the Committee on the process.

A full brief was provided to Russell Reynolds setting out the requirements for potential candidates. A diverse long list of candidates was drawn up and reviewed by me, with the assistance of the Group Chief Human Resources Officer, before a shortlist of six potential candidates was presented to the Committee for review. Following preliminary interviews it was recommended that a small number of candidates be taken forward to the next phase of the process. Final shortlisted candidates were interviewed by Board members, who provided detailed feedback on the candidates. The Committee then held an in-depth discussion on each of the candidates, took account of the feedback from the interviews and assessed them against the skills, experience and competencies that had been identified by the Committee.

After a detailed and thorough process and a thoughtful and comprehensive evaluation and discussion, the Committee recommended to the Board that Geoff Drabble be appointed to the Board as Chairman-designate in succession to Gareth Davis. I am very pleased that the Board agreed with the Committee's recommendation and Geoff accepted the appointment which we announced in May this year.”

Alan Murray
Senior Independent Director



Nominations Committee (continued)

CEO succession

On 3 September 2019, we announced that John Martin would step down as Group Chief Executive on 19 November 2019 and that he would be succeeded by Kevin Murphy, currently the CEO of the Group's US business. I am delighted that we are able to appoint such a talented executive with deep roots in the business. Kevin's appointment is entirely aligned with our long-term succession planning for the role of Group Chief Executive and is the culmination of a long-term process developed to ensure that the Company had in place a high-calibre internal successor for the role.

Kevin joined the Group in 1999 following the acquisition of his family's waterworks business, Midwest Pipe and Supply, and joined the Board in August 2017 when he was appointed CEO of the Group's US business. Under his leadership the US business has continued to gain market share and generate profitable growth. He has a wealth of operational experience gained in the plumbing and heating industry in the USA and a strong track record of delivery having previously served as Chief Operating Officer of the US business for 10 years.

I would again like to state my gratitude to John Martin for the exceptional service he has provided to both the Company and the Board over the past nine years. John joined the Board as Chief Financial Officer in 2010 before being appointed Group Chief Executive in 2016. During his tenure the Group has been significantly simplified, exiting less attractive markets and focusing resources on those markets where the Company is best equipped to win. John's contribution to Ferguson has been outstanding and he leaves the business in great shape and we wish him well for the future.

Board appointments and succession

In last year's report I noted that a detailed review of the Board's profile undertaken by the Committee had identified potential areas for enhancement that would further match the Board's skillset with the profile and strategy of the Group. The criteria identified by the Committee for the recruitment of additional Non Executive Directors included experience in innovation, distribution, data and technology, customer service, e-commerce and disruption gained in large US and international businesses as well as listed company experience.

Following a thorough recruitment process, that involved the use of external search consultants, the Committee agreed that the requirements of the Board would be best served through the appointment of two new Non Executive Directors. Cathy Halligan and Tom Schmitt were identified as outstanding candidates and recommended for appointment to the Board. Cathy and Tom were appointed with effect from 1 January 2019 and 11 February 2019 respectively and I am delighted to welcome them both to the Board. Cathy has a strong track record in the retail, multi-channel and digital commerce arenas that will undoubtedly benefit Ferguson. E-commerce remains an important part of the Group's strategy and I am confident that Cathy will help us recognise and benefit from any future opportunities in this space. Tom is a sitting CEO with significant operational and Board experience across US and international distribution companies which, coupled with his deep knowledge of running large international logistics and supply chain businesses, will be of great value to the Board. I am pleased to report that both Tom and Cathy have completed their inductions and settled in well, adding great value to Board discussions.

On 1 October 2019, we announced that Darren Shapland would step down as a Non Executive Director and Chairman of the Audit Committee following the conclusion of our 2019 AGM. Since he joined the Board, Darren has made a significant contribution both in his capacity as a Non Executive Director and Audit Committee Chairman. Following a review of our succession planning for the role that included confirmation of the desired skills, experience and qualities and a review of suitable candidates, the Nominations Committee was pleased to recommend that Alan Murray, our Senior Independent Director, succeed Darren as Audit Committee Chairman. Alan is a Chartered Management Accountant with considerable financial, operational and international experience within global businesses as well as a deep knowledge of the Group.

External search advisers

External search advisers Korn Ferry and Russell Reynolds Associates were engaged to assist the Nominations Committee with the recruitment of new Directors appointed in 2018/19. Korn Ferry were engaged in relation to the recruitment of Cathy Halligan and Tom Schmitt and Russell Reynolds Associates were engaged in relation to the recruitment of Geoff Drabble. Neither Korn Ferry nor Russell Reynolds Associates have any 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 it remains our belief that the optimal way of recruiting for these positions is to use targeted recruitment based on the skills and experience required.

Diversity

Good business is about great people and our associates are the driving force behind our Company. They are consistently focused on delighting our customers and developing our business. It is the essence of Ferguson and it is why recruiting passionate people and providing excellent development opportunities is a core Group value.

We are committed to developing a diverse workforce and an inclusive working environment in all the global communities where the Group has a presence. We believe this will ensure that we attract the best talent. In addition we believe that the range of perspectives provided by a diverse and inclusive organisation that reflects our communities gives us a competitive advantage. 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.

During the year the Board and the Committee continued to monitor and review the progress of the Group's diversity and inclusion programme. Further information on the Group's approach to diversity and details of our current gender diversity statistics are set out on page 17. At Board-level, we have, for the last six years, satisfied the gender diversity recommendations set out in Lord Davies' original report and re-affirmed by the Hampton-Alexander Review. The Committee is also cognisant of the benefit of promoting diversity in its widest sense when undertaking its work. Last year the Board adopted a formal Board Diversity Policy that reflects 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. Progress against the measurable objectives set by the Board in support of the Board Diversity Policy is described in the table opposite.

The Board and the Committee will continue to monitor the Group's progress as it continues to deliver improvements in workforce diversity in the coming year.



Gareth Davis

on behalf of the Nominations Committee

Objective ¹	Status	Progress in 2018/19
To achieve a minimum 30 per cent female representation on the Board by 2020.	Achieved for 2018/19	33 per cent of the Board is female.
To achieve a minimum 30 per cent female representation amongst senior management. ²	Ongoing	24 per cent of senior management are female (23 per cent in 2017/18). Our recruitment practices factor in under-represented groups and we insist on diverse candidate slates when using executive search firms, where permissible to do so. In addition, during the year both our UK business and Group Services Head Office improved its maternity leave policy with the aim of increasing female representation in senior management.
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 2018/19	Korn Ferry and Russell Reynolds were engaged during the year to conduct searches for new Executive Committee members and Non Executive Directors. Both are signatories to the Voluntary Code of Conduct. No other executive search firms were used by the Nominations Committee during the year.

1. All targets detailed in these objectives are aspirational in nature. Recruitment decisions are based on merit with the best candidate hired or promoted irrespective of race, colour, religion, gender, age, sexual orientation, marital status, disability or any other characteristic that makes them unique.
2. Defined as the Executive Committee, their direct reports and other senior management included in the Company's report to the annual Hampton-Alexander Review.

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 2019 AGM.

Authority to allot shares

In November 2018, shareholders of the then holding company, now known as Ferguson Holdings Limited ("Old Ferguson"), granted authority to the Directors to allot new ordinary shares. This authority was adopted by shareholders of the Company on 25 April 2019 and authority was also given to the Directors to allot new ordinary shares up to a nominal value of £17,625,576, in addition to up to £23,250,000 as required for the purpose of the Scheme of Arrangement. The Directors intend to propose at the 2019 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 2020 AGM or, if earlier, at the close of business on the date which is 15 months after the date 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 2020 AGM or, if earlier, at the close of business on the date which is 15 months after the date of 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 2018 AGM of Old Ferguson, authority was given to the Directors to purchase the Company's ordinary shares. This authority was adopted by shareholders of the Company on 25 April 2019 and the Directors were given authority to purchase up to 23,185,045 of the Company's ordinary shares of 10 pence each (with such purchases being subject to minimum and maximum price conditions). This authority to purchase the Company's shares will expire at the 2019 AGM.

On 10 June 2019, the Company announced a \$500 million share repurchase programme (the "2019 Buy Back Programme"). The purpose of the 2019 Buy Back Programme was to reduce the issued capital of Ferguson plc. As at 31 July 2019, 2,090,371 ordinary shares of 10 pence each had been purchased for a consideration of \$150 million representing 0.90 per cent of the issued share capital of the Company as at 31 July 2019. All shares purchased were held in Treasury. On 31 July 2019 the Company entered into an irrevocable and non-discretionary arrangement with its broker Barclays Capital Securities Limited ("Barclays"), to continue with the 2019 Buy Back Programme after the year end, which concluded on 24 September 2019. During this period, Barclays acted as principal and made trading decisions concerning the timing of the purchases of the Company's shares independently of the Company. Additional details concerning the 2019 Buy Back Programme can be found in note 25 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 2019 are provided in note 25 to the consolidated financial statements on pages 144 and 145.

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 2019 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 intend to use this authority to make share repurchases pursuant to the 2019 Buy Back Programme. 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 \$750m US 144A bond issued in October 2018, 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 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, under specific circumstances, 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; the allotments of equity securities for cash; and dividend waiver can be found on pages 76, 144 and 106 of this Annual Report and Accounts respectively. The disclosure relating to the reproduction of a profit forecast made during the year is covered below. The remaining disclosures required by the above Listing Rule are not applicable to the Company.

On 26 March 2019, the following statement, characterised as a profit forecast, was included in the Group's half year results for the financial year ending 31 July 2019. The same statement was subsequently included in the prospectus published by the Company on 26 April 2019 in relation to the introduction of the new Group holding company.

"After a strong revenue performance in the first half our growth rate has moderated recently in line with conditions in our markets. While we still expect to generate further revenue growth in the second half, we have revised our estimates of Group organic revenue growth to between 3-5%. Consequently, we expect trading profit for the full year to be towards the lower end of the range of analysts' expectations."

A footnote to the foregoing statement read: "Current analysts' consensus for Group trading profit for 2019 is published on the Company's corporate website. The bottom of the range is \$1,585 million and the average is \$1,629 million."

The actual Group trading profit figure for the period covered by the profit forecast is set out on page 119.

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 17. 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 17 and 18. 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 and officers in respect of liabilities incurred in the course of acting as Directors and officers of the Company or of any associated company. These indemnities are provided in accordance with the Company's Articles of Association and to the maximum extent permitted by Jersey law. Qualifying third-party indemnity provisions were granted to all Directors and officers then in office by the then holding companies, now known as Wolsley Limited (to the maximum extent permitted by English law) and Ferguson Holdings Limited (to the maximum extent permitted by Jersey law) and these remain in force as at the date of this report. When Ferguson plc became the new holding company, additional third-party indemnity provisions were granted by the Company to the then current Directors and officers, and it has granted indemnities in accordance with Jersey law to all Directors and officers appointed since May 2019.

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 or officer is proved to have acted fraudulently or dishonestly.

Directors' Report – other disclosures (continued)

Independent auditors and audit information

In respect of the consolidated financial statements for the financial year ended 31 July 2019, 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 2019 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 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. During the financial year ended 31 July 2019 the Company was 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. Persons discharging managerial responsibility and other associates designated as restricted employees by the Company require permission to deal prior to any dealing in the Company's shares or linked financial instruments in line with the Group Share Dealing Policy.

Share capital and voting rights

Details of the authorised and issued share capital, together with any movements in the issued share capital during the year, are shown in note 25 to the consolidated financial statements on pages 144 and 145.

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 managed by J.P. Morgan Chase Bank, N.A. 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 2019, 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 (DTR 5) and the Company's Articles of Association.¹ No further notifications were received between 31 July 2019 and the date of this report.

Name of holder	Percentage of issued voting share capital ²	Date notification received
BlackRock	9.64%	13 December 2013
Triam Fund Management, L.P.	5.14%	12 June 2019
FIL Limited	4.95%	15 February 2010
Norges Bank	3.61%	10 October 2017

1. Although the Company is a non-UK issuer, as a matter of good governance the Company's Articles of Association specify that the Company, for the purposes of the notification obligations set out in DTR 5, should be treated as if it were a UK-Issuer (and not a non-UK Issuer). Accordingly, shareholders are required to notify the Company when their holdings reach, exceed or fall below 3% and each 1% threshold thereafter up to 100%. The Company is reliant upon shareholders providing notification when they reach, exceed or fall below a given threshold.
2. 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 2019	2
Disclosures relating to exposure to price, credit, liquidity and cash flow risks	134 to 138
Disclosures relating to financial risk management objectives and policies, including our policy for hedging	134 to 138
Viability statement	49
Disclosures concerning greenhouse gas emissions	44 and 45
The management report for the year	1 to 79
Information concerning post-balance sheet events	149
Future developments within the Group	1 to 53
Details of the Group's profit for the year ended 31 July 2019	22
Shares issued during the year	144

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 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". 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
Geoffrey Drabble, Non Executive Director and Chairman designate
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
Catherine Halligan, Non Executive Director
Thomas Schmitt, 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 Group's position and performance, business model and strategy.

The Directors' Report, comprising pages 2 to 106 was approved by the Board and signed on its behalf by:



Graham Middlemiss
Group Company Secretary

Directors' Remuneration Report

Committed to fairness and transparency

Jacky Simmonds
Remuneration Committee Chair



Remuneration Committee members

Membership	Meetings attended (eligibility)
Jacky Simmonds (Chair)	7 (7)
Tessa Bamford	7 (7)
Geoff Drabble	2 (2)
Cathy Halligan	5 (5)
Alan Murray	7 (7)
Tom Schmitt	4 (4)
Darren Shapland	7 (7)
Nadia Shouraboura	6 (7)

Remuneration Committee overview

- Jacky Simmonds has served as Chair of the Committee since 1 August 2014.
- During the year Geoff Drabble, Cathy Halligan and Tom Schmitt joined the Committee.
- As at the date of this report, the Committee is made up of eight independent Non Executive Directors. The Committee met seven times during the year. Details of membership and attendance are set out in the table above.
- Other attendees at meetings include Group Chief Executive, Chief Human Resources Officer, Group General Counsel, Group Company Secretary, Group Head of Reward and Mercer Kepler (Remuneration Consultant).
- Mercer Kepler meets with the Committee at meetings without the presence of management on a periodic basis.
- An overview of the Committee's area of responsibility is set out on page 58 and the Committee's Terms of Reference are available at www.fergusonplc.com.

Dear Shareholder

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the year ended 31 July 2019. This year has been a busy one for the Committee, with our activities covering a number of important areas (which are summarised below).

Remuneration Policy All

As I indicated last year, the Committee wished to undertake a further comprehensive review of the Remuneration Policy that was approved at the November 2018 AGM ("2018 Policy"). We reviewed the external landscape for executive remuneration in all our key talent markets (notably the USA, where we generate the majority of the Group's trading profit) and concluded that it is appropriate to propose some amendments to the Company's Remuneration Policy particularly for the North American markets.

This, together with updated best practice guidance and voting policies that were published around the time of our 2018 AGM (including the updated UK Corporate Governance Code ("Code")) has led us to update the Policy further and propose a number of amendments.

The proposed changes, which are consistent with the Company's reward principles, include:

- **Differentiating policy limits for the annual bonus and Long Term Incentive Plan ("LTIP") by geography, to reflect competitive market practices: UK/Rest of World ("RoW") limits are unchanged (150 per cent and 350 per cent of base salary for the bonus and LTIP, respectively) and USA policy limits for bonus and LTIP are increased to 200 per cent and 500 per cent of base salary, respectively:** Following a detailed benchmarking exercise across our geographical markets, the Committee believe the current annual bonus and LTIP award limits in the 2018 Policy are unlikely to be sufficient to recruit key talent in the USA (where we have the majority of our operations). A proposed increase in the USA headroom limits was considered appropriate.
- **Aligning the pension opportunity for new Executive Directors with that of the wider workforce, again differentiating between the USA and UK/RoW:** In support of widespread views that pension contributions should be no higher than that available to the wider workforce, we have changed our 2018 Policy accordingly and new Executive Directors will participate on consistent terms, which would on current levels equate to 16 per cent of base salary in the USA and 9 per cent of base salary in the UK/RoW. Due to contractual arrangements and in line with the relevant previous Policy, current Executive Directors' contributions are not proposed to be changed.
- **Increasing in-post shareholding guidelines:** The Committee supports the principle of the Code of encouraging meaningful share ownership by senior executives and proposes an increase to those currently in force by recalibrating the in-post shareholding guideline as 1x the annual LTIP award opportunity.
- **Paying dividend equivalents accruing on vested LTIP and Deferred Bonus Plan ("DBP") awards in shares:** In response to the preference expressed by some of our largest shareholders, dividend equivalents payable on LTIP and DBP awards that vest will be paid in shares, rather than cash.

The Committee also considered the appropriateness of extending the requirement for executives to maintain a material shareholding post-employment. The Committee concluded that introducing a post-exit shareholding requirement at this time would adversely impact the Group's ability to compete effectively for senior executive talent in the USA, where such requirements are not prevalent. Consequently, a formal post-exit holding requirement is not currently proposed, but the Committee will continue to monitor evolving market practice in this area and retains discretion to introduce at the appropriate time a post-employment shareholding policy for future years that is tailored to the Group's particular context.

During April 2019, the Committee consulted with our largest shareholders (representing approximately 64.5 per cent of Ferguson's issued share capital at that time) and their representative bodies on these proposed changes to the 2018 Policy. Meetings with myself and the Company Chairman were offered to those institutions consulted. The Committee received useful feedback during this process indicating support on the proposals. This feedback was reviewed, discussed and taken into account by the Committee before the proposed 2019 Policy set out in this report was finalised.

Remuneration in 2019: the performance context for remuneration outcomes and decisions All

As set out elsewhere in this Annual Report, Group performance for the year ended 31 July 2019 was strong though market conditions moderated in our key geographies. In particular, markets were more challenging in the USA in the second half; though good control of gross margins and costs ensured strong profit delivery. The UK business performance stabilised in FY2018/19 after its recent restructuring programme and it grew trading profits in constant currency in the year. Markets were weak in the Canadian business particularly arising from a slowdown in residential markets, though the business held trading profit flat in constant currency. During the year we also successfully completed the disposal of our Dutch business, Wasco, as well as a small business in the UK.

FY2018/19 trading profit performance was slightly ahead of analyst expectations, with growth of 7.5 per cent in constant currency compared to FY2017/18. This performance outcome was above the threshold performance level set for the annual bonus. We also exceeded the performance threshold set for the cash-to-cash days element of the bonus.

Longer-term, over the performance period for the 2016 LTIP award (2016-2019), our TSR of 46.3 per cent was ranked 28th against our comparator group. This level of performance warrants the vesting of 86.8 per cent of this element. Adjusted EPS growth was 33.2 per cent above UK RPI and exceeded the performance level set for full vesting of this element of the LTIP. Finally, our three-year cumulative adjusted Operating Cash Flow ("OpCF") was \$4,703 billion, also exceeding the maximum performance target set.

Taking into account these performance outcomes, the Committee has confirmed:

- bonus payments for the Executive Directors for the year ended 31 July 2019 ranged from 75.9 per cent to 85.1 per cent, averaging 81.2 per cent of their maximum levels; and
- the LTIP granted for the performance period 2016-2019 will vest overall at 95.6 per cent of maximum.

The Committee considered appropriate adjustments to the bonus and LTIP outturns in light of budgeted rates, the Nordic business disposal, exceptional cash flow and a FY2017/18 funding contribution to the UK defined benefit pension plan. Further details can be found on pages 99 and 100.

Looking ahead to the year ending 31 July 2020

On 3 September 2019 it was announced that John Martin would step down as Group Chief Executive on 19 November 2019, and Kevin Murphy (currently Chief Executive Officer, USA) would succeed him. Details of the remuneration arrangements for the Executive Directors for the year ending 31 July 2020 are detailed below. These include arrangements as a result of the Group Chief Executive succession recently announced. The Committee believes these changes provide continued strong alignment of executive pay outcomes and Group performance, as well as an appropriate balance between fixed and variable, and short-term and long-term remuneration.

Kevin Murphy

Effective from 19 November 2019 (on his appointment as Group Chief Executive), Kevin's base salary will be increased to \$1,100,000 per annum. The Committee concluded that this base salary, which is broadly in line with that of his predecessor, is positioned appropriately in the context of its competitiveness in relevant markets and Kevin's experience. His salary will be next reviewed in October 2020.

The Committee has also decided to increase slightly Kevin's maximum bonus opportunity on appointment to 150 per cent of base salary; the on-target opportunity remains unchanged (110 per cent of base salary), and the payout at threshold will be reduced from 80 per cent to 49 per cent of base salary. For Kevin's FY2019/20 LTIP award, the Committee has agreed to initially increase his maximum award opportunity to 350 per cent of salary, at the lower end of the competitive range in relevant markets (notably the USA) for a Group Chief Executive.

Although both of these increases are within existing 2018 Policy limits, the Committee has reflected the different market practice in the USA by awarding Kevin a higher LTIP than awards previously granted to John Martin as Group Chief Executive. The Committee will continue to keep Kevin's package under review for future years, in the context of his performance and development in the role in line with our previous practice.

Finally, the Committee decided to increase the notice period required from Kevin as Group Chief Executive to 12 months (from six months as Chief Executive Officer, USA). This change is within the limits of the 2018 and proposed 2019 Policies and also in line with market practice in the USA.

Directors' Remuneration Report (continued)

John Martin

The Committee awarded a salary increase of 2 per cent to John, effective from 1 August 2019 and in line with the overall level of increases awarded to other UK-based associates in the Group. Following the announcement that John will be stepping down as Group Chief Executive in November 2019, he will continue to be paid in line with the provisions of his service contract. The Committee resolved to treat him as a "good leaver" for his unvested executive share plan awards, further details can be found on page 96. John will be eligible for a bonus for the period 1 August to 19 November 2019 (subject to the achievement of the performance targets set), but will not be granted an LTIP award in FY2019/20.

Mike Powell

As set out in our last two Reports, we positioned Mike Powell's salary on appointment as Group Chief Financial Officer below the market.

Our stated intention has been to increase this on a phased basis over two years, subject to performance, by more than the average increase of the relevant general workforce. This approach is in line with the remuneration policies in force since 2015. The Committee determined that a salary increase of 8.2 per cent (to £595,000 per annum) is appropriate for the year ending 31 July 2020.

Taking into account Mike's valued contribution as Group Chief Financial Officer, the Committee has also decided to increase his maximum LTIP opportunity for awards to be granted in FY2019/20 to 300 per cent of salary (and keep this under review for future years).

Bonus and LTIP operation

The annual bonus will continue to operate along the same lines as for the year ended 31 July 2019, further details of which can be found on page 95.

The implementation of the LTIP for the coming year remains broadly unchanged, with awards subject to TSR, EPS and OpCF (weighted equally, as they have done for awards made since FY2015/16), further detail of which can be found on pages 95 and 96.

I started this letter by saying that this year has been a busy one for the Committee, and I would like to thank my colleagues for their invaluable contribution and counsel over the past 12 months. 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. I look forward to receiving your support for the remuneration-related resolutions being put to shareholders at the 2019 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

AGM	Annual General Meeting
Code	UK Corporate Governance Code
DBP	Deferred Bonus Plan 2015 or Deferred Bonus Plan 2019
EPS	Headline Earnings Per Share
ESPP	Employee Share Purchase Plan 2011 or Employee Share Purchase Plan 2019
ISP	International Sharesave Plan 2011 or International Sharesave Plan 2019
LTIP	Long Term Incentive Plan 2015 or Long Term Incentive Plan 2019
LTI plans	Ordinary Share Plan 2011, Revised Ordinary Share Plan 2016, Performance Ordinary Share Plan 2016, Performance Based Buy Out Award, Restricted Share Buy Out Awards, Ordinary Share Plan 2019 and Performance Ordinary Share Plan 2019
OpCF	Operating cash flow
Policy	Directors' Remuneration Policy
PBBO	Performance Based Buy Out Award granted to Mike Powell in June 2017
RSBO	Restricted Share Buy Out Awards granted to Mike Powell in June 2017
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

Remuneration at a glance

Remuneration

Ferguson 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 operations as well as 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.

Remuneration structure

Fixed

- Base salary
- Pension
- Benefits

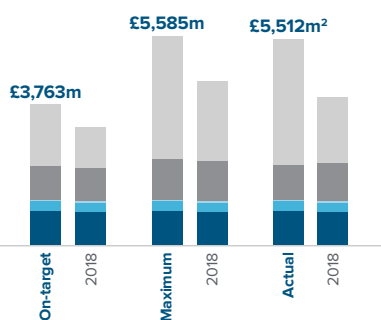
Variable

- Short-term
 - Annual bonus
- Long-term
 - Long term incentive plan with two year post-vesting holding period

Remuneration for Executive Directors 2018/19

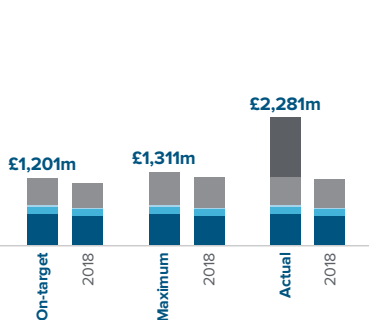
John Martin

Group Chief Executive ("CEO")



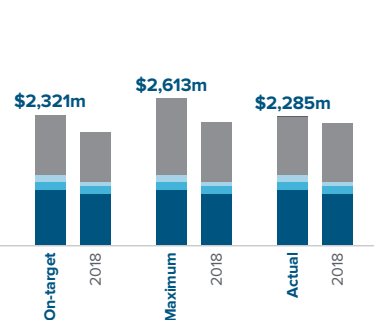
Mike Powell

Group Chief Financial Officer ("CFO")



Kevin Murphy

Chief Executive Officer, USA



2018/19 breakdown

Key	Percentage of maximum achieved (%)	Maximum potential (£000)	Actuals (£000)	Percentage of maximum achieved (%)	Maximum potential (£000)	Actuals (£000)	Percentage of maximum achieved (%)	Maximum potential (\$000)	Actuals (\$000)
■	N/A	899	899	N/A	550	550	N/A	975	975
■	N/A	270	270	N/A	138	138	N/A	156	156
■	N/A	52	52	N/A	19	19	N/A	118	118
■	85.1	1,079	918	82.7	605	500	75.9	1,365	1,036
■ ¹	95.6	3,285	3,373 ²	N/A	N/A	N/A	N/A	N/A	N/A
■		Other remuneration		N/A	N/A	1,074 ³	N/A	N/A	1 ³

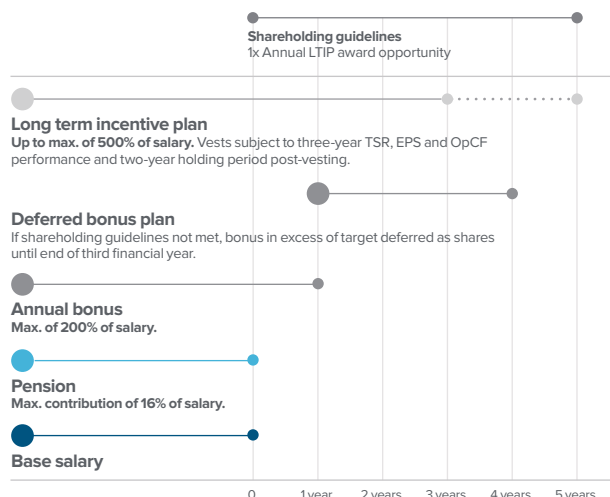
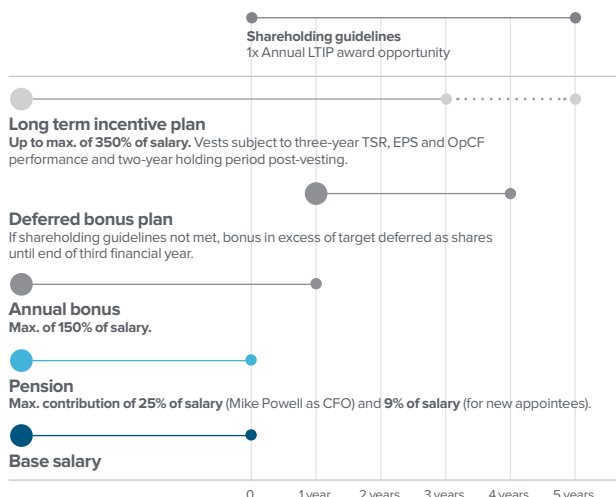
- LTIP awards are only shown for John Martin. At the date of grant Mike Powell was not an employee of the Group and Kevin Murphy was not an Executive Committee member.
- The actuals figure for John Martin for long term incentive plan award and his total remuneration figures include the value of dividend equivalents which are not included in the on-target or maximum charts.
- The actuals figures for Mike Powell and Kevin Murphy above include the "other" remuneration relating to the vesting of a PBBO award and the grant of an ESPP award respectively detailed in the single figure table on page 98 and are included in the charts above.

Remuneration Policy applicable to Executive Directors following the 2019 AGM*

UK/RoW Executive Directors (including Mike Powell as CFO)



US Executive Directors (including Kevin Murphy as CEO)



* Subject to shareholder approval of the 2019 Remuneration Policy.

+ All figures are maximum, actual figures applicable for FY2019/20 for current Executive Directors can be found in the Implementation of Policy for the year ending 31 July 2020 section on page 95.

2019 Remuneration Policy

1. Introduction

This section of the Directors' Remuneration Report has been prepared in accordance with the Remuneration Reporting Regulations, and sets out details of the proposed 2019 Policy. The proposed Policy will govern future payments that will be made to Directors, subject to shareholder approval at the AGM on 21 November 2019 ("2019 AGM"). If approved, the 2019 Policy will take effect immediately following the 2019 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 2018 Policy for the year ended 31 July 2019 are provided in the Annual report on remuneration section starting on page 97, and how the Company will implement the 2019 Policy for the year ending 31 July 2020 are provided on pages 95 and 96.

The 2018 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 Group and appropriately based on skills, 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/or 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.

Future policy table: **Executive Directors****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

- 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.
- Any new Executive Director who is first appointed as a Director on or after the date of the 2019 AGM will be eligible to participate on consistent terms in the pension arrangements available for the workforce in the relevant market, or to receive a payment of a cash salary supplement in lieu of pension entitlement. The actual percentage levels will be set out in the Annual report on remuneration following their appointment.
- Pension contribution or cash salary supplement is paid monthly.
- The entitlement is fixed as a percentage 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.

2019 Remuneration Policy (continued)

2. Remuneration Policy tables continued

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 87 will apply.
- The annual bonus is not pensionable.
- The annual bonus is normally reviewed annually and the opportunity available may be adjusted each year.
- The maximum annual bonus opportunity for an Executive Director who is recruited from or based in the USA is up to 200 per cent of base salary; and for an Executive Director who is recruited from and based in any other geography is up to 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 Group'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: 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

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).
- For awards from the date of this Policy, dividend equivalent payments will normally be satisfied in shares (in accordance with the DBP rules) on the shares which are the subject of the award (to the extent they vest) with a value equal 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 from the date of this Policy 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.

2019 Remuneration Policy (continued)

2. Remuneration Policy tables continued

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 Group 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.
- The maximum opportunity (in shares valued on or around the date of grant) for an Executive Director who is recruited from or based in the USA is up to 500 per cent of base salary and for an Executive Director who is recruited from and based in any other geography is up to 350 per cent of base salary. 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, up to 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.
- Executive Directors are required 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 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.
- For awards from the date of this Policy, dividend equivalent payments will normally be satisfied in shares in accordance with the LTIP rules on the shares which are the subject of the award (to the extent they vest) 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 pages 95 and 96 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 any Company all-employee share plan applicable to the jurisdiction in which they are based on the same terms as other eligible employees.
- The Company currently operates all-employee share purchase arrangements taking advantage of certain tax favourable regimes that are available in the USA and the UK. For the USA, grants are currently made under the ESPP and in the UK, under a tax favoured schedule to the ISP.

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 eligible employees on equivalent terms.

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.

Future policy table: **Executive Directors**

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 expected to hold over time and maintain an individual shareholding in the Company.
- During the life of this Policy, the guideline level of shareholding will be set in line with the Executive Director's annual LTIP award opportunity.
- The shareholding guideline may be achieved by (i) beneficially owning shares, and (ii) retaining shares received as a result of participating in a Company share plan (including any vested awards that remain subject to a post-vesting holding period) after taking into account any shares sold to finance option exercises and/or to pay tax, social security and similar liabilities.
- Further details of the shareholding guideline levels set for each Executive Director in the year under review will be disclosed in the relevant 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.

2019 Remuneration Policy (continued)

2. Remuneration Policy tables continued

In the following table, Non Executive Directors shall include the Chairman, except where noted otherwise.

Future policy table: Non Executive Directors
Fees
<p>Purpose and link to strategy</p> <p>To remunerate Non Executive Directors to reflect their level of responsibility and time commitments.</p>
<p>Operation and opportunity</p> <ul style="list-style-type: none"> – 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, Chair of the Audit Committee, Chair of the Remuneration Committee and Employee Engagement Director to reflect the material additional time commitment of these roles. – Fees for Non Executive Directors, other than the Chairman, are determined by the Chairman and the Executive Directors. 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 each year, if applicable, are normally effective at the same time as the effective annual salary review date for Ferguson employees. – 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.
<p>Framework to assess performance measures and for recovery of sums paid</p> <p>Assessment of performance measures: not applicable.</p> <p>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.</p>

Future policy table: Non Executive Directors
Benefits
<p>Purpose and link to strategy</p> <p>To enable a Non Executive Director to perform his or her duties effectively.</p>
<p>Operation and opportunity</p> <ul style="list-style-type: none"> – 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: <ul style="list-style-type: none"> – they receive assistance with their tax affairs arising from their duties as a Non Executive Director; – 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 is 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.
<p>Framework to assess performance measures and for recovery of sums paid</p> <p>Assessment of performance measures: not applicable.</p> <p>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.</p>

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 2018 Policy, the following revisions are proposed to the annual bonus and DBP, LTIP, pension and executive shareholding guidelines. The aim of the proposed changes is to ensure the Policy remains sufficiently flexible to attract, retain and motivate executives of the highest quality in all relevant markets, to ensure appropriate alignment of Executive Director and shareholder interests and to reflect the continued evolution of UK remuneration governance since the 2018 AGM. If the 2019 Policy is approved at the 2019 AGM, the components of remuneration that will change are as follows:

Annual bonus and DBP

- Differentiated award opportunities by geography, to reflect competitive local practices in our key talent markets.
 - US award limit increased to 200 per cent of base salary (previously 150 per cent of base salary).
 - UK/RoW award limit remains unchanged (150 per cent of base salary).
- Paying dividend equivalents on vested DBP awards in shares (previously these could be paid in cash or shares).

LTIP opportunities

- Differentiated award opportunities by geography, to reflect competitive local practices in our key talent markets.
 - US award limit increased to 500 per cent of base salary (previously 350 per cent of base salary).
 - UK/RoW award limit remains unchanged (350 per cent of base salary).
- Paying dividend equivalents accruing on vested LTIP awards in shares (previously these could be paid in cash or shares).

Pension

- Aligning pension opportunity for new Executive Director appointments with those of the wider workforce in the relevant market differentiating between the USA and UK/RoW (previously up to 30 per cent of base salary).

Shareholding guidelines

- Redefined for Executive Directors as 1x their LTIP award opportunity (an increase to existing guidelines).

2019 Remuneration Policy (continued)

3. Legacy arrangements

In approving this 2019 Policy, authority is given to the Company for the duration of the 2019 Policy to honour commitments paid, promised to be paid or awarded to: (i) current or former Directors prior to the date of this 2019 Policy being approved (provided that such payments or promises are consistent with the 2019 Policy or 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 2019 Policy.

For the avoidance of doubt, this includes: (1) all awards granted under the LTIP 2015, LTIP 2019, DBP 2016 and DBP 2019; (2) 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 (3) 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 Deferred Bonus Plan Awards granted to him in November 2017 and October 2018. The 2018 Policy approved by shareholders at the 2018 AGM will continue to apply until this proposed 2019 Policy is approved at the 2019 AGM. If this proposed 2019 Policy is not approved at the 2019 AGM, the 2018 Policy will continue to apply in accordance with its terms.

4. 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, also reflect regional performance). Executives and senior managers 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.

5. 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 and/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 above the average level for the relevant workforce 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 700 per cent (US) and 500 per cent (UK/RoW) 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.

6. 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 2019 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 any other benefit in connection with stepping down from the Board (for example, outplacement counselling costs and disbursements (such as legal costs)) if considered to be appropriate and/or necessary and dependent on the circumstances of departure.

6. Policy on loss of office continued

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	<ul style="list-style-type: none"> – 12 months' notice from the Company. – For any new Executive Directors and the new Group Chief Executive, up to 12 months' notice from the Executive. – For the current Group Chief Financial Officer, six months' notice from the Executive.¹ 	Up to six months' notice by either party.
Termination payment	<ul style="list-style-type: none"> – If an Executive Directors' services are not required during the notice period, the Company may terminate an Executive Director's service contract by making a payment in lieu of notice equal to 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	<ul style="list-style-type: none"> – Non-compete and non-solicitation covenants apply after the termination date. 	Not applicable.

1. This reflects the Company's policy at the time the Group CFO was appointed.

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 Committee retains the discretion whether or not to require an Executive Director to defer any part of a bonus that is awarded on termination.

The treatment of leavers under the LTIP or any other awards under LTI plans, together with awards under all-employee plans and the DBP (if applicable), 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 relevant section of the applicable 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, in which case the award shall vest in full at the date of death or cessation of employment.

7. 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 the DBP 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.

2019 Remuneration Policy (continued)

8. 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 the Remuneration Policy, a consultation was undertaken with shareholder views given due consideration when finalising the 2019 Policy. The Committee also considers shareholder feedback received in relation to the AGM each year and at other times, as appropriate.

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 2019 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 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.

As noted on page 18, a forum with associates called "Beyond the Boardroom" is in place. The forum allows Alan Murray, as the Group's appointed Employee Engagement Director, to ask questions and hear the views of associates on various matters. Where appropriate, this includes questions and discussions on remuneration arrangements across the Group.

9. Illustrations of the Remuneration Policy (2019/20)

The following charts give an illustrative value of the remuneration package each of the Executive Directors would receive in accordance with the 2019 Policy based on:

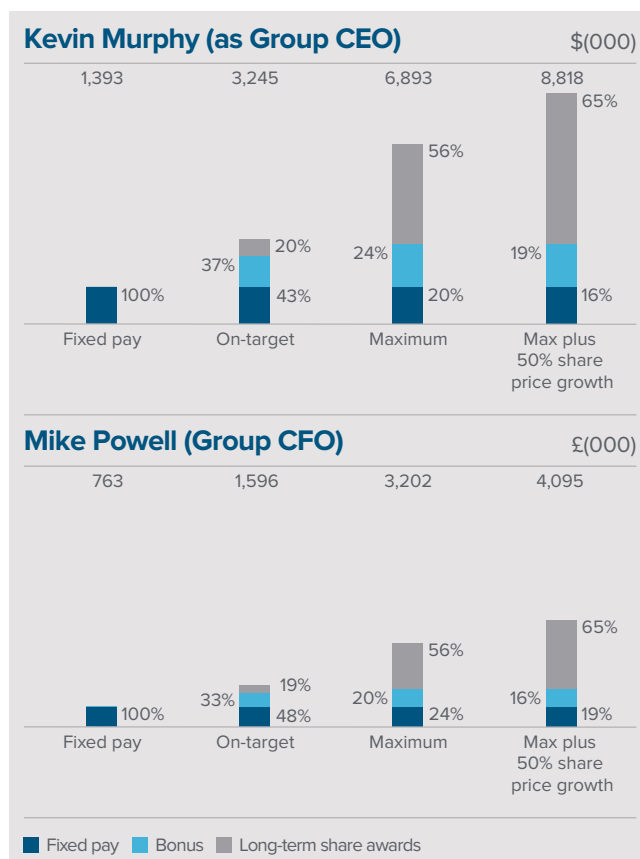
- **Fixed Pay:** (1) 2019/20 base salaries (for Kevin Murphy, his annualised salary as Group Chief Executive), (2) 2018/19 benefits (as set out in the Remuneration table on page 98), (3) pension using the 2019 Policy and applied to 2019/20 base salary; and
- **Variable Pay:** (1) 2019/20 LTI awards in respect of minimum (fixed pay), on-target and maximum performance using the 2019 Policy and (2) 2019/20 Bonus awards using the 2019 Policy (for Kevin Murphy, based on his annualised bonus opportunity as Group Chief Executive).

No illustration of Remuneration Policy is shown for John Martin (current Group Chief Executive) who is stepping down from the Board in advance of the 2019 AGM at which the proposed Remuneration Policy is being put to shareholders.

In this Report, the assumptions include an estimation of the amount attributable to share price appreciation (for the "Maximum plus 50 per cent share price appreciation" scenario only) but do not include any all-employee share plan awards for which an Executive Director may be eligible nor the dividend equivalent amount payable on the LTIP as shares.

Annual bonus	LTIP
On-target Paid at (as a percentage of base salary): – 110 per cent for Kevin Murphy – 90 per cent for Mike Powell	Vesting at 17 per cent of an award ¹ expressed as a percentage of the base salary ² used for calculating the award: – 58 per cent for Kevin Murphy – 50 per cent for Mike Powell
Maximum Paid at (as a percentage of base salary): – 150 per cent for Kevin Murphy – 110 per cent for Mike Powell	Full vesting at 100 per cent of the award expressed as a percentage of the base salary ² used for calculating the award: – 350 per cent for Kevin Murphy – 300 per cent for Mike Powell

1. The payment level for performance in line with threshold for the FY2019/20 LTIP. Further details are set out on pages 95 and 96.
2. Awards will be granted by reference to a percentage of the Executive Directors' 2019/20 base salary and this table calculates the value of the awards on that basis. These values are used in the scenarios.



Implementation of Policy for the year ending 31 July 2020

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 John Martin and Mike Powell from 1 August 2019, and no increase for Kevin Murphy as Chief Executive Officer, USA. Details of Kevin's new salary upon appointment as Group Chief Executive and revised base salary levels for each Executive Director, and those which applied during the year ended 31 July 2019, are set out below.

	2019/20 ³ (000)	Effective date of salary change	2018/19 (000)
K Murphy ¹	\$975.0 (no increase)	1 August 2019	\$975.0
	\$1,100.0 (+12.8% increase)	19 November 2019	\$975.0
M Powell ²	£595.0 (+8.2% increase)	1 August 2019	£550.0
J Martin	£917.2 (+2.0% increase)	1 August 2019	£899.2

1. During 2019/20, Kevin Murphy will receive a salary of \$975,000 per annum from 1 August to 19 November 2019. His salary will increase to \$1.1 million per annum upon appointment as Group Chief Executive on 19 November 2019.
2. As noted in the Remuneration Committee Chair's statement, the Committee awarded a salary increase to Mike Powell that is above the average salary increase for the relevant general workforce in order to move his salary closer to the market median. This approach was highlighted in last year's Directors' Remuneration Report and is consistent with both the 2018 Policy and the 2019 Policy.
3. For context, the Group-wide average salary increase was 1.54 per cent.

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, in line with the pensions policy for the wider workforce in the USA. This includes a 401k plan and Ferguson Executive Retirement Plan arrangements. These plans have normal retirement ages of 59½ and 55 respectively. Only base salary is included in the calculation of the Company pension contributions. Benefits provided to Executive Directors are detailed in the notes to the Remuneration table on page 98.

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 following table:

	Threshold	Target	Maximum
	As % salary		
K Murphy ¹ (1 Aug – 18 Nov 2019)	56%	110%	140%
K Murphy ¹ (19 Nov 2019 – 31 July 2020)	49%	110%	150%
M Powell	49%	90%	110%
J Martin ²	56%	100%	120%

1. Kevin Murphy's bonus opportunity will be measured on Group and USA business targets and the salary for the relevant period whilst he is Chief Executive Officer, USA and will be measured on Group targets and the salary for the relevant period whilst he is Group Chief Executive.
2. John Martin will receive a pro rated bonus payment for the period 1 August – 19 November 2019.

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.

Specific individual objectives were set at the beginning of the 2019/20 financial year.

The Board considers that the performance targets for FY2019/20 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 FY2019/20 at the levels set out in the table below:

	LTIP (award value as % of salary)
K Murphy	350%
M Powell	300%

The extent to which the LTIP awards (proposed to be granted during FY2019/20) 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.

2019 Remuneration Policy (continued)

EPS growth All

The EPS¹ 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 3% and 30%	0%-100%
At or below 3%	0%

- 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).
- Awards will vest on a straight-line basis between 0 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.

Having considered these reference points in the round, the Committee has decided to extend the EPS performance range slightly for the FY2019/20 LTIP awards, and lower the payout at threshold from 25% to 0% of maximum. The revised performance range is considered by the Committee to continue to represent an appropriate degree of stretch for the award opportunities granted, in particular the level required for full vesting (US CPI +30% over the period), and which remains unchanged from previous grants.

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
\$4.832 billion	100%
Between \$4.292 billion and \$4.832 billion	25%-100%
\$4.292 billion	25%
Below \$4.292 billion	0%

- 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).
- The cumulative three-year figure for adjusted OpCF for the last three years equals \$4.703 billion, as set out on page 100.
- Awards will vest on a straight-line basis between 0 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.

John Martin departure arrangements

John Martin will not receive any payment for loss of office. He will step down as Group Chief Executive and as a Director on 19 November 2019 but continue to be an employee of the Group until 3 September 2020 (or such earlier date as agreed between John and Ferguson plc).

During that period the following arrangements will apply:

- John will continue to receive salary, benefits and pension payments.
- John will be entitled to be considered for bonus for FY2019/20 but any bonus for that financial year will be pro rated to 19 November 2019 and subject to an assessment of the relevant measures. The bonus would be determined and paid in accordance with the usual timetable for the Annual Bonus Plan following the end of FY2019/20.
- John will not receive a grant under the LTIP for the FY2019/20 financial year.
- John will be treated as a good leaver under the Ferguson Group Long Term Incentive Plan 2015. His 2017 and 2018 awards will be time pro rated to reflect his employment during the vesting period. The awards remain subject to the performance measures which apply to the relevant awards and will continue to vest and become exercisable on their scheduled vesting dates, subject to the relevant terms (including malus and where applicable clawback).
- John will not be treated as a good leaver under the Ferguson Group International Sharesave Plan 2011. He will be entitled to cancel his savings contract at any time or continue to save until 3 September 2020. Upon cessation of employment or cancellation of his savings contract, whichever is the earlier, his options will lapse.

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 annualised fees for 2019/20 (and those applied for 2018/19) is set out below:

	2019/20 (£000) ^{1,2}	2018/19 (£000) ²
Chairman's fee	402.0	393.0
Non Executive Director base fee	70.0	68.5
Additional fees:		
Senior Independent Director	20.5	14.0
Chairman of Audit Committee	20.5	20.0
Chair of Remuneration Committee	20.5	20.0
Employee Engagement Director	10.0	10.0 ³

- 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 Senior Independent Director whose fee was increased at above this rate in order to reflect the significant increase in workload and responsibilities associated with the role.
- The Non Executive Directors (including the Chairman) 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.
- Alan Murray was appointed as Employee Engagement Director from July 2019, in connection with this role he received the additional annual fee commencing from that date, pro rated for the year ended 31 July 2019.

Annual report on remuneration

Remuneration

Report for the year ended 31 July 2019

Information

For the purposes of this Annual report on remuneration:

- (1) any estimated share values are determined using a share price of 5,581.6 pence, being the average closing mid-market quotation for Ferguson plc shares for the three-month period ended 31 July 2019.
- (2) the remuneration of Kevin Murphy is shown in USD and any sterling payments have been converted to USD based on a 12-month average exchange rate for the year ended 31 July 2019 of \$1.2878:£1. (2018: \$1.3308:£1).

Remuneration Committee

The Committee met regularly during the year. Details of meetings and attendance are shown in the table on page 80.

Principal areas of focus in 2018/19

Governance

- 2019 Remuneration Policy Review including consultation of shareholders and reviewing their feedback in the context of finalising the proposed 2019 Policy.
- Review and approval of the 2018/19 Directors' Remuneration Report.
- Annual governance and compliance review including reviewing pay practices and methods for gathering the views of the workforce.
- Gender pay gap review.
- Annual review of remuneration adviser performance.
- Annual review of terms of reference.
- Annual review of effectiveness of the Committee.
- Annual review of Directors' shareholdings against applicable shareholding guidelines.
- Review and approval of arrangements required due to the redomiciliation of the Company.

Reward including salary and fees review

- Analysis of key reward and US compensation practices.
- Review of executive pay levels.
- Review and approval of remuneration proposals for existing Executive Directors and new and existing Executive Committee members (including review and approval of remuneration package for new Group General Counsel).
- Review of the Chairman's fees.

Incentives

- Review and approval of 2017/18 annual bonus and long term incentive outcomes.
- Review and approval of LTIP structure and targets for 2018/19 awards.
- Confirmation of vesting of LTIP and other discretionary share plan awards that vested in 2018/19.
- Regular assessment of performance against 2018/19 annual bonus targets and objectives.
- Regular review of performance against targets for outstanding LTIP and other discretionary share awards.
- Review and approval of process for 2018/19 grants under all-employee share plans.
- Regular review of use and operation of discretionary share plans and all-employee share plans.
- Review and approval of annual bonus structure and targets for 2019/20.
- Review and approval of grant of LTIP and other discretionary share plan awards to senior executives, including those below Board level for 2019/20.

Remuneration Committee effectiveness review

The annual review of the effectiveness of the Committee was conducted during the year and considered at the July 2019 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.

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 2018. 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 (including expenses) paid to Mercer Kepler for the advice provided to the Committee during the year was £134,417. Fees (including expenses) paid to Mercer Kepler for other remuneration-related services to the Company during the year were £36,289.

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 £28,033. Freshfields was appointed by the Company. Freshfields also 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, the Group General Counsel 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.

Annual report on remuneration (continued)

Single total figure of remuneration for Executive Directors (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 2019.

Year	Fixed remuneration				Variable remuneration			Other ^{8,9} (000)	Total remuneration (000)	
	Salary (000)	Taxable benefits ³ (000)	Pension benefits ⁴ (000)	Sub total (000)	Bonuses (000)	Value of LTI vesting ^{5,6,7} (000)	Sub total (000)			
Executive Directors										
J Martin	2018/19	£899.2	£52.0	£269.7	£1,220.9	£918.0	£3,373.2	£4,291.2	–	£5,512.1
	2017/18	£877.2	£48.2	£263.2	£1,188.6	£1,003.5	£1,756.4	£2,759.9	£3.7	£3,952.2
M Powell¹	2018/19	£550.0	£18.8	£137.5	£706.3	£500.5	–	£500.5	£1,074.2	£2,281.0
	2017/18	£510.0	£17.7	£127.5	£655.2	£521.2	–	£521.2	£2.2	£1,178.7
K Murphy	2018/19	\$975.0	\$117.5	\$156.0	\$1,248.5	\$1,035.8	–	\$1,035.8	\$0.7	\$2,285.0
	2017/18	\$900.0	\$108.2	\$144.0	\$1,152.2	\$1,060.2	–	\$1,060.2	\$0.7	\$2,213.1
Total²	2018/19	£2,206.3	£162.0	£528.4	£2,896.7	£2,222.8	£3,373.2	£5,596.0	£1,074.7	£9,567.4
	2017/18	£2,063.5	£147.2	£498.9	£2,709.6	£2,321.4	£1,756.4	£4,077.8	£6.5	£6,793.9

Total in USD

(for information) 2018/19 \$2,841.2 \$208.7 \$680.5 \$3,730.4 \$2,862.5 \$4,344.0 \$7,206.5 \$1,384.0 \$12,320.9

1. Mike Powell's annual bonus payments for both 2017/18 and 2018/19 are shown as gross amounts due to him. For 2017/18, amounts in excess of target were deferred into a nil cost option award of 1,095 shares in accordance with the terms of the DBP as he had not met his shareholding guideline target. Deferral is expected to apply if he has not met his shareholding guideline target prior to payment of his 2018/19 bonus.
2. For the purposes of the total remuneration figures shown for 2018/19 and 2017/18, payments made to Kevin Murphy shown in USD have been converted back into pounds sterling using the 12-month average exchange rate for the year ended 31 July 2019 (\$1.2878:£1) and a three-month average exchange rate for the period ended 31 July 2018 (\$1.3308:£1).
3. Benefits comprise private health insurance, car benefit (car allowance, car, driver), tax and financial advice and tax gross up arrangements. For Kevin Murphy, this also includes life insurance premium. The omission of \$34,200 in his taxable benefits figure for 2017/18 was an administrative oversight and has now been included.
4. Kevin Murphy participates in the defined contribution pension arrangements of Ferguson Enterprises, LLC. receiving contributions of 16 per cent of base salary from Ferguson Enterprises LLC. The cost of employer's contributions during the year was \$156,000. During the year ended 31 July 2019, John Martin and Mike Powell received salary supplements in lieu of Group pension scheme membership.
5. The LTIP grant made to John Martin in December 2016 will vest overall at 95.6 per cent in November 2019. The performance based buy out award ("PBBO") granted to Mike Powell in June 2017 is reported in the "Other" column. An OSP award and POSP award made to Kevin Murphy in 2016 (before he was appointed as an Executive Director and which are therefore not required to be included in the table above) are summarised on page 101.
6. 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.
7. Value shown for 2018/19 represents estimated value of LTIP awards granted in 2016 that will vest in November 2019. The estimate assumes 95.6 per cent overall vesting of LTIP awards using the three-month average share price for the period ended 31 July 2019 of 5,581.6 pence. Value shown for 2017/18 represents the actual vesting of the LTIP awards which vested in January 2019, using the share price of 5,337 pence on the date of vesting (21 January 2019).
8. The PBBO award performance conditions and vesting date are the same as those for the LTIP grant made in November 2016 to other senior executives. The PBBO award will vest overall at 95.6 per cent in November 2019.
9. In April 2019 Kevin Murphy was granted share options when he entered into a one-year ESPP savings contract. The values shown for 2019/20 and 2018/19 represents the gain, calculated as 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.

Payments for loss of office and to past Directors (Audited)

No payments for loss of office were made during the financial year.

No payments have been made to past Directors other than a payment made to Frank Roach, a former Executive Director, in relation to his LTIP award granted on 1 November 2016 which is disclosed on page 100.

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 Board. The Board 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, John Martin was a Non Executive Director of Ocado plc (following his appointment on 1 June 2019) and Mike Powell was a Non Executive Director and Audit Committee Chairman of Low & Bonar plc. For the year ended 31 July 2019, John Martin and Mike Powell received fees of £10,833 and £49,500 respectively for their services. The Company allowed them to retain the fees paid to them during the year.

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 2019 are shown in the Remuneration table opposite and the bonuses are calculated as follows:

Director	Measure ¹	Target Performance				Actual performance (as % of salary)			Maximum opportunity (% of salary)
		Threshold	Target	Maximum	Actual Performance	Threshold	Target	Maximum	
J Martin	Group ongoing trading profit	\$1,527.9m	\$1,625.4m	\$1,722.9m	\$1,603.4m ²	57.3%			72.0%
	Group ongoing average cash-to-cash days ³	57.0	56.0	55.0	55.8	20.8%			24.0%
	Personal objectives ^{4,7}	1/20	–	20/20	20/20			24.0%	24.0%
	Total Achieved							102.1%	120.0%
M Powell	Group ongoing trading profit	\$1,527.9m	\$1,625.4m	\$1,722.9m	\$1,603.4m ²	51.3%			66.0%
	Group ongoing average cash-to-cash days ³	57.0	56.0	55.0	55.8	18.8%			22.0%
	Personal objectives ^{5,7}	1/20	–	20/20	19/20			20.9%	22.0%
	Total Achieved							91.0%	110.0%
K Murphy	Group ongoing trading profit	\$1,527.9m	\$1,625.4m	\$1,722.9m	\$1,603.4m ²	12.4%			16.8%
	USA ongoing trading profit	\$1,459.0m	\$1,552.1m	\$1,645.3m	\$1,508.2m	46.0%			67.2%
	Group ongoing average cash-to-cash days ³	57.0	56.0	55.0	55.8	4.6%			5.6%
	USA ongoing average cash-to-cash days	56.9	55.9	54.9	56.4	15.2%			22.4%
	Personal objectives ^{6,7}	1/20	–	20/20	20/20			28.0%	28.0%
	Total Achieved							106.2%	140.0%

- Details of the performance measures and how they were set were disclosed in the Company's 2018 Annual Report and Accounts on page 86.
- Actual Group ongoing trading profit of \$1,601.0 million (see note 2 to the consolidated financial statements on page 119) adjusted for the retranslation at Company budgeted foreign exchange rates for the year ended 31 July 2019.
- Actual Group ongoing average cash-to-cash days defined as the 12-month average number of days from payment for items of inventory to receipt of cash from customers for the ongoing business adjusted for the retranslation at Company budgeted foreign exchange rates for the year ended 31 July 2019.
- John Martin's personal objectives were based on IT transformation, growing organic own brand sales and UK business transformation.
- Mike Powell's personal objectives were based on review of corporate headquarters of Ferguson plc, execute the Group's funding plan, ensure the UK business has strong and decisive financial leadership, preparation for UK exit and ongoing assessment of the listing structure.
- Kevin Murphy's personal objectives were based on review of Ferguson Enterprises B2C e-commerce strategy, develop and deliver implementation plan for IT transformation, growing organic own brand sales, and hosting US-based shareholder meetings.
- 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 Annual Report.

Following a review, the Committee considers that Executive Directors' personal objectives for 2017/18 are no longer commercially sensitive and has approved the following disclosure:

Executive Director	Objective	Assessment	Payout of element
John Martin	– Support Kevin Murphy as the new CEO, USA	– Provided strong and clear support	20%
	– Reshape UK business leadership team to execute the turnaround strategy	– UK leadership team identified and appointed and key elements of turnaround plan executed	40%
	– Review Executive Committee composition, recruit and appoint individuals	– Review completed and new CHRO, CIO and Group General Counsel appointed	20%
	– Review the US business disruption team to complement the acceleration of innovation in the Group	– Review completed and team in place	20%
			Total: 100%
Mike Powell	– Recruit and appoint new Group Head of Internal Audit	– New Group Head of Internal Audit appointed	15%
	– Review and support financial leadership for the UK business	– Good progress made and support provided to UK business	20%
	– Execute the Group Services Office relocation	– Group Services office relocated December 2017	15%
	– Enhancing financial reporting to the Board	– Improved reporting in place	20%
	– Assess the most appropriate listing structure and valuation against comparable peers	– Initial assessment undertaken and further work ongoing	20%
			Total: 90%
Kevin Murphy	– Improve the Ferguson associate engagement score	– Improved engagement score	30.5%
	– Launch and embed US business disruption team	– Team in place	35.0%
	– Recruit and appoint individuals to US leadership team	– New CHRO, CIO and Group General Counsel appointed	30.0%
			Total: 95.5%

Annual report on remuneration (continued)

Long term incentives All

Long term incentives awarded to Executive Directors under the LTIP in November 2016 will vest in November 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), for exceptional cash flow (OpCF only) and for the impact of a special pension funding contribution to the UK defined benefit pension plan (OpCF only). Further details and reconciliation to the consolidated financial statements are set out in the footnotes to the 2016/17 Awards table below.

Vested awards

LTIP

The performance conditions which applied to the awards made in November 2016 have been measured following the year-end and actual performance achieved is detailed below.

2016/17 Awards^{1,2}

Performance level	Performance required			
	% 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") ³	Adjusted OpCF ⁴
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
Actual performance achieved		71st percentile	33.2%	\$4.703 billion
% of award subject to each performance condition vesting		86.8%	100.0%	100.0%
Total percentage vesting: 95.6%				

- Details of the performance measures and how they were set were disclosed in the Company's 2016 Annual Report and Accounts on pages 60 and 61.
- 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.
- Headline earnings per share of 342.7 cents per share in 2016 and 517.4 cents per share in 2019 adjusted to include 19.0 cents in 2016 relating to the disposed Nordic business. The growth in adjusted headline earnings per share from 361.7 cents in 2016 to 517.4 cents in 2019 in excess of UK inflation ("RPI") for the same period of 9.9 per cent.
- Cash generated from operations, before interest and tax of \$1.609 billion (2017/18: \$1.323 billion and 2016/17: \$1.410 billion) 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 \$94 million (2017/18: \$31 million and 2016/17: nil) in relation to the cash flow lost due to the Nordic business being disposed of in 2017/18; \$53 million (2017/18: \$59 million and 2016/17: \$25 million) of cash flow on exceptional items; and \$nil (2017/18: \$99 million and 2016/17: nil) in relation to a special funding contribution to the UK defined benefit pension plan.

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) ^{3,4}
J Martin ¹	58,858	95.6%	56,268	3,373.2
Past Director				
F Roach	17,164 ²	95.6%	16,408	1,005.1

- In accordance with shareholding guideline requirements, John Martin will, whilst still a Group employee, retain vested shares or hold vested but unexercised nil cost options for a holding period of two years from the vesting date.
- As detailed on page 78 of the Company's 2017 Annual Report and Accounts, Frank Roach's award reflects 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 51,493 conditional shares.
- Value determined using the share price noted on page 97 under the heading "Information".
- Dividend equivalents have accrued on the 2016 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 413.30 pence per share.

Performance Based Buy Out Award and Restricted Share Buy Out Award

The Performance Based Buy Out Award of 18,859 Conditional Shares granted to Mike Powell in June 2017 will 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 above.

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) ^{1,2}
M Powell	18,859	95.6%	18,029	1,074.2

- Value determined using the share price noted on page 97 under the heading "Information".
- Dividend equivalents have accrued on this award and will be paid out in cash after vesting. The value above includes an approximate value of the cash payment estimated to be 376.63 pence per share.

The Restricted Share Buy Out Award of 5,695 Conditional Shares granted to Mike Powell in June 2017 vested in full on 28 March 2019. The award was not subject to performance conditions. The shares comprising this award are included in the Share awards exercised in the year table opposite and the face value of this award at the date of grant was included in the "Other" column for 2016/17 in the Remuneration table on page 90 of the 2018 Annual Report and Accounts.

Ordinary Share Plan and Performance Ordinary Share Plan

The Ordinary Share Plan Award of 5,574 Conditional Shares and Performance Ordinary Share Plan Award of 13,936 Conditional Shares granted to Kevin Murphy (before he was appointed to the Board) in November 2016 will normally vest in November 2019.

The Ordinary Share Plan Award is not subject to performance conditions and will vest in full subject to continued employment.

The Performance Ordinary Share Plan Award is subject to a performance condition which is based on trading profit growth of the Group's USA business over a three-year period ended 31 July 2019. This award will vest at 92.4 per cent.

Unvested awards

LTIP

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 2017/18 and 2018/19 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.

2017/18 Awards

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 UK 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 2019		66.4%	70.2%	100.0%

- Awards will vest on a straight-line basis between 25 per cent and 100 per cent.
- 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).
- 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).

2018/19 Awards

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 UK inflation after three years ("CPI") ²	Adjusted OpCF ³
Below threshold	0%	Below median	Below 9%	Below \$4.423 billion
Threshold	25%	At median	9%	\$4.423 billion
Between threshold and maximum	25% – 100%	Between median and upper quartile	Between 9% and 30%	Between \$4.423 billion and \$4.983 billion
Maximum or above	100%	Upper quartile	30% and above	\$4.983 billion
Indicative vesting % based on performance as at 31 July 2019		0.0%	20.2%	88.3%

- Awards will vest on a straight-line basis between 25 per cent and 100 per cent.
- 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).
- 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).

Restricted Share Buy Out Award

A Restricted Share Buy Out Awards of 2,439 Conditional Shares granted to Mike Powell in June 2017 will normally vest in April 2020.

The award is not subject to performance conditions and will vest in full subject to continued employment. The number of shares comprising this award is included in the Share awards exercised in the year table below and the face value of this award at the date of grant was included in the "Other" column for 2016/17 in the Remuneration table on page 90 of the 2018 Annual Report and Accounts.

Deferred Bonus Plan

The Deferred Bonus Plan Awards of 284 and 1,095 nil cost options granted to Mike Powell on 30 October 2017 and 18 October 2018 will normally vest in August 2020 and August 2021, respectively. These awards are not subject to performance conditions and will vest in full subject to continued employment.

Share awards exercised during the year

Details of the share awards exercised during the year are set out below:

Director	All-employee	LTIP	OSP	RSBO	Total ^{1,2}
J Martin	–	30,870	–	–	30,870
M Powell	–	–	–	5,695	5,695
K Murphy	64	–	8,234	–	8,298

- The aggregate gain made on the exercise of options during the year by John Martin and Kevin Murphy was £1,647,575 and £266 respectively.
- The aggregate value of assets received or receivable by Mike Powell and Kevin Murphy during the year was £277,688 and £425,711 respectively.

Annual report on remuneration (continued)

Scheme interests awarded during the financial year (Audited) All

Awards under the LTIP were made on 18 October 2018. 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 101.

The scheme interests awarded during 2018/19 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	47,499	2,697.5	1 August 2018 – 31 July 2021	25% of award vesting	EPS TSR Cumulative OpCF
M Powell	LTIP	Nil cost options	23,243	1,320.0			
K Murphy	LTIP	Conditional shares	32,658	1,854.6			
M Powell	DBP	Nil cost options	1,095	62.2	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 2017/18 that exceeded target.
2. The share price used to calculate the face value of the LTIP share awards granted on 18 October 2018 was 5,679 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 18 October 2018 was 5,679 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 0.045 per cent calculated as at 31 July 2019.
4. Mike Powell's DBP award will normally vest in August 2021 subject to his continued employment with the Company.

Single total figure of remuneration for Non Executive Directors (Audited)

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 2019.

	Fees (£000) 2018/19	Fees (£000) 2017/18	Taxable benefits ¹ (£000) 2018/19	Taxable benefits ¹ (£000) 2017/18	Total remuneration (£000) 2018/19	Total remuneration (£000) 2017/18
Chairman and Non Executive Directors						
Chairman						
G Davis	393.0	383.0	10.0	–	403.0	383.0
Non Executive Directors						
T Bamford	68.5	66.7	10.0	–	78.5	66.7
G Drabble	13.3	–	5.0	–	18.3	–
C Halligan	40.0	–	10.0	–	50.0	–
A Murray	83.3	79.8	12.5	–	95.8	79.8
T Schmitt	32.2	–	10.0	–	42.2	–
D Shapland	88.5	86.0	10.0	–	98.5	86.0
N Shouraboura	68.5	66.7	10.0	–	78.5	66.7
J Simmonds	88.5	83.0	5.0	–	93.5	83.0
Total remuneration	875.8	765.2²	82.5	–	958.3	765.2²

1. The taxable benefits for the Non Executive Directors (including the Chairman) relate to a travel allowance of £2,500 (each way), where there is 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 individual per annum. This allowance was introduced in November 2018.
2. This figure does not include remuneration paid to John Daly (£55,600) and Pilar López (£66,700) who stepped down from the Board during the year ended 31 July 2018. The total remuneration reported in the Annual Report and Accounts for the year ended 31 July 2018 for the Chairman and Non Executive Directors was £887,500.

Statement of shareholder voting

The following table shows the results of the full details of the voting outcomes in relation to Directors' remuneration at the AGM on 29 November 2018:

	Votes for	For %	Votes against	Against %	Total	Votes withheld (abstentions)
Remuneration Report	174,595,185	98.30	3,024,785	1.70	177,619,970	411,001
Remuneration Policy	169,851,331	96.39	6,370,179	3.61	176,221,510	1,809,461

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 ^{1,2}	Effective date of appointment	Expiry of current term
Executive Directors		
J Martin	1 April 2010 and 1 September 2016 (as Group CEO)	19 November 2019
K Murphy	1 August 2017 and 19 November 2019 (as Group CEO)	
M Powell	1 June 2017	
Chairman		
G Davis	1 July 2003 and 20 January 2011 (as Chairman)	20 January 2020 ³
Non Executive Directors		
T Bamford	22 March 2011	22 March 2020
G Drabble	22 May 2019	22 May 2022
C Halligan	1 January 2019	1 January 2022
A Murray	1 January 2013	1 January 2022
T Schmitt	11 February 2019	11 February 2022
D Shapland	1 May 2014	1 May 2020
N Shouraboura	1 July 2017	1 July 2020
J Simmonds	21 May 2014	21 May 2020

1. Details of all Directors can be found on pages 56 and 57. It remains the Board's policy that Non Executive Directors are appointed for an initial term of three years and extended for subsequent three-year periods following appropriate reviews. All Directors are proposed for re-election annually in accordance with the Code.
2. With the introduction of a new holding company in May 2019, new letters of appointment were entered into by the Directors. For the purposes of tenure, their original appointment timings continue to be applied as the effective date of appointment.
3. To allow for a smooth transition of duties to Geoff Drabble, Gareth Davis will step down from the Board on 31 January 2020, subject to shareholder approval of his election at the 2019 AGM.

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 Company's corporate headquarters at Winnersh Triangle, UK and will be available for inspection at the 2019 AGM.

Annual report on remuneration (continued)

Directors' shareholdings (Audited) All

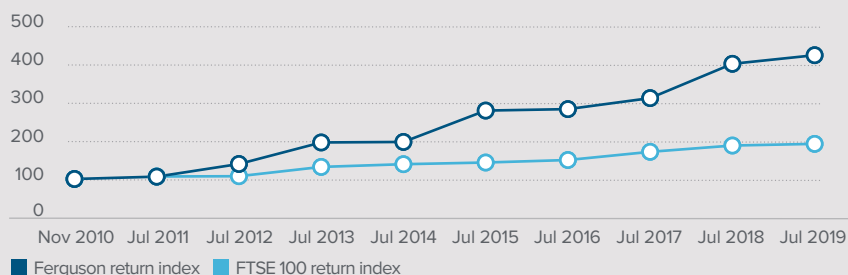
All Directors are required to hold shares equivalent in value to a minimum percentage of their salary or fees as set out in the table below. The Directors' interests in the Company's shares (both held individually and by their connected persons) as at 31 July 2019 are set out below and there has been no change in interests since that date and up to the date of this Report.

	Shares beneficially owned as at 31 July 2019	Shareholding guideline (as a multiple of salary/fees) ^{1,2}	Vested (unexercised) share awards ^{3,4}	Unvested share awards						
				With performance conditions			Without performance conditions			
				LTIP ⁵	PBBO ⁵	POSP ⁵	RSBO ⁵	DBP ⁵	OSP ⁵ All-employee ⁵	
Executive Directors										
J Martin	133,537	2.5	–	156,354	–	–	–	–	–	344
M Powell	10,028	2	–	46,497	18,859	–	2,439	1,379	–	206
K Murphy	30,081	2	–	65,573	–	13,936	–	–	5,574	65
Chairman and Non Executive Directors										
G Davis	14,538	1	–	–	–	–	–	–	–	–
T Bamford	1,940	1	–	–	–	–	–	–	–	–
G Drabble	–	–	–	–	–	–	–	–	–	–
C Halligan	–	–	–	–	–	–	–	–	–	–
A Murray	2,368	1	–	–	–	–	–	–	–	–
T Schmitt	–	–	–	–	–	–	–	–	–	–
D Shapland	1,989	1	–	–	–	–	–	–	–	–
N Shouraboura	–	1	–	–	–	–	–	–	–	–
J Simmonds	1,894	1	–	–	–	–	–	–	–	–

- 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 DBP 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.
- As at 31 July 2019, Mike Powell and Nadia Shouraboura had not met their shareholding guideline targets set for 2018/19. 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. Following their appointment during the year, shareholding guideline targets for Geoff Drabble, Cathy Halligan and Tom Schmitt were set on 1 August 2019 and as such they had no targets to meet as at the end of the 2018/19 financial year. 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.
- There were no vested but unexercised awards held by Executive Directors under any of the share plans.
- Details of share awards exercised in the year are detailed in the Share awards exercised during the year table on page 101.
- LTIP, PBBO and POSP awards are subject to performance conditions but RSBO, DBP, OSP and All-employee awards are not. LTIP awards were 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. DBP awards were 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 100 and 101.

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 holding company at the time of the redomiciliation to Switzerland in November 2010, to 31 July 2019. 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 Executive¹ for the 10-year period from 1 August 2009 to 31 July 2019.

	Group CEO ¹	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	
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	–	–	
	J Martin	–	–	–	–	–	–	–	3,746	3,952 ³	5,512	
Annual bonus award rates against maximum opportunity	I Meakins	96%	98%	85%	84%	97%	86%	55%	–	–	–	
	J Martin	–	–	–	–	–	–	–	97%	95%	85%	
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%	96%
		ESOP	–	–	–	–	–	–	–	100%	–	–

- During the 10-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.
- The single figure for all 10 years is calculated on the same basis as that used in the Remuneration table on page 98.
- The single figure of total remuneration for John Martin for the year ended 31 July 2018 has been adjusted respectively from the value of £4.138 million estimated in that year's report to reflect the actual value of LTI at the date of vesting in January 2019.

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 2019 compared to the year ended 31 July 2018.

	Year ended 31 July 2019 \$m	Year ended 31 July 2018 \$m	Percentage change
Total employee remuneration costs ¹	3,163	2,913	8.6%
Ordinary dividends paid ¹	449	390	15.1%
Special dividends paid ¹	–	974	N/A
Share buy back ¹	150²	675	(77.8)%

- Further details on employee remuneration, dividends paid and the share buy back programme can be found in note 11, note 9 and note 25 of the consolidated financial statements on pages 127, 126 and 145 respectively.
- This figure shows actual expenditure in the year ended 31 July 2019 in relation to a \$500 million share buy back programme announced by the Company in June 2019. As noted on page 76 and in note 25 on page 145 on 31 July 2019 the Company entered into an irrevocable and non-discretionary arrangement with Barclays, an amount of \$159 million was committed for the purchase of shares.

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 2019 and the previous financial year for the Group Chief Executive compared to the average for UK-based employees¹.

	% change in salary	% change in benefits	% change in annual bonus ²
Group Chief Executive	2.5	7.9	-8.5
Average for all UK-based employees	4.0	18.6	15.9

- 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 certain Board and Committee meetings in other worldwide locations). Also pay structures and changes to pay vary widely across the Group, depending on the local market conditions.
- 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.

Further information

Detail of Employee Benefit Trusts

Ferguson has established a Jersey Trust and a US Trust (together, "the Trusts") 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 2019, the Jersey Trust held 218,496 ordinary shares of 10 pence and £6,940 in cash; and the US Trust held 1,345,282 ordinary shares of 10 pence. The number of shares held by the Trusts represented 0.68 per cent of the Company's issued share capital at 31 July 2019.

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 acquired 122 shares by gift for nil consideration and the US Trust purchased 540,000 ordinary shares and paid £28.8 million. The Company provided funds to the Trusts to enable them to make the purchases. The number of shares purchased represented 0.23 per cent of the Company's issued share capital.

Further details of shares held by the Trusts can be found at note 25 of the consolidated financial statements.

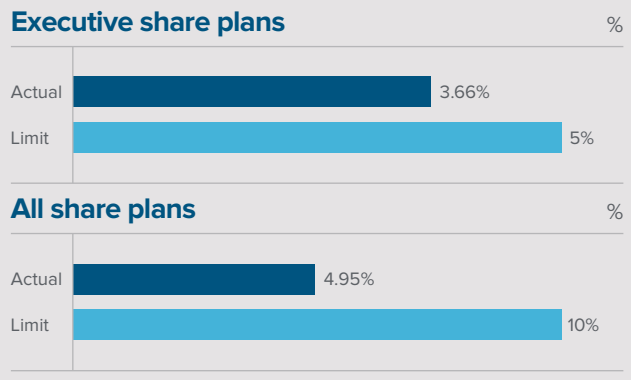
Detail of all-employee share plans

The Company operates two all-employee share plans in which Executive Directors can participate. In the USA and Canada, the ESPP operates as a one-year savings contract plan. In the UK, 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 2019, the Company's headroom was 1.34 per cent and 5.05 per cent respectively.



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
30 September 2019

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 2016 UK Corporate Governance Code. The Remuneration Committee confirms that throughout the financial year the Company has complied with these governance rules.

Financials

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Group income statement

Year ended 31 July 2019

	Notes	2019			2018		
		Before exceptional items \$m	Exceptional items (note 5) \$m	Total \$m	Before exceptional items \$m	Exceptional items (note 5) \$m	Total \$m
Revenue	3	22,010	–	22,010	20,752	–	20,752
Cost of sales		(15,550)	(2)	(15,552)	(14,689)	(19)	(14,708)
Gross profit		6,460	(2)	6,458	6,063	(19)	6,044
Operating costs:							
amortisation of acquired intangible assets		(110)	–	(110)	(65)	–	(65)
other		(4,854)	(92)	(4,946)	(4,556)	(63)	(4,619)
Operating costs		(4,964)	(92)	(5,056)	(4,621)	(63)	(4,684)
Operating profit	3, 4	1,496	(94)	1,402	1,442	(82)	1,360
Net finance costs	6	(74)	–	(74)	(53)	–	(53)
Share of profit after tax of associates		2	–	2	2	–	2
Gain on disposal of interests in associates		–	3	3	–	–	–
Impairment of interests in associates		(9)	–	(9)	(122)	–	(122)
Profit before tax		1,415	(91)	1,324	1,269	(82)	1,187
Tax	7	(282)	19	(263)	(361)	15	(346)
Profit from continuing operations		1,133	(72)	1,061	908	(67)	841
Profit from discontinued operations	8	6	41	47	22	404	426
Profit for the year attributable to shareholders of the Company		1,139	(31)	1,108	930	337	1,267
Earnings per share	10						
<i>Continuing operations and discontinued operations</i>							
Basic earnings per share				481.3c			515.7c
Diluted earnings per share				477.8c			511.9c
<i>Continuing operations only</i>							
Basic earnings per share				460.9c			342.3c
Diluted earnings per share				457.5c			339.8c
Alternative performance measures							
Trading profit from ongoing operations	2	1,601			1,493		
Trading profit from non-ongoing operations	2	5			14		
Trading profit from continuing operations	2, 3	1,606			1,507		
Adjusted EBITDA from continuing operations	2	1,788			1,687		
Headline earnings per share	2, 10	517.4c			444.4c		

Group statement of comprehensive income

Year ended 31 July 2019

	Notes	2019 \$m	2018 \$m
Profit for the year		1,108	1,267
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange (loss)/gain on translation of overseas operations ¹		(86)	7
Exchange gain/(loss) on translation of borrowings and derivatives designated as hedges of overseas operations ¹		36	(11)
Cumulative currency translation differences on disposals ¹	28	1	194
Cumulative currency translation differences on disposal of interests in associates ¹		7	–
Items that will not be reclassified subsequently to profit or loss:			
Actuarial (loss)/gain on retirement benefit plans ²	24	(36)	104
Tax credit/(charge) on items that will not be reclassified to profit or loss ²	7, 24	6	(17)
Other comprehensive (expense)/income for the year		(72)	277
Total comprehensive income for the year		1,036	1,544
Total comprehensive income attributable to:			
Continuing operations		993	926
Discontinued operations		43	618
Total comprehensive income for the year attributable to shareholders of the Company		1,036	1,544

1. Impacting the translation reserve.

2. Impacting retained earnings.

Group statement of changes in equity

Year ended 31 July 2019

	Notes	Reserves						Non-controlling interest \$m	Total equity \$m
		Share capital \$m	Share premium \$m	Translation reserve \$m	Treasury shares \$m	Own shares \$m	Retained earnings \$m		
At 31 July 2017		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	25	–	–	–	–	(41)	–	–	(41)
Issue of own shares by Employee Benefit Trusts	25	–	–	–	–	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	25	–	–	–	(675)	–	–	–	(675)
Disposal of Treasury shares	25	–	–	–	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
Profit for the year		–	–	–	–	–	1,108	–	1,108
Other comprehensive expense		–	–	(42)	–	–	(30)	–	(72)
Total comprehensive income		–	–	(42)	–	–	1,078	–	1,036
Cancellation of Treasury shares	25	(4)	–	–	1,369	–	(1,365)	–	–
Group reconstruction		(11)	16,083	–	–	–	(16,072)	–	–
Capital reduction		–	(16,150)	–	–	–	16,150	–	–
Issue of share capital		–	9	–	–	–	–	–	9
Purchase of own shares by Employee Benefit Trusts	25	–	–	–	–	(38)	–	–	(38)
Issue of own shares by Employee Benefit Trusts	25	–	–	–	–	26	(26)	–	–
Credit to equity for share-based payments		–	–	–	–	–	34	–	34
Tax relating to share-based payments	7	–	–	–	–	–	6	–	6
Adjustment arising from change in non-controlling interest		–	–	–	–	–	–	1	1
Purchase of Treasury shares	25	–	–	–	(309)	–	–	–	(309)
Disposal of Treasury shares	25	–	–	–	15	–	(12)	–	3
Dividends paid	9	–	–	–	–	–	(449)	–	(449)
At 31 July 2019		30	9	(598)	(305)	(102)	5,316	–	4,350

On 10 May 2019 a new Jersey incorporated, UK headquartered, company became the holding company of the Ferguson Group. Shareholders received one 10 pence ordinary share in this new company for each 11²²⁷/₅₆₃ pence ordinary share in the old Ferguson holding company (note 25). The introduction of a new parent company constitutes a group reconstruction with the new holding company recording the cost of its investment in the old Ferguson holding company at the fair value on 10 May 2019 resulting in an increase in share premium to \$16,150 million. On 10 May 2019 the new holding company undertook a reduction of capital under which the entire amount of the share premium account as at 10 May 2019 was cancelled and transferred to retained earnings.

Group balance sheet

Year ended 31 July 2019

	Notes	2019 \$m	2018 \$m
Assets			
Non-current assets			
Intangible assets: goodwill	12	1,656	1,408
Intangible assets: other	13	423	308
Property, plant and equipment	14	1,349	1,086
Interests in associates		29	64
Financial assets		42	11
Retirement benefit assets	24	178	193
Deferred tax assets	15	164	130
Trade and other receivables	17	340	328
Derivative financial assets	22	10	17
		4,191	3,545
Current assets			
Inventories	16	2,821	2,516
Trade and other receivables	17	3,213	3,094
Current tax receivable		6	10
Financial assets		9	–
Derivative financial assets	22	12	–
Cash and cash equivalents	18	1,133	833
		7,194	6,453
Assets held for sale	19	1	151
Total assets		11,386	10,149
Liabilities			
Current liabilities			
Trade and other payables	20	3,797	3,341
Current tax payable		251	188
Derivative financial liabilities	22	–	2
Borrowings	21	52	383
Obligations under finance leases		2	3
Provisions	23	79	95
Retirement benefit obligations	24	–	4
		4,181	4,016
Non-current liabilities			
Trade and other payables	20	292	298
Derivative financial liabilities	22	–	17
Borrowings	21	2,292	1,522
Obligations under finance leases		4	3
Deferred tax liabilities	15	56	42
Provisions	23	186	179
Retirement benefit obligations	24	25	15
		2,855	2,076
Total liabilities		7,036	6,092
Net assets		4,350	4,057
Equity			
Share capital	25	30	45
Share premium		9	67
Reserves		4,311	3,946
Equity attributable to shareholders of the Company		4,350	4,058
Non-controlling interest		–	(1)
Total equity		4,350	4,057

The accompanying notes are an integral part of these consolidated financial statements. The consolidated financial statements on pages 108 to 149 were approved and authorised for issue by the Board of Directors on 30 September 2019 and were signed on its behalf by:



John Martin
Group Chief Executive



Mike Powell
Group Chief Financial Officer

Group cash flow statement

Year ended 31 July 2019

	Notes	2019 \$m	2018 \$m
Cash flows from operating activities			
Cash generated from operations	26	1,609	1,323
Interest received		13	9
Interest paid		(90)	(62)
Tax paid		(242)	(234)
Net cash generated from operating activities		1,290	1,036
Cash flows from investing activities			
Acquisition of businesses (net of cash acquired)	27	(657)	(416)
Disposals of businesses (net of cash disposed of)	28	201	1,320
Purchases of property, plant and equipment		(382)	(265)
Proceeds from sale of property, plant and equipment and assets held for sale		84	120
Purchases of intangible assets		(36)	(34)
Acquisition of associates and other investments		(11)	(35)
Disposal of interests in associates		18	–
Dividends received from associates		–	10
Net cash (used in)/generated from investing activities		(783)	700
Cash flows from financing activities			
Proceeds from the issue of shares	25	9	–
Purchase of own shares by Employee Benefit Trusts	25	(38)	(41)
Purchase of Treasury shares	25	(150)	(675)
Proceeds from the sale of Treasury shares	25	3	24
Proceeds from loans and derivatives	29	757	459
Repayments of loans	29	(2)	(261)
Finance lease capital payments	29	(3)	(4)
Dividends paid to shareholders		(445)	(1,359)
Net cash generated from/(used in) financing activities		131	(1,857)
Net cash generated/(used)		638	(121)
Effects of exchange rate changes		(10)	(7)
Net increase/(decrease) in cash, cash equivalents and bank overdrafts		628	(128)
Cash, cash equivalents and bank overdrafts at the beginning of the year	29	458	586
Cash, cash equivalents and bank overdrafts at the end of the year	29	1,086	458

Notes to the consolidated financial statements

Year ended 31 July 2019

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.

On 10 May 2019, pursuant to a Scheme of Arrangement under Article 125 of the Companies (Jersey) Law 1991, a new parent company was introduced which is now called Ferguson plc (the “Company”). The previous parent company has been renamed as Ferguson Holdings Limited (“Old Ferguson”).

Immediately after the Scheme of Arrangement became effective the Company had the same management and corporate governance arrangements as Old Ferguson had immediately before. The consolidated assets and liabilities of the Company immediately after the effective date of the Scheme of Arrangement were the same as the consolidated assets and liabilities of Old Ferguson immediately before.

The introduction of a new parent company constitutes a group reconstruction and has been accounted for as a reverse acquisition in accordance with IFRS 3 “Business Combinations” and using merger accounting principles. Therefore, although the group reconstruction did not become effective until 10 May 2019, the consolidated financial statements of the Group are presented as if the Company and Old Ferguson had always been part of the same Group.

Accordingly, the results of the Group for the entire year ended 31 July 2019 are shown in the Group income statement, and the comparative figures for the year ended 31 July 2018 are also prepared on this basis. Earnings per share are unaffected by the group reconstruction.

The Group’s subsidiary undertakings are set out on pages 162 and 163.

Ferguson plc is a public company limited by shares incorporated in Jersey under the Companies (Jersey) Law 1991 and is headquartered in the UK. 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 77) and under the historical cost convention as modified by the revaluation of financial assets and liabilities held for trading.

Accounting developments and changes

On 1 August 2018 the Group adopted IFRS 9 “Financial Instruments”. 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 adoption of IFRS 9 has not had a material impact on the Group’s consolidated financial statements, comparatives have not been restated and there is no adjustment required to opening retained earnings.

On 1 August 2018 the Group adopted IFRS 15 “Revenue from Contracts with Customers” applying the modified retrospective approach which does not require the restatement of comparatives. 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 adoption of IFRS 15 has not had a material impact on the Group’s consolidated financial statements and there is no adjustment required to opening retained earnings. The presentation of the provision for sales returns has changed from a net basis to a gross basis on the balance sheet, with a liability for expected refunds to customers included within trade and other payables and an associated asset for the value of returned goods included within inventory.

The following other standards and amendments to existing standards became effective for the year ending 31 July 2019 and have not had a material impact on the Group’s consolidated financial statements:

- IFRIC 22 “Foreign Currency Transactions and Advance Consideration”;
- Annual Improvements to IFRSs 2014-2016 Cycle;
- Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions;
- Amendments to IAS 40 – Transfers of Investment Property; and
- Amendments to IFRS 4 – Applying IFRS 9 “Financial Instruments” with IFRS 4 “Insurance Contracts”.

IFRS 16 “Leases” is effective for the Group for the year ending 31 July 2020 and represents a change to the treatment of leases in the financial statements. The Group will be required to apply a single model to recognise a lease liability and a right of use asset for all leases, including those classified as operating leases under current accounting standards, unless the underlying asset has a low value or the lease term is 12 months or less.

The Group is using the modified retrospective approach to transition. The impact on the opening balance sheet at the date of initial application of 1 August 2019 will be the creation of a right of use asset of \$1.2 billion and a lease liability of \$1.5 billion. The lease liability on transition is greater than the operating lease commitments (note 31) due to the inclusion of options to extend which the Group is reasonably certain to exercise, partially offset by the effect of discounting.

The net impact on profit for the year in the first year of adoption (year ending 31 July 2020) is not expected to be material to the Group, however, adjusted EBITDA will improve due to the reduction in rental charges which will be broadly offset in the income statement by an increase in depreciation and interest charges.

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, as disclosed in note 24. 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.

Notes to the consolidated financial statements (continued)

Year ended 31 July 2019

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 classified as held for sale, a business component that represents a separate major line of business or geographical area of operations, it classifies such operations as discontinued in accordance with IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”. The post-tax profit or loss of the discontinued operations are 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 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 year-end. Exchange differences arising on the translation into US dollars of the net assets of these subsidiary undertakings are recognised in other comprehensive income and accumulated in the translation reserve. At 31 July 2019, the translation reserve comprised \$384 million in relation to pound sterling entities, \$181 million in relation to US dollar entities and \$33 million in relation to entities denominated in other currencies.

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 IFRS 9 are recognised in other comprehensive income and the 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. Costs related to acquisitions 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. Impairment losses recognised are charged to the income statement.

Revenue

Revenue is the amount receivable for the provision of goods 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 customer obtains control of the goods. The customer is deemed to have obtained control of the goods when the goods have been received by the customer.

Revenue from the provision of goods is only recognised when the transaction price is determinable and it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods to be transferred to the customer.

The Group offers a right of return to its customers for most of its goods sold. Revenue is reduced by the amount of expected returns, estimated based on historical data. The Group also provides customers with assurance-type warranties for some own brand goods. Obligations under these warranties are accounted for as provisions.

The Group has no contracts with an expected duration of more than one year and has taken advantage of the practical expedient afforded by section 121 of IFRS 15, and as such is not required to disclose information about its remaining performance obligations.

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.

1 – Accounting policies continued

Accounting policies continued

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.

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, 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 are 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.

Notes to the consolidated financial statements (continued)

Year ended 31 July 2019

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 the loss allowance. The loss allowance for trade receivables is measured at an amount equal to lifetime expected credit losses, estimated based on historical write-offs adjusted for forward-looking information where appropriate. A loss allowance of 100 per cent is recognised against all trade receivables more than 180 days past due because historical experience indicates that these are generally not recoverable. The loss is recognised in the income statement. Trade receivables are written off 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 recorded within operating profit.

For defined benefit pension plans and other post-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 pension 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 or 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 was 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 with original maturities of three months or less and bank overdrafts to the extent there is a legal right of offset or practice of net settlement with cash balances. 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 IFRS 9, 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 measured at amortised cost with any difference between the initial amount and the maturity amount being recognised in the income statement using the effective interest method.

Notes to the consolidated financial statements (continued)

Year ended 31 July 2019

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 2019, the Group’s Dutch business, Wasco, and a small non-core UK business have been sold and classified as non-ongoing and all comparatives have been restated for consistency and comparability.

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:

Revenue	Ongoing		Non-ongoing	Continuing
	\$m	% growth	\$m	\$m
Reported 2018 restated	20,334		418	20,752
Impact of exchange rate movements	(155)		(19)	(174)
Reported 2018 at 2019 exchange rates	20,179		399	20,578
Organic growth	884	4.4	27	911
Trading days	(52)	(0.3)	–	(52)
Acquisitions	760	3.8	–	760
Disposals	–	–	(187)	(187)
Growth at constant exchange rates	1,592	7.9	(160)	1,432
Reported 2019	21,771		239	22,010

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 20). A reconciliation of ongoing gross margin is provided below:

	2019			Restated 2018		
	Gross profit \$m	Revenue \$m	Ongoing gross margin %	Gross profit \$m	Revenue \$m	Ongoing gross margin %
Continuing	6,458	22,010		6,044	20,752	
Non-ongoing	(64)	(239)		(115)	(418)	
Exceptional items	2	–		19	–	
Ongoing	6,396	21,771	29.4	5,948	20,334	29.3

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 20).

A reconciliation of trading profit to statutory operating profit and the calculation of ongoing trading margin are provided below:

	2019				Restated 2018		
	Ongoing		Non-ongoing	Continuing	Ongoing	Non-ongoing	Continuing
	\$m	growth %	\$m	\$m	\$m	\$m	\$m
Trading profit 2018	1,493		14	1,507			
Impact of exchange rate movements	(4)		(2)	(6)			
Trading profit 2018 at 2019 exchange rates	1,489		12	1,501			
Growth at constant exchange rates	112	7.5	(7)	105			
Trading profit	1,601		5	1,606	1,493	14	1,507
Amortisation of acquired intangible assets	(109)		(1)	(110)	(60)	(5)	(65)
Exceptional items	(117)		23	(94)	(82)	–	(82)
Operating profit	1,375		27	1,402	1,351	9	1,360

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	
	2019 \$m	Restated 2018 \$m	2019 \$m	Restated 2018 \$m	2019 %	Restated 2018 %
USA	18,358	16,670	1,508	1,406	8.2	8.4
UK	2,222	2,472	69	72	3.1	2.9
Canada and Central Europe	1,191	1,192	67	70	5.6	5.9
Central and other costs	–	–	(43)	(55)	–	–
Total ongoing operations	21,771	20,334	1,601	1,493	7.4	7.3
UK	59	96	(4)	1		
Canada and Central Europe	180	322	9	13		
Total non-ongoing operations	239	418	5	14		
Continuing operations	22,010	20,752	1,606	1,507		

Notes to the consolidated financial statements (continued)

Year ended 31 July 2019

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:

	2019			2018		
	Continuing \$m	Discontinued \$m	Group \$m	Continuing \$m	Discontinued \$m	Group \$m
Operating profit	1,402	47	1,449	1,360	461	1,821
Exceptional items	94	(42)	52	82	(402)	(320)
Amortisation and impairment of goodwill and acquired intangible assets	110	–	110	65	–	65
Trading profit	1,606	5	1,611	1,507	59	1,566
Depreciation and impairment of property, plant and equipment	147	–	147	152	–	152
Amortisation and impairment of non-acquired intangible assets	31	–	31	28	–	28
Impairment of assets held for sale	4	–	4	–	–	–
Adjusted EBITDA	1,788	5	1,793	1,687	59	1,746

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 the 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 borrowings, 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 29 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, 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 21). The calculation of return on gross capital employed is shown below:

	2019 \$m	2018 \$m
Net debt (note 29)	1,195	1,080
Accumulated impairment losses of goodwill (note 12)	133	197
Accumulated amortisation and impairment losses of acquired intangible assets (note 13) ¹	677	586
Shareholders' equity	4,350	4,058
Gross capital employed	6,355	5,921
Average gross capital employed ²	6,138	6,897
Group trading profit ³	1,611	1,566
Return on gross capital employed %	26.2	22.7

1. Excludes software.

2. Gross capital employed in 2017 was \$7,872 million.

3. 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 2018 and 31 July 2019 include changes in exchange rates, disposals, acquisitions, trading days 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:

	2018 \$m	Exchange \$m	Disposals \$m	Acquisitions \$m	Trading days \$m	Organic change \$m	2019 \$m
USA	16,670	–	–	703	(56)	1,041	18,358
UK	2,568	(113)	(37)	–	4	(141)	2,281
Canada and Central Europe	1,514	(61)	(150)	57	–	11	1,371
Continuing operations	20,752	(174)	(187)	760	(52)	911	22,010

An analysis of the change in trading profit/(loss) (note 2) by reportable segment for continuing operations is as follows:

	2018 \$m	Exchange \$m	Disposals \$m	Acquisitions \$m	Trading days \$m	Organic change \$m	2019 \$m
USA	1,406	–	–	40	(12)	74	1,508
UK ¹	73	(5)	–	–	–	(3)	65
Canada and Central Europe ²	83	(3)	(6)	5	–	(3)	76
Central and other costs	(55)	2	–	–	–	10	(43)
Continuing operations	1,507	(6)	(6)	45	(12)	78	1,606

1. Includes \$1 million adverse variance in exchange and \$4 million adverse variance in organic change relating to non-ongoing operations.

2. Includes \$1 million adverse variance in exchange and \$3 million favourable variance in organic change relating to non-ongoing operations.

The reconciliation between trading profit/(loss) (note 2) and operating profit/(loss) by reportable segment for continuing operations is as follows:

	2019				2018			
	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	1,508	(63)	(102)	1,343	1,406	(5)	(58)	1,343
UK	65	(54)	–	11	73	(70)	–	3
Canada and Central Europe	76	34	(8)	102	83	–	(7)	76
Central and other costs	(43)	(11)	–	(54)	(55)	(7)	–	(62)
Group	1,606	(94)	(110)	1,402	1,507	(82)	(65)	1,360
Net finance costs				(74)				(53)
Share of profit after tax of associates				2				2
Gain on disposal of interests in associates				3				–
Impairment of interests in associates				(9)				(122)
Profit before tax				1,324				1,187

Notes to the consolidated financial statements (continued)

Year ended 31 July 2019

3 – Segmental analysis continued

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

	2019			2018		
	Segment assets \$m	Segment liabilities \$m	Segment net assets/ (liabilities) \$m	Segment assets \$m	Segment liabilities \$m	Segment net assets/ (liabilities) \$m
USA ¹	8,252	(3,243)	5,009	6,964	(2,772)	4,192
UK	1,144	(553)	591	1,301	(656)	645
Canada and Central Europe	564	(267)	297	690	(297)	393
Central and other costs ¹	97	(282)	(185)	88	(141)	(53)
Discontinued	4	(34)	(30)	116	(66)	50
Total	10,061	(4,379)	5,682	9,159	(3,932)	5,227
Tax assets/(liabilities)	170	(307)	(137)	140	(230)	(90)
Net cash/(debt)	1,155	(2,350)	(1,195)	850	(1,930)	(1,080)
Group assets/(liabilities)	11,386	(7,036)	4,350	10,149	(6,092)	4,057

1. Segmental assets include \$8 million (2018: \$nil) in the USA and \$21 million (2018: \$64 million) in Central and other costs relating to interests in associates.

Geographical information on 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.

	2019 \$m	2018 \$m
USA	3,036	2,343
UK	225	258
Canada and Central Europe	196	265
Group	3,457	2,866

	2019				2018			
	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	258	224	26	327	208	120	8	182
UK	–	–	8	33	–	–	16	32
Canada and Central Europe	1	–	2	11	33	10	5	13
Central and other costs	–	–	–	3	–	35	1	1
Group	259	224	36	374	241	165	30	228

	2019				2018			
	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	–	102	20	118	–	58	15	113
UK	–	–	8	21	–	–	10	30
Canada and Central Europe	–	8	2	8	–	7	2	8
Central and other costs	9	–	1	–	122	–	1	1
Group	9	110	31	147	122	65	28	152

4 – Operating profit

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

	Notes	2019 \$m	2018 \$m
Amortisation of acquired intangible assets	13	110	65
Amortisation of non-acquired intangible assets	13	31	26
Impairment of non-acquired intangible assets	13	–	2
Depreciation of property, plant and equipment	14	147	145
Impairment of property, plant and equipment	14	–	7
Impairment of assets held for sale		4	–
Gain on disposal of businesses	28	(23)	–
Amounts included in cost of sales with respect to inventory		15,427	14,618
Staff costs	11	3,163	2,913
Operating lease rentals: land and buildings		252	240
Operating lease rentals: plant and machinery		88	85
Trade receivables impairment		11	13

During the year, the Group obtained the following services from the Company's auditor and its associates:

	2019 \$m	2018 \$m
Fees for the audit of the Company and consolidated financial statements	1.6	1.4
Fees for the audit of the Company's subsidiaries pursuant to legislation	2.2	2.6
Total audit fees	3.8	4.0
Audit related assurance services	0.3	0.3
Other assurance services	1.3	–
Other services	–	0.2
Total non-audit fees	1.6	0.5
Total fees payable to the auditor	5.4	4.5

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 66 to 71. No services were provided pursuant to contingent fee arrangements.

5 – Exceptional items

Exceptional items credited/(charged) to operating profit from continuing operations are analysed by purpose as follows:

	2019 \$m	2018 \$m
Gain on disposal of businesses	23	–
Business restructuring	(108)	(72)
Other exceptional items	(9)	(10)
Total included in operating profit	(94)	(82)

For the year ended 31 July 2019, business restructuring comprises costs incurred in the USA, UK and Canada in respect of their business transformation strategies and costs relating to the change in the Group corporate headquarters.

Other exceptional items of \$9 million relate to changes in the defined benefit pension plan in the UK.

During the year, the cash flows relating to exceptional items were \$53 million (2018: \$59 million) used in respect of operating activities and \$169 million (2018: \$nil) generated in respect of investing activities.

Exceptional items relating to discontinued operations are disclosed in note 8.

Notes to the consolidated financial statements (continued)

Year ended 31 July 2019

6 – Net finance costs

	2019 \$m	2018 \$m
Interest income	12	8
Interest expense		
Borrowings	(97)	(65)
Unwind of fair value adjustment to senior unsecured loan notes	6	7
Finance lease charges	–	(1)
	(91)	(59)
Net interest income/(expense) on defined benefit obligation (note 24)	5	(1)
Valuation losses on financial instruments	–	(1)
Total net finance costs	(74)	(53)

Finance costs relating to discontinued operations are disclosed in note 8.

7 – Tax

The tax charge for the year comprises:

	2019 \$m	2018 \$m
Current year tax charge	306	297
Adjustments to tax charge in respect of prior years	4	7
Total current tax charge	310	304
Deferred tax (credit)/charge: origination and reversal of temporary differences	(47)	42
Total tax charge	263	346

An exceptional tax credit of \$19 million was recorded against exceptional items (2018: \$15 million). The deferred tax credit of \$47 million (2018: charge \$42 million) includes a charge of \$3 million (2018: credit \$8 million) resulting from changes in tax rates.

Tax on items credited/(charged) to the Group statement of comprehensive income:

	2019 \$m	2018 \$m
Deferred tax credit/(charge) on actuarial loss on retirement benefits	6	(17)
Total tax on items credited/(charged) to the Group statement of comprehensive income	6	(17)

Tax on items credited to equity:

	2019 \$m	2018 \$m
Current tax credit on share-based payments	5	7
Deferred tax credit on share-based payments	1	1
Total tax on items credited to equity	6	8

There is no tax charge in the statement of changes in equity which relates to changes in tax rates (2018: \$3 million).

The Group has made provisions for the liabilities likely to arise from open audits and assessments. At 31 July 2019, the Group has recognised provisions of \$254 million in respect of its uncertain tax positions (2018: \$237 million). The total provision has increased by \$17 million in the year due primarily to increases related to certain 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:	2019					
	Ongoing profit/tax ⁷		Non-ongoing and other profit/tax ⁸		Total profit/tax from continuing operations	
	\$m	%	\$m	%	\$m	%
Profit before tax	1,529		(205)		1,324	
Expected tax at weighted average tax rate ¹	(303)	19.8	83	(40.5)	(220)	16.6
Adjusted for the effects of:						
over provisions in respect of prior periods ²	–	–	2	(1.0)	2	(0.1)
exceptional items which are non-tax deductible ³	–	–	(7)	3.4	(7)	0.6
current year charge in relation to uncertain tax provisions ⁴	(35)	2.3	–	–	(35)	2.6
tax credits and incentives	4	(0.3)	–	–	4	(0.3)
non-taxable income	3	(0.2)	–	–	3	(0.2)
other non-tax deductible expenditure ⁵	(15)	1.0	(1)	0.5	(16)	1.2
recognition of previously unrecognised deferred tax asset	–	–	11	(5.4)	11	(0.8)
other	2	(0.1)	(4)	2.0	(2)	0.1
effect of tax rate changes ⁶	–	–	(3)	1.5	(3)	0.2
Tax (charge)/credit / effective tax rate	(344)	22.5	81	(39.5)	(263)	19.9

Tax reconciliation:	Restated 2018					
	Ongoing profit/tax ⁷		Non-ongoing and other profit/tax ⁸		Total profit/tax from continuing operations	
	\$m	%	\$m	%	\$m	%
Profit before tax	1,445		(258)		1,187	
Expected tax at weighted average tax rate ¹	(325)	22.5	57	(22.1)	(268)	22.6
Adjusted for the effects of:						
over/(under) provisions in respect of prior periods ²	11	(0.7)	(14)	5.4	(3)	0.3
exceptional items which are non-tax deductible ³	–	–	(1)	0.4	(1)	0.1
current year (charge)/credit in relation to uncertain tax provisions ⁴	(44)	3.0	1	(0.4)	(43)	3.6
tax credits and incentives	5	(0.3)	–	–	5	(0.4)
non-tax deductible amortisation/impairment of acquired intangible assets	–	–	(24)	9.3	(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	10	(0.7)	(2)	0.8	8	(0.7)
Tax (charge)/credit / effective tax rate	(363)	25.1	17	(6.6)	(346)	29.1

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. This results in interest deductions and lower 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 26.4 per cent (2018: 31.6 per cent) and this is reduced to a post intra-group financing ongoing expected weighted average tax rate of 19.8 per cent (2018: 22.5 per cent) following intra-group financing. The 2.7 per cent decrease in the post intra-group financing ongoing expected weighted average tax rate is primarily due to the reduction in US statutory tax 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. This primarily relates to non-taxable disposal 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 legal/professional fees.
6. This relates to the difference between the current tax rate of 19 per cent and deferred tax rate of 17 per cent in the UK.
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 2019, the non-ongoing and other credit of \$81 million relates primarily to exceptional UK and US restructuring costs, a decrease in uncertain tax provisions in respect of prior periods, tax deductible amortisation in relation to intangible assets, non-taxable disposal of businesses and recognition of deferred tax assets in relation to corporation interest restriction and the amortisation of loan premium.

Notes to the consolidated financial statements (continued)

Year ended 31 July 2019

8 – Discontinued operations

The Group disposed of Stark Group on 29 March 2018 and during the year sold 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 had been classified as discontinued.

The results from discontinued operations, which have been included in the Group income statement, are set out below:

	2019			2018		
	Before exceptional items \$m	Exceptional items \$m	Total \$m	Before exceptional items \$m	Exceptional items \$m	Total \$m
Revenue	–	–	–	1,705	–	1,705
Cost of sales	–	–	–	(1,280)	(5)	(1,285)
Gross profit	–	–	–	425	(5)	420
Operating costs:						
gain on disposal of businesses	–	34	34	–	439	439
other	5	8	13	(366)	(32)	(398)
Operating income	5	42	47	(366)	407	41
Operating profit	5	42	47	59	402	461
Net finance income/(costs)	1	3	4	(6)	2	(4)
Profit before tax	6	45	51	53	404	457
Tax	–	(4)	(4)	(31)	–	(31)
Profit from discontinued operations	6	41	47	22	404	426
Basic earnings per share			20.4c			173.4c
Diluted earnings per share			20.3c			172.1c

The discontinued exceptional items in 2019 relate predominantly to gains from the sale of Nordic property assets.

The discontinued exceptional items in 2018 relate predominantly to the disposal of Stark Group, gains from the sale of Nordic property assets and an impairment charge for the remaining Nordic properties.

During the year, discontinued operations used cash of \$16 million (2018: \$120 million) in respect of operating activities, generated \$121 million (2018: \$1,368 million) in respect of investing activities and used \$nil (2018: \$99 million) in respect of financing activities.

9 – Dividends

Amounts recognised as distributions to equity shareholders:

	2019 \$m	2018 \$m
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
Final dividend for the year ended 31 July 2018: 131.9 cents per share	303	–
Interim dividend for the year ended 31 July 2019: 63.1 cents per share	146	–
Dividends paid	449	1,364

Since the end of the financial year, the Directors have proposed a final ordinary dividend of \$332 million (145.1 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 2019.

The interim, special and final dividends for the year ended 31 July 2018 and the interim dividend for the year ended 31 July 2019 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

	2019			2018		
	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	1,108	481.3	477.8	1,267	515.7	511.9
Profit from discontinued operations	(47)	(20.4)	(20.3)	(426)	(173.4)	(172.1)
Profit from continuing operations	1,061	460.9	457.5	841	342.3	339.8
Non-recurring tax (credit)/charge relating to changes in tax rates and other adjustments	(33)	(14.3)		16	6.4	
Amortisation and impairment of acquired intangible assets and impairment of interests in associates (net of tax)	91	39.5		168	68.4	
Exceptional items (net of tax)	72	31.3		67	27.3	
Headline profit after tax from continuing operations	1,191	517.4		1,092	444.4	

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 230.2 million (2018: 245.7 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 231.9 million (2018: 247.5 million).

11 – Employee and key management information

	2019 \$m	2018 \$m
Wages and salaries	2,833	2,608
Social security costs	194	183
Pension costs – defined contribution plans	91	78
Pension costs – defined benefit plans (note 24)	11	9
Share-based payments	34	35
Total staff costs	3,163	2,913

The total staff costs, including discontinued operations, was \$3,163 million (2018: \$3,155 million).

	2019	2018
Average number of employees		
USA	27,447	25,129
UK	5,439	5,871
Canada and Central Europe	2,974	2,962
Central and other	79	94
Continuing operations	35,939	34,056

The average number of employees including discontinued operations was 35,939 (2018: 37,877).

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:

	2019 \$m	2018 \$m
Key management personnel compensation (including Directors)		
Salaries, bonuses and other short-term employee benefits	13	14
Post-employment benefits	1	1
Termination benefits	–	4
Share-based payments	11	9
Total compensation	25	28

Further details of Directors' remuneration and share options are set out in the Remuneration Report on pages 80 to 106.

Notes to the consolidated financial statements (continued)

Year ended 31 July 2019

12 – Intangible assets – goodwill

	2019 \$m	2018 \$m
Cost		
At 1 August	1,605	1,372
Exchange rate adjustment	(14)	(8)
Acquisitions	259	241
Adjustment to fair value on prior year acquisitions	(6)	–
Disposal of businesses	(55)	–
At 31 July	1,789	1,605
Accumulated impairment losses		
At 1 August	197	199
Exchange rate adjustment	(9)	(2)
Disposal of businesses	(55)	–
At 31 July	133	197
Net book value at 31 July	1,656	1,408

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 2019.

	2019				2018 ¹			
	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				830				623
eBusiness				294				294
Waterworks				188				169
Rest of USA				163				131
USA	2.2	9.3	12.6	1,475	2.1	9.0	12.0	1,217
UK	2.0	8.0	9.8	39	2.0	7.6	9.3	43
Canada	2.0	8.5	11.6	142	2.0	8.4	11.5	148
Total				1,656				1,408

1. On conclusion of the acquisition accounting for several own brand businesses acquired in 2018 it has been determined that they are part of the Blended Branches CGU. These were included in rest of USA in the prior year and as such the comparative has been reclassified for comparability.

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 2019.

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				Total \$m
	Software \$m	Trade names and brands \$m	Customer relationships \$m	Other \$m	
Cost					
At 1 August 2017	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
Exchange rate adjustment	(5)	(1)	(3)	–	(9)
Acquisitions	–	19	202	3	224
Adjustment to fair value on prior year acquisitions	–	–	7	–	7
Additions	36	–	–	–	36
Disposal of businesses	(12)	(2)	(15)	–	(29)
Disposals	(40)	–	–	–	(40)
At 31 July 2019	203	192	673	168	1,236
Accumulated amortisation and impairment losses					
At 1 August 2017	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
Exchange rate adjustment	(3)	(1)	(3)	–	(7)
Amortisation charge for the year	31	26	65	19	141
Disposal of businesses	(7)	(2)	(13)	–	(22)
Disposals	(38)	–	–	–	(38)
At 31 July 2019	136	95	469	113	813
Net book value at 31 July 2019	67	97	204	55	423
Net book value at 31 July 2018	71	104	62	71	308

Notes to the consolidated financial statements (continued)

Year ended 31 July 2019

14 – Property, plant and equipment

	Land and buildings					Total \$m
	Freehold \$m	Finance leases \$m	Operating leasehold improvements \$m	Plant and machinery \$m	Other equipment \$m	
Cost						
At 1 August 2017	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
Exchange rate adjustment	(7)	–	(6)	(9)	(5)	(27)
Acquisitions	82	–	–	10	3	95
Additions	193	–	76	73	32	374
Disposal of businesses	(35)	–	–	(19)	(5)	(59)
Disposals and transfers	2	(2)	(20)	(56)	(38)	(114)
At 31 July 2019	1,184	1	498	679	219	2,581
Accumulated depreciation and impairment losses						
At 1 August 2017	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
Exchange rate adjustment	(2)	–	(3)	(7)	(4)	(16)
Depreciation charge for the year	31	–	31	61	24	147
Disposal of businesses	(8)	–	–	(9)	(3)	(20)
Disposals and transfers	(2)	–	(12)	(51)	(40)	(105)
At 31 July 2019	278	–	338	475	141	1,232
Owned assets	906	–	160	203	74	1,343
Assets under finance leases	–	1	–	1	4	6
Net book value at 31 July 2019	906	1	160	204	78	1,349
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

At 31 July 2019, the book value of property, plant and equipment that had been pledged as security for liabilities was \$6 million (2018: \$8 million).

15 – Deferred tax assets and liabilities

Deferred tax assets and liabilities, which are offset where the Group has a legally enforceable right to do so, are shown in the balance sheet after offset as follows:

	2019 \$m	2018 \$m
Deferred tax assets	164	130
Deferred tax liabilities	(56)	(42)
	108	88

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	Trade and other payables \$m	Other \$m	Total \$m
At 31 July 2017	(65)	23	62	99	(111)	79	46	15	148
Credit/(charge) to income	17	(2)	(24)	(44)	16	6	(24)	13	(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	22	28	88
Credit/(charge) to income	4	1	5	(4)	(21)	1	18	43	47
Credit to other comprehensive income	–	–	–	6	–	–	–	–	6
Credit to equity	–	1	–	–	–	–	–	–	1
Acquisitions	(31)	–	(4)	–	2	–	–	–	(33)
Disposal of businesses	–	–	–	–	–	–	–	1	1
Exchange rate adjustment	–	–	(4)	2	–	–	–	–	(2)
At 31 July 2019	(74)	25	31	40	(114)	88	40	72	108

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.

An additional analysis of the deferred tax assets and liabilities has been provided by separating out “Trade and other payables” from “Other” to provide further details.

In addition, the Group has unrecognised gross tax losses totalling \$367 million (2018: \$469 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 taxable temporary differences associated with unremitted earnings from the Group's subsidiary undertakings. However, tax may arise on \$436 million (2018: \$408 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.

Notes to the consolidated financial statements (continued)

Year ended 31 July 2019

16 – Inventories

	2019 \$m	2018 \$m
Goods purchased for resale	2,997	2,680
Inventory provisions	(176)	(164)
Net inventories	2,821	2,516

17 – Trade and other receivables

	2019 \$m	2018 \$m
Current		
Trade receivables	2,747	2,642
Less: provision for expected credit losses	(28)	(32)
Net trade receivables	2,719	2,610
Other receivables	143	135
Prepayments	351	349
	3,213	3,094
Non-current		
Other receivables	340	328

Included in prepayments is \$277 million (2018: \$266 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. The loss allowance for trade receivables by ageing category is as follows:

	Amounts not yet due \$m	Less than six months past due \$m	More than six months past due \$m	Total \$m
At 31 July 2019				
Expected credit loss rate	0%	1%	100%	
Gross trade receivables	1,934	799	14	2,747
Lifetime expected credit losses	(7)	(7)	(14)	(28)
Net trade receivables	1,927	792	–	2,719

	Amounts not yet due \$m	Less than six months past due \$m	More than six months past due \$m	Total \$m
At 31 July 2018				
Expected credit loss rate	1%	1%	100%	
Gross trade receivables	1,795	834	13	2,642
Lifetime expected credit losses	(12)	(7)	(13)	(32)
Net trade receivables	1,783	827	–	2,610

No contracts contain a significant financing component and payment from customers is typically due within 30 to 60 days.

The contractual amount outstanding on trade receivables that were written off during the year and that are subject to enforcement activity was \$12 million (2018: \$9 million).

18 – Cash and cash equivalents

	2019 \$m	2018 \$m
Cash and cash equivalents	1,133	833

Included in the balance at 31 July 2019 is an amount of \$18 million (2018: \$255 million) which is part of the Group's cash pooling arrangements where there is an equal and opposite balance included within bank overdrafts (note 21). These amounts are subject to a master netting arrangement.

At 31 July 2019, cash and cash equivalents included \$87 million (2018: \$86 million) which is used to collateralise letters of credit on behalf of Wolseley Insurance Limited.

19 – Assets held for sale

	2019 \$m	2018 \$m
Properties awaiting disposal	1	151
Assets held for sale	1	151

At 31 July 2018 properties awaiting disposal principally comprised the Nordic property assets, which were retained following the disposal of the Nordic business, and properties in the UK which were in the process of being sold as a result of the business restructuring.

20 – Trade and other payables

	2019 \$m	2018 \$m
Current		
Trade payables	2,885	2,597
Tax and social security	112	108
Other payables	116	97
Accruals and deferred income	684	539
	3,797	3,341
Non-current		
Other payables	292	298

Trade payables are stated net of \$44 million (2018: \$32 million) due from suppliers with respect to supplier rebates where an agreement exists that allows these to be net settled.

Accruals and deferred income includes \$159 million (2018: \$nil) payable in relation to the irrevocable and non-discretionary share buy back programme announced in July 2019.

21 – Borrowings

	2019			2018		
	Current \$m	Non-current \$m	Total \$m	Current \$m	Non-current \$m	Total \$m
Bank overdrafts	47	–	47	375	–	375
Bank and other loans	–	–	–	2	–	2
Senior unsecured loan notes	5	2,292	2,297	6	1,522	1,528
Total loans	5	2,292	2,297	8	1,522	1,530
Total borrowings	52	2,292	2,344	383	1,522	1,905

In October 2018, the Group successfully issued \$750 million of 10 year 4.5% notes maturing in October 2028 in the USA 144a public debt market.

The carrying value of the USPP senior unsecured loan notes of \$1,547 million comprises a par value of \$1,530 million and a fair value adjustment of \$17 million (2018: \$1,528 million, \$1,530 million and \$2 million respectively).

Included in bank overdrafts at 31 July 2019 is an amount of \$18 million (2018: \$255 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 18). These amounts are subject to a master netting arrangement.

No bank loans were secured against trade receivables at 31 July 2019 (2018: \$nil) as the trade receivables facility of \$600 million was undrawn as at 31 July 2019 and 31 July 2018.

Notes to the consolidated financial statements (continued)

Year ended 31 July 2019

21 – Borrowings continued

Non-current loans are repayable as follows:

	2019 \$m	2018 \$m
Due in one to two years	282	5
Due in two to three years	–	283
Due in three to four years	250	–
Due in four to five years	150	250
Due in over five years	1,610	984
Total	2,292	1,522

The Group applies fair value hedge accounting to debt of \$355 million (2018: \$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.

22 – Financial instruments and financial risk management**Financial instruments by measurement basis**

The carrying value of financial instruments by category as defined by IFRS 9 "Financial Instruments" is as follows:

	2019 \$m	2018 \$m
Financial assets		
Financial assets at fair value through profit and loss	22	17
Financial assets at fair value through other comprehensive income	27	–
Financial assets at amortised cost	3,503	3,350
Financial liabilities		
Financial liabilities at fair value through profit and loss	–	19
Financial liabilities at amortised cost	5,809	5,063

Financial instruments in the category "fair value through profit and loss" and "fair value through other comprehensive income" 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 2019 and 31 July 2018 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 \$12 million (2018: \$nil) and the non-current element is \$10 million (2018: \$17 million). The current element of derivative financial liabilities is \$nil (2018: \$2 million) and the non-current element is \$nil (2018: \$17 million). Total net derivative financial instruments is an asset of \$22 million (2018: liability \$2 million). No transfers between levels occurred during the current or prior year.

The Group has made the irrevocable election to designate its investments in equity instruments as financial assets at fair value through other comprehensive income as this presentation is more representative of the nature of the Group's investments. The fair value of the investments as at 31 July 2019 are measured using level 2 inputs. The investments are classified as non-current financial assets in the balance sheet.

No dividends were received from these investments in the year.

The Group's other financial instruments are measured at amortised cost. Other receivables include an amount of \$70 million (2018: \$67 million) which has been discounted at a rate of 2.0 per cent (2018: 3.0 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 USPP senior unsecured loan notes, which had a book value of \$1,547 million (2018: \$1,528 million) and a fair value (level 2) of \$1,621 million (2018: \$1,621 million).

22 – 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 2019	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		10	–	10	–	10
Current assets						
Derivative financial assets		23	(11)	12	–	12
Cash and cash equivalents	18	1,133	–	1,133	(18)	1,115
		1,166	(11)	1,155	(18)	1,137
Financial liabilities						
Current liabilities						
Derivative financial liabilities		11	(11)	–	–	–
Borrowings	21	52	–	52	(18)	34
Finance leases		2	–	2	–	2
Non-current liabilities						
Borrowings	21	2,292	–	2,292	–	2,292
Finance leases		4	–	4	–	4
		2,361	(11)	2,350	(18)	2,332
Closing net debt	29	(1,195)	–	(1,195)	–	(1,195)

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	18	833	–	833	(255)	578
		887	(37)	850	(255)	595
Financial liabilities						
Current liabilities						
Derivative financial liabilities		25	(23)	2	–	2
Borrowings	21	383	–	383	(255)	128
Finance leases		3	–	3	–	3
Non-current liabilities						
Derivative financial liabilities		31	(14)	17	–	17
Borrowings	21	1,522	–	1,522	–	1,522
Finance leases		3	–	3	–	3
		1,967	(37)	1,930	(255)	1,675
Closing net debt	29	(1,080)	–	(1,080)	–	(1,080)

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).

Notes to the consolidated financial statements (continued)

Year ended 31 July 2019

22 – 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 2019 and 31 July 2018. 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, with the exception of the \$750 million USA 144a public debt issued in the year which is covenant free, 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 29.

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 2019, the maximum exposure to credit risk was \$3,117 million (2018: \$3,005 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 17.

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 \$1,089 million (2018: \$429 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:

	2019				2018			
	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	3,133	2	85	3,220	2,829	5	68	2,902
Due in one to two years	53	282	97	432	44	1	63	108
Due in two to three years	26	1	86	113	59	281	52	392
Due in three to four years	15	250	78	343	19	–	44	63
Due in four to five years	14	150	74	238	16	250	40	306
Due in over five years	184	1,601	295	2,080	160	1,001	92	1,253
Total	3,425	2,286	715	6,426	3,127	1,538	359	5,024

22 – Financial instruments and financial risk management continued

Liquidity risk continued

The Group holds an £800 million (2018: £800 million) revolving credit facility that matures in September 2022, and a \$600 million (2018: \$600 million) securitisation facility that matures in December 2021. This facility is secured against the trade receivables of Ferguson Enterprises, LLC. In 2018 the Group held a bi-lateral facility of \$290 million that matured in November 2018. All facilities were undrawn at 31 July 2019 and 31 July 2018. The maturity profile of the Group's undrawn facilities is as follows:

	2019 \$m	2018 \$m
Less than one year	–	290
Between one and two years	–	–
Between two and three years	600	600
Between three and four years	973	1,050
Between four and five years	–	–
After five years	–	–
Total	1,573	1,940

At 31 July 2019 the Group has total available facilities, excluding bank overdrafts, of \$3,870 million (2018: \$3,470 million), of which \$2,297 million is drawn (note 21) and \$1,573 million is undrawn (2018: \$1,530 million and \$1,940 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 83 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 160. The net effect of currency translation was to decrease revenue by \$174 million (2018: increase by \$229 million) and to decrease trading profit by \$6 million (2018: increase by \$7 million). These currency effects primarily reflect a movement of the average US dollar exchange rate against pounds sterling, euro and Canadian dollars as follows:

	2019 Strengthening of USD	2018 Weakening of USD
Pounds sterling	4.4%	(6.4%)
Euro	4.8%	(9.2%)
Canadian dollars	3.8%	(4.0%)

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 \$327 million (2018: \$431 million). The gain on translation of these financial instruments into US dollars of \$36 million (2018: \$11 million loss) has been taken to the translation reserve.

Net debt by currency was as follows:

As at 31 July 2019	Interest rate swaps \$m	Finance lease obligations \$m	Cash and borrowings \$m	Currency bought forward \$m	Total \$m
US dollars	18	(3)	(1,465)	–	(1,450)
Pounds sterling	–	(3)	85	3	85
Euro, Danish kroner and Swedish kronor	–	–	29	–	29
Other currencies	–	–	140	1	141
Total	18	(6)	(1,211)	4	(1,195)

As at 31 July 2018	Interest rate swaps \$m	Finance lease obligations \$m	Cash and borrowings \$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)

Currency bought/(sold) forward comprises short-term foreign exchange contracts which were designated and effective as hedges of overseas operations.

Notes to the consolidated financial statements (continued)

Year ended 31 July 2019

22 – 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 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 2019, 80 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:

	2019			2018		
	Floating \$m	Fixed \$m	Total \$m	Floating \$m	Fixed \$m	Total \$m
US dollars	384	(1,834)	(1,450)	(217)	(1,082)	(1,299)
Pounds sterling	88	(3)	85	101	(4)	97
Euro, Danish kroner and Swedish kronor	29	–	29	23	–	23
Other currencies	141	–	141	99	–	99
Total	642	(1,837)	(1,195)	6	(1,086)	(1,080)

The Group's weighted average cost of debt is 4.5 per cent. Fixed rate borrowings at 31 July 2019 carried a weighted average interest rate of 3.9 per cent fixed for a weighted average duration of 7.8 years (31 July 2018: 3.4 per cent for 6.3 years). Floating rate borrowings, excluding overdrafts, at 31 July 2019 had a weighted average interest rate of 3.7 per cent (31 July 2018: 3.5 per cent).

The Group holds 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 3.3 per cent and 3.5 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:

	2019 \$m	2018 \$m
At 1 August	–	26
Settled	(7)	(9)
Valuation gain credited/(loss charged) to the income statement	25	(17)
At 31 July	18	–

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 credit to the income statement of \$6 million (2018: \$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 translation reserve of \$nil (2018: \$4 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.

23 – Provisions

	Environmental and legal \$m	Wolseley Insurance \$m	Restructuring \$m	Other provisions \$m	Total \$m
At 31 July 2017	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
Utilised in the year	(5)	(18)	(22)	(5)	(50)
Changes in discount rate	5	–	–	–	5
(Credit)/charge for the year	(1)	22	13	7	41
Acquisition of businesses	2	–	–	–	2
Exchange rate adjustment	(1)	(1)	(2)	(3)	(7)
At 31 July 2019	82	77	40	66	265

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

	Environmental and legal \$m	Wolseley Insurance \$m	Restructuring \$m	Other provisions \$m	Total \$m
At 31 July 2019					
Current	12	6	25	36	79
Non-current	70	71	15	30	186
Total provisions	82	77	40	66	265

	Environmental and legal \$m	Wolseley Insurance \$m	Restructuring \$m	Other provisions \$m	Total \$m
At 31 July 2018					
Current	16	11	32	36	95
Non-current	66	63	19	31	179
Total provisions	82	74	51	67	274

The environmental and legal provision includes \$70 million (2018: \$69 million) for the estimated liability for asbestos litigation on a discounted basis using a long-term discount rate of 2.0 per cent (2018: 3.0 per cent). This amount has been actuarially determined as at 31 July 2019 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 two 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 two years.

Notes to the consolidated financial statements (continued)

Year ended 31 July 2019

24 – 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. 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 plan was closed to new entrants in 2009, it was closed to future service accrual in December 2013, when it was replaced by a defined contribution plan, and during October 2016, it was closed for future non-inflationary salary accrual.

In 2017, the Group secured a buy-in insurance policy with Pension Insurance Corporation for the UK defined benefit plan. This policy covered all of the benefits provided by the plan to pensioner members at the time. The insurance asset is valued as exactly equal to the insured liabilities. The deferred members of the plan at the time were not covered by this policy.

In 2019, the Group offered some deferred members of the UK defined benefit plan an enhanced transfer value to settle their benefits accrued under the plan.

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 in 2018.

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 32 per cent of the plan assets. For the remaining assets, the strategy is to invest in a balanced portfolio of equities, government bonds, corporate bonds and securitised fixed income. The investment strategy is subject to regular review by the trustees of the plan in consultation with the Company. For the non-UK plans, the investment strategy involves the investment in defined levels, predominantly equities 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, growth assets and debt instruments. Due to the long-term nature of the plan liabilities, the trustees of the pension plan consider the investment allocation an appropriate balance between higher return growth assets and lower risk assets which provide protection against the inflation and interest risk inherent in the plan's underlying liabilities.

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.

24 – Retirement benefit obligations continued

(ii) Financial impact of plans

As disclosed in the Group balance sheet	2019 \$m	2018 \$m
Non-current asset	178	193
Current liability	–	(4)
Non-current liability	(25)	(15)
Total liability	(25)	(19)
Net asset	153	174

Analysis of Group balance sheet net asset	2019			2018		
	UK \$m	Non-UK \$m	Total \$m	UK \$m	Non-UK \$m	Total \$m
Fair value of plan assets	1,788	116	1,904	1,824	121	1,945
Present value of defined benefit obligations	(1,610)	(141)	(1,751)	(1,631)	(140)	(1,771)
Net asset/(liability)	178	(25)	153	193	(19)	174

Analysis of total expense recognised in the Group income statement	2019 \$m	2018 \$m
Current service cost	–	1
Administration costs	2	3
Exceptional settlement losses, past service costs and administrative costs (note 5)	9	5
Charged to operating costs (note 11)	11	9
(Credited)/charged to finance costs (note 6)	(5)	1
Total expense recognised in the Group income statement	6	10

Expected employer contributions to the defined benefit plans for the year ending 31 July 2020 are \$2 million. The triennial funding valuation of the UK defined benefit plan is currently in progress, which, once agreed between the trustees and the Group, is expected to lead to further special funding contributions.

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	2019 \$m	2018 \$m
The return on plan assets (excluding amounts included in net interest expense)	134	22
Actuarial gain arising from changes in demographic assumptions	38	12
Actuarial (loss)/gain arising from changes in financial assumptions	(210)	74
Actuarial gain/(loss) arising from experience adjustments	2	(4)
Tax	6	(17)
Total amount recognised in the Group statement of comprehensive income	(30)	87

The cumulative amount of actuarial losses recognised in the Group statement of comprehensive income is \$524 million (2018: \$488 million).

Notes to the consolidated financial statements (continued)

Year ended 31 July 2019

24 – Retirement benefit obligations continued**(ii) Financial impact of plans continued**

The fair value of plan assets is as follows:

	2019			2018		
	UK \$m	Non-UK \$m	Total \$m	UK \$m	Non-UK \$m	Total \$m
At 1 August	1,824	121	1,945	1,766	217	1,983
Interest income	48	4	52	46	5	51
Employer's contributions	34	1	35	97	13	110
Benefit payments	(110)	(10)	(120)	(89)	(8)	(97)
Settlement payments	–	–	–	–	(105)	(105)
Remeasurement gain:						
Return on plan assets (excluding amounts included in net interest expense)	132	2	134	17	5	22
Currency translation	(140)	(2)	(142)	(13)	(6)	(19)
At 31 July	1,788	116	1,904	1,824	121	1,945
Actual return on plan assets	180	6	186	63	10	73

Employer's contributions included special funding contributions of \$32 million (2018: \$99 million).

The plan assets were invested in a diversified portfolio comprised of:

	2019			2018		
	UK \$m	Non-UK \$m	Total \$m	UK \$m	Non-UK \$m	Total \$m
Equity type assets quoted	241	69	310	284	72	356
Government bonds quoted	495	25	520	464	20	484
Corporate bonds quoted	142	12	154	253	22	275
Real estate	15	–	15	25	–	25
Cash	85	–	85	61	–	61
Insurance policies	580	–	580	626	–	626
Securitised fixed income	154	–	154	–	–	–
Other	76	10	86	111	7	118
Total fair value of assets	1,788	116	1,904	1,824	121	1,945

The present value of defined benefit obligations is as follows:

	2019			2018		
	UK \$m	Non-UK \$m	Total \$m	UK \$m	Non-UK \$m	Total \$m
At 1 August	1,631	140	1,771	1,762	249	2,011
Current service cost (including administrative costs)	4	–	4	3	1	4
Past service costs	7	–	7	–	–	–
Interest cost	42	5	47	46	6	52
Benefit payments	(110)	(10)	(120)	(89)	(8)	(97)
Settlement and curtailment payments	–	–	–	–	(100)	(100)
Remeasurement (gain)/loss:						
Actuarial gain arising from changes in demographic assumptions	(38)	–	(38)	(12)	–	(12)
Actuarial loss/(gain) arising from changes in financial assumptions	199	11	210	(74)	–	(74)
Actuarial loss/(gain) arising from experience adjustments	1	(3)	(2)	4	–	4
Currency translation	(126)	(2)	(128)	(9)	(8)	(17)
At 31 July	1,610	141	1,751	1,631	140	1,771

24 – 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:

	2019 \$m	2018 \$m
Amounts arising from wholly unfunded plans	3	3
Amounts arising from plans that are wholly or partly funded	1,748	1,768
Total present value of defined benefit obligations	1,751	1,771

(iii) Valuation assumptions

The financial assumptions used to estimate defined benefit obligations are:

	2019		2018	
	UK %	Non-UK %	UK %	Non-UK %
Discount rate	2.2	2.9	2.7	3.5
Inflation rate	3.2	2.0	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	2.8	2.0
Salary increases	2.1	2.5	2.1	2.5

The life expectancy assumptions used to estimate defined benefit obligations are:

	2019		2018	
	UK Years	Non-UK Years	UK Years	Non-UK Years
Current pensioners (at age 65) – male	21	22	22	22
Current pensioners (at age 65) – female	23	24	23	24
Future pensioners (at age 65) – male	23	23	24	23
Future pensioners (at age 65) – female	25	25	26	25

The weighted average duration of the defined benefit obligation is 22.0 years (2018: 21.5 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.

	2019			2018		
	Change	UK \$m	Non-UK \$m	Change	UK \$m	Non-UK \$m
Discount rate	+0.25%	71	5	+0.25%	70	5
	(0.25)%	(77)	(4)	(0.25)%	(76)	(4)
Inflation rate	+0.25%	(64)	–	+0.25%	(64)	–
	(0.25)%	64	3	(0.25)%	66	–
Life expectancy	+1 year	(34)	(3)	+1 year	(33)	(4)

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.

Notes to the consolidated financial statements (continued)

Year ended 31 July 2019

25 – Share capital**(i) Ordinary shares in issue**

	2019		2018	
	Number of shares	Cost \$m	Number of shares	Cost \$m
Allotted and issued shares				
Number/cost of ordinary 11 ²²⁷ / ₆₆₃ pence shares in Old Ferguson (million)	–	–	253	45
Number/cost of ordinary 10 pence shares in the Company (million)	232	30	–	–
As at 31 July	232	30	253	45

The authorised share capital of the Company is 500 million ordinary 10 pence shares (2018: the authorised share capital of Old Ferguson is 439 million ordinary 11²²⁷/₆₆₃ 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.

On 10 May 2019 pursuant to the Scheme of Arrangement under Article 125 of the Companies (Jersey) Law 1991 between Old Ferguson (the former holding company of the Group) and the Old Ferguson shareholders, and as sanctioned by the Royal Court of Jersey, all the issued 11²²⁷/₆₆₃ pence ordinary shares in Old Ferguson were cancelled and the same number of new shares were issued to the Company in consideration for the allotment to shareholders of one ordinary 10 pence share in the Company for each ordinary 11²²⁷/₆₆₃ pence share in Old Ferguson held at the scheme record time of 6.00pm on 9 May 2019.

A summary of the movements in the year is detailed in the following table:

	2019	2018
Number of ordinary 11 ²²⁷ / ₆₆₃ pence shares in Old Ferguson in issue at 1 August	252,602,622	266,636,106
Cancellation of Treasury shares	(20,611,650)	(5)
Effect of share consolidation	–	(14,033,479)
Group reconstruction	(231,990,972)	–
Number of ordinary 11 ²²⁷ / ₆₆₃ pence shares in Old Ferguson in issue at 31 July	–	252,602,622
Number of ordinary 10 pence shares in the Company in issue at 1 August	–	–
Initial subscriber shares issued on 8 March 2019	2	–
Group reconstruction	231,990,972	–
Redemption of initial subscriber shares	(2)	–
New shares issued to settle options	180,210	–
Number of ordinary 10 pence shares in the Company in issue at 31 July	232,171,182	–

During the year, the Company issued 180,210 (2018: nil) ordinary shares with a nominal value of 10 pence per share to participants in the long-term incentive plans and all-employee sharesave plans. The terms of issue were fixed on the respective dates of grant. The relevant dates of grants were between December 2010 and April 2018 and the market price on those dates was between £20.99 and £58.90. Consideration received, net of transaction costs, amounted to \$9 million (2018: \$nil).

25 – Share capital continued

(ii) Treasury shares

The shares purchased under the Group's buy back programmes have been retained in issue as Treasury shares and represent a deduction from equity attributable to shareholders of the Company.

On 9 May 2019, prior to the Scheme of Arrangement, all Treasury shares held by Old Ferguson were cancelled.

On 10 June 2019, the Group announced a \$500 million share buy back programme. As at 31 July 2019, ordinary shares had been purchased for a consideration of \$150 million and a further purchase of \$159 million was irrevocably committed to.

A summary of the movements in Treasury shares in the year is detailed in the following table:

	2019		2018	
	Number of shares	Cost \$m	Number of shares	Cost \$m
Treasury shares held by Old Ferguson at 1 August	20,777,872	1,380	13,382,580	743
Treasury shares purchased	–	–	9,178,209	675
Disposal of Treasury shares to settle share options	(166,222)	(11)	(646,988)	(38)
Cancellation of Treasury shares	(20,611,650)	(1,369)	(5)	–
Effect of share consolidation	–	–	(1,135,924)	–
Treasury shares held by Old Ferguson at 31 July	–	–	20,777,872	1,380
Treasury shares held by the Company at 1 August	–	–		
Treasury shares purchased	2,090,371	150		
Disposal of Treasury shares to settle share options	(53,426)	(4)		
Treasury shares held by the Company at 31 July	2,036,945	146		
Treasury shares purchase irrevocably committed to at 31 July		159		
Treasury shares total cost at 31 July		305		

Consideration received in respect of shares transferred to participants in certain long-term incentive plans and all-employee plans amounted to \$3 million (2018: \$24 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:

	2019		2018	
	Number of shares	Cost \$m	Number of shares	Cost \$m
Own shares in Old Ferguson at 1 August	1,426,605	90	1,435,155	76
New shares purchased	540,000	38	564,476	41
Exercise of share options	(396,192)	(26)	(492,870)	(27)
Effect of share consolidation	–	–	(80,156)	–
Group reconstruction	(1,570,413)	(102)	–	–
Own shares in Old Ferguson at 31 July	–	–	1,426,605	90
Own shares in the Company at 1 August	–	–		
Group reconstruction	1,570,413	102		
Exercise of share options	(6,635)	–		
Own shares in the Company at 31 July	1,563,778	102		

Consideration received in respect of shares transferred to participants in the discretionary share option plans and long-term incentive plans amounted to \$nil (2018: \$nil). At 31 July 2019, the shares held in the trusts had a market value of \$117 million (2018: \$113 million).

Dividends due on shares held by the Employee Benefit Trusts are waived in accordance with the provisions of the trust deeds.

Notes to the consolidated financial statements (continued)

Year ended 31 July 2019

26 – Reconciliation of profit to cash generated from operations

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

	2019 \$m	2018 \$m
Profit for the year attributable to shareholders	1,108	1,267
Net finance costs	70	57
Share of profit after tax of associates	(2)	(2)
Gain on disposal of interests in associates	(3)	–
Impairment of interests in associates	9	122
Tax charge	267	377
Profit on disposal and closure of businesses and revaluation of assets held for sale	(53)	(407)
Amortisation and impairment of goodwill and acquired intangible assets	110	65
Amortisation and impairment of non-acquired intangible assets	31	28
Depreciation and impairment of property, plant and equipment	147	152
Profit on disposal of property, plant and equipment and assets held for sale	(7)	(6)
Increase in inventories	(172)	(102)
Increase in trade and other receivables	(132)	(351)
Increase in trade and other payables	227	208
Decrease in provisions and other liabilities	(25)	(120)
Share-based payments	34	35
Cash generated from operations	1,609	1,323

27 – Acquisitions

The Group acquired the following businesses during the year ended 31 July 2019. All these businesses are engaged in the distribution of plumbing and heating products and were acquired to support growth in the USA and Canada. All transactions have been accounted for by the acquisition method of accounting.

Name	Date of acquisition	Country of incorporation	Shares/asset deal	% acquired
Jones Stephens	August 2018	USA	Shares	100
Action Automation, Inc.	August 2018	USA	Assets	100
Millennium Lighting, Inc.	August 2018	USA	Shares	100
Grand Junction Pipe & Supply	September 2018	USA	Assets	100
James Electric Motor Services Ltd.	September 2018	Canada	Shares	100
Dogwood Building Supply	October 2018	USA	Assets	100
Capital Distributing ¹	October 2018	USA	Assets	100
Robertson Supply, Inc.	November 2018	USA	Assets	100
Wallwork Bros., Inc.	December 2018	USA	Assets	100
Blackman Plumbing Supply ²	December 2018	USA	Shares	100
James Martin Signature Vanities ³	January 2019	USA	Shares	100
Kitchen Art of South Florida, LLC	February 2019	USA	Assets	100
Mission Valley Pipe & Supply, Inc.	June 2019	USA	Assets	100
Action Plumbing Supply Co.	July 2019	USA	Assets	100
Innovative Soil Solutions LLC	July 2019	USA	Assets	100

1. The acquisition comprised of 2 legal entities.

2. The acquisition comprised of 6 legal entities.

3. The acquisition comprised of 2 legal entities.

27 – Acquisitions continued

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

	Provisional fair values acquired \$m
Intangible assets	
Customer relationships	202
Trade names and brands	19
Other	3
Property, plant and equipment	95
Inventories	122
Trade and other receivables	93
Cash, cash equivalents and bank overdrafts	11
Obligations under finance leases	(3)
Trade and other payables	(71)
Deferred tax	(33)
Provisions	(2)
Total	436
Goodwill arising	259
Consideration	695
Satisfied by:	
Cash	656
Deferred consideration	39
Total consideration	695

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 \$456 million to revenue, \$22 million to trading profit and \$19 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 \$22,241 million and continuing trading profit would have been \$1,625 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:

	2019 \$m	2018 \$m
Purchase consideration	656	376
Deferred and contingent consideration in respect of prior year acquisitions	12	47
Cash consideration	668	423
Cash, cash equivalents and bank overdrafts acquired	(11)	(7)
Net cash outflow in respect of the purchase of businesses	657	416

28 – Disposals

During the year ended 31 July 2019, the Group disposed of the following businesses:

Name	Country	Date of disposal	Shares/asset deal
Ferguson Property Rover A/S	Denmark	November 2018	Shares
Brokvarteret Komplementar ApS	Denmark	November 2018	Shares
Brokvarteret P/S	Denmark	November 2018	Shares
Wasco Holding B.V.	Netherlands	January 2019	Shares
Luxury For Less Limited (t/a Soak.com)	United Kingdom	March 2019	Shares
Soborg Property Denmark A/S	Denmark	March 2019	Shares

Notes to the consolidated financial statements (continued)

Year ended 31 July 2019

28 – Disposals continued

The Group recognised a total gain on disposals of \$57 million as follows:

	2019		
	Continuing operations \$m	Discontinued operations \$m	Group \$m
Consideration received	109	110	219
Net assets disposed of	(76)	(72)	(148)
Non-controlling interest disposed of	(1)	–	(1)
Disposal costs and provisions	(10)	(2)	(12)
Recycling of deferred foreign exchange losses	1	(2)	(1)
Gain on disposal	23	34	57

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

	2019		
	Continuing operations \$m	Discontinued operations \$m	Group \$m
Cash consideration received for current year disposals (net of cash disposed of)	108	110	218
Cash paid in respect of prior year disposals	–	(1)	(1)
Disposal costs paid	(5)	(11)	(16)
Net cash inflow	103	98	201

29 – Reconciliation of opening to closing net debt

	Liabilities from financing activities						
	Cash and cash equivalents (note 18) \$m	Bank overdrafts (note 21) \$m	Total cash, cash equivalents and bank overdrafts \$m	Derivative financial instruments (note 22) \$m	Loans (note 21) \$m	Obligations under finance leases \$m	Net debt \$m
At 1 August 2017	2,525	(1,982)	543	26	(1,266)	(9)	(706)
Cash movements							
Proceeds from loans and derivatives			–	(9)	(450)	–	(459)
Repayments of loans			–	–	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)
Cash movements							
Proceeds from loans and derivatives			–	(7)	(750)	–	(757)
Repayments of loans			–	–	2	–	2
Finance lease capital payments			–	–	–	3	3
Changes in net debt due to disposal of businesses			(1)	–	–	–	(1)
Changes in net debt due to acquisition of businesses			11	–	–	(3)	8
Other cash flows			628	–	–	–	628
Non-cash movements							
Fair value and other adjustments			–	25	(26)	–	(1)
Exchange movements			(10)	6	7	–	3
At 31 July 2019	1,133	(47)	1,086	22	(2,297)	(6)	(1,195)

30 – Related party transactions

In the year ended 31 July 2019, the Group purchased goods and services on an arms length basis totalling \$7 million from and owed \$nil in respect of these goods and services to a company that is controlled by another company in respect of which one of the Group's Non Executive Directors is the chief executive officer.

There are no other related party transactions requiring disclosure under IAS 24 "Related Party Disclosures" in the years ended 31 July 2019 and 31 July 2018 other than the compensation of key management personnel which is set out in note 11.

31 – Operating lease commitments

Future minimum lease payments under non-cancellable operating leases for the following periods are:

	2019 \$m	2018 \$m
Less than one year	342	328
After one year and less than five years	631	591
After five years	153	162
Total operating lease commitments	1,126	1,081

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 2019, provisions include an amount of \$29 million (2018: \$32 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 2019 is \$3 million (2018: \$6 million).

32 – 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.

33 – Post-balance sheet events

Since the year-end, the Group has announced its intention to demerge its UK operations, subject to shareholder approval. On completion of the transaction Wolseley UK will become an independent listed company.

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 2019 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 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; 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 and Company income statements;
- the Group statement of comprehensive income;
- the Group and Company statements of changes in equity;
- the Group and Company balance sheets;
- the Group cash flow statement;
- the notes to the consolidated financial statements 1 to 33; and
- the notes to the Company's financial statements 1 to 13.

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 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (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 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.

While the Company is not a public interest entity subject to European Regulation 537/2014, the Directors have decided that the Company should follow the same requirements as if that Regulation applied to 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 audit matters that we identified in the current year were: <ul style="list-style-type: none"> – appropriateness of supplier rebates; and – inventory provision for slow-moving and obsolete inventory.
Materiality	The materiality that we used for the Group financial statements was \$70 million (2018: \$65 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 have performed full scope audits of two components, being the USA and UK, as well as on Head Office entities and the consolidation process. We have performed an audit of certain specified account balances on one component, Canada. Full scope audits represent 99% of the Group's revenue and 93% of the Group's net assets.
Significant changes in our approach	Our approach is consistent with the previous year with the exception of: <ul style="list-style-type: none"> – a change in the scope of our audit work in Canada from a full-scope audit to an audit of certain specified account balances (being revenue, cost of goods sold and inventory); and – the exclusion of the key audit matter relating to the accounting for the disposal of the Nordic businesses which was completed in the prior year. <p>In addition, the Group has introduced a new parent company now called Ferguson plc; this introduction constitutes a group reconstruction and has been accounted for as a reverse acquisition in accordance with IFRS 3 "Business Combinations" and using merger accounting principles. See notes 1 and 25 for further information in relation to this. We have therefore included comparative information in relation to our scoping and materiality, which relates to the old parent company.</p>

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 considered as part of our risk assessment the nature of the Group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the Directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the Directors' plans for future actions in relation to their going concern assessment.

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 47 to 53 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation on page 79 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 48 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 69 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 17 and 20 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. The risk relates to the US business given the accrued tiered arrangements in UK and Canada are not material.

How the scope of our audit responded to the key audit matter



Our procedures on supplier rebates included:

- evaluating the design and implementation 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;
- challenging 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



The Group has improved its estimation methodology during the year to reflect recent experience of achieving tiered rebates. 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 2019.

Independent auditor's report to the members of Ferguson plc (continued)

Inventory provision for slow-moving and obsolete inventory

Key audit matter description



The Group had inventories of \$2,821 million at 31 July 2019, 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 69 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 16 to the consolidated financial statements, inventories are net of a provision of \$176 million which is primarily driven by comparing the level of inventory held to future projected sales.

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 the provision may be overstated.

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 through a range of procedures performed across the US and UK businesses, as relevant. This included:

- evaluating the design and implementation of relevant inventory provision controls operating across the Group, including those at a sample of distribution centres, warehouses and branches;
- performing analytics to determine whether there is any significant change in the product lines requiring provision and whether there is any indication the provision may be overstated as a result;
- forming an expectation of the inventory obsolescence reserve at year-end based on prior year ratios;
- testing the completeness and accuracy of data included in the provision models by attending a sample of stock counts and by agreeing a sample of historic demand to supporting evidence of the sale;
- extending management's model to include older historic data and extrapolating the demand trend-lines to assess whether management's assumptions do not result in a material difference in the level of provision required; and
- 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.

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 2019.

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	\$70 million (2018: \$65 million)	\$28 million (2018: \$26 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 \$1,424 million, which was \$100 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 40% 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.



■ PBT excluding exceptional items and impairment of interests in associates ■ Group materiality

We agreed with the Audit Committee that we would report to them all audit differences in excess of \$3.5 million (2018: \$3.3 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 performed at the two key components in the USA and the UK. Full scope audits were performed in these two components by local component auditors under the direction and supervision of the Group audit team, as was the case in the prior year. The scope of work performed on one component, Canada, which is performed by a local component team under the direction and supervision of the Group audit team, has reduced this year to an audit of specified account balances (being revenue, cost of goods sold and inventory) based on its contribution to the Group's results.

Our audit work on the three components was executed at levels of materiality applicable to each individual entity which were lower than Group materiality and ranged from \$28.0 million to \$59.5 million (2018: \$26.0 million to \$55.3 million).

Of continuing results, the full scope procedures provided coverage of 99% of revenue (2018: 99%), 96% (2018: 99%) of the profit before tax and 93% (2018: 98%) of the net assets.

At the Company level we also tested the consolidation process and 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 or audit of specified account balances. The Company is located in the UK and is audited directly by the Group audit team.

The Group audit team continued to follow a programme of planned visits designed to enhance our oversight of the component teams. The Lead Audit Partner, and other senior members of the Group team visited the USA and UK locations. A senior member of the Group audit team visited Canada. During our visits, we attended key meetings with component management and auditors, and reviewed detailed component audit work papers.

In addition to the planned program of visits, planning meetings were also held with key component audit teams. The purpose of these planning meetings was to ensure a good level of understanding of the Group's businesses, its core strategy and a discussion of the significant risks.

As part of our oversight of the component teams we sent detailed instructions, included them in our team briefings and discussed their risk assessment. We also provided direction on enquiries made by the component auditors through online and telephone conversations. All the findings noted were discussed with the component auditors in detail and further procedures to be performed were issued where relevant.

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.

Independent auditor's report to the members of Ferguson plc (continued)

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 matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

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; and
- 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 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 4 years, covering the years ending 31 July 2016 to 31 July 2019.

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**

(Senior statutory auditor)
For and on behalf of Deloitte LLP
Recognised Auditor
London, UK
30 September 2019

Company income statement

For the period from 8 March 2019 to 31 July 2019

	2019 \$m
Administrative expenses	(14)
Loss on ordinary activities before interest	(14)
Interest receivable and similar income from Group companies	3
Loss for the financial period	(11)

Company statement of changes in equity

For the period from 8 March 2019 to 31 July 2019

	Notes	Called up share capital \$m	Share premium \$m	Treasury shares reserve \$m	Retained earnings \$m	Total shareholders' equity \$m
Loss for the period		–	–	–	(11)	(11)
Scheme of Arrangement		30	16,150	–	–	16,180
Capital reduction		–	(16,150)	–	16,150	–
Issue of share capital		–	9	–	–	9
Credit to equity for share-based payments	8	–	–	–	9	9
Purchase of Treasury shares		–	–	(309)	–	(309)
Disposal of Treasury shares	7	–	–	4	(2)	2
At 31 July 2019		30	9	(305)	16,146	15,880

On 10 May 2019 the Company became the holding company of the Ferguson Group, recording the cost of its investment in the old Ferguson holding company at the fair value at that date of \$16,180 million. On 10 May 2019 the Company undertook a reduction of capital under which the entire amount of the share premium account was cancelled and transferred as a distributable amount to retained earnings.

Company balance sheet

Period ended 31 July 2019

	Notes	2019 \$m
Fixed assets		
Investments in subsidiaries	3	16,180
		16,180
Current liabilities		
Creditors: amounts falling due within one year	4	(300)
Net current liabilities		(300)
Net assets		15,880
Capital and reserves		
Called up share capital	5	30
Share premium		9
Treasury shares reserve	7	(305)
Retained earnings		16,146
Total shareholders' equity		15,880

The accompanying notes are an integral part of these Company financial statements.

The Company financial statements on pages 156 to 159 were approved by the Board of Directors on 30 September 2019 and were signed on its behalf by:



John Martin
Group Chief Executive



Mike Powell
Group Chief Financial Officer

Notes to the Company financial statements

Period ended 31 July 2019

1 – Corporate information

Ferguson plc (the “Company”) was incorporated and registered in Jersey on 8 March 2019 under the Jersey Companies Law as a limited company under the name Alpha JCo Limited with company number 128484. On 26 March 2019 the Company was converted to a public company and changed its name to Ferguson NewCo plc (subsequently changed to Ferguson plc on 10 May 2019). 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 the UK.

On 10 May 2019 the Company became the ultimate holding company of the then Ferguson plc (the former holding company of the Ferguson Group of companies (“Old Ferguson”)), a public limited company incorporated in Jersey, pursuant to a Scheme of Arrangement under Article 125 of the Companies (Jersey) Law 1991 that was approved by the Royal Court of Jersey and the shareholders of Old Ferguson (the “Scheme of Arrangement”). Pursuant to the Scheme of Arrangement, all of the ordinary shares of Old Ferguson were exchanged on a one-for-one basis for ordinary shares of the Company. The ordinary shares of the Company were then listed on the London Stock Exchange’s main market. Trading in these shares commenced on 10 May 2019.

As a result of the Scheme of Arrangement Old Ferguson is now a wholly owned subsidiary of the Company and it has since re-registered as a private limited company and changed its name to Ferguson Holdings Limited. The Scheme of Arrangement did not involve any cash payment for ordinary shares.

The principal activity of the Company is to act as the ultimate holding company of the Ferguson Group of companies.

2 – Company accounting policies

Basis of accounting

The separate financial statements of the Company are presented in compliance with the requirements for companies whose shares are traded on the London Stock Exchange’s main market. They have been prepared on a going concern basis and under the historical cost convention and in accordance with the Companies (Jersey) Law 1991 and United Kingdom Generally Accepted Accounting Practice (“UK GAAP”) including FRS 102 (Financial Reporting Standard 102) “The Financial Reporting Standard applicable in the UK and Republic of Ireland” as issued by the FRC.

As permitted by FRS 102, the Company has taken advantage of the disclosure exemptions available under that standard as a qualifying entity in relation to share-based payments, financial instruments, presentation of a cash flow statement, key management personnel and related party transactions.

The financial statements of the Company cover the period from incorporation on 8 March 2019 to 31 July 2019 and hence, no comparative information is presented.

Note 4 (Operating profit) on page 123, note 9 (Dividends) on page 126, note 25 (Share capital) on pages 144 to 145 and note 33 (Post-balance sheet events) on page 149 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 2019.

Foreign currency transactions entered into during the period 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 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 long-term incentive plans and all-employee sharesave 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 the 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.

Taxation

Current tax represents the expected tax payable (or recoverable) on the taxable income 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.

Provision is made for deferred taxation in so far as a liability or asset has arisen as a result of transactions that had occurred by the balance sheet date and have given rise to an obligation to pay more tax in the future, or the right to pay less tax in the future. An asset has not been recognised to the extent that the transfer of economic benefits in the future is uncertain. Deferred tax assets and liabilities recognised have not been discounted. Provision is made for UK or foreign taxation arising on the distribution to the UK of retained profits of overseas subsidiary undertakings where dividends have been recognised as receivable.

3 – Fixed asset investments

	Cost \$m
Scheme of Arrangement	16,180
At 31 July 2019	16,180

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.

Following the Scheme of Arrangement on 10 May 2019, the Company recorded the cost of its investment in Old Ferguson, which changed its name to Ferguson Holdings Limited, at the fair value at that date of \$16,180 million.

The Company's direct holdings in subsidiary undertakings as at 31 July 2019 were as follows:

Company	Country of incorporation	Principal activity	Ordinary shares held %
Ferguson Holdings Limited	Jersey	Investment	100

Details of the subsidiary undertakings of the Company, including those that are held indirectly, are listed on pages 162 and 163 of the Ferguson plc Annual Report.

4 – Creditors: amounts falling due within one year

	2019 \$m
Bank overdrafts	1
Other creditors	159
Amounts owed to Group companies	140
Total	300

Other creditors comprises \$159 million payable in relation to the irrevocable and non-discretionary share buy back programme, as detailed in note 25 on pages 144 to 145 to the Ferguson plc consolidated financial statements.

The fair value of amounts included in creditors approximates to book value. Bank overdrafts are interest bearing, carrying an interest rate of 1.0 per cent and are payable on demand. Amounts owed to Group companies are interest bearing, carrying an interest rate of 2.7 per cent and are payable on demand.

5 – Share capital

Details of the Company's share capital are set out in note 25 on pages 144 to 145 to the Ferguson plc consolidated financial statements.

6 – Share premium account

Details of new share capital subscribed are set out in note 25 on pages 144 to 145 to the Ferguson plc consolidated financial statements.

7 – Treasury shares

Details of Treasury shares are set out in note 25 on pages 144 to 145 to the Ferguson plc consolidated financial statements.

8 – Share-based payments

The net profit and loss charge to the Company for equity-settled share-based payments was \$nil. The Company charged the full amount incurred for equity-settled share-based payments of \$9 million to its subsidiary undertakings.

9 – 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 24 on pages 140 to 143 to the Ferguson plc consolidated financial statements.

10 – Employees, employee costs and auditor's remuneration

The average number of employees of the Company in the period ended 31 July 2019 was nil. 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 \$nil.

Fees payable to the auditor for the audit of the Company's financial statements are set out in note 4 on page 123 to the Ferguson plc consolidated financial statements.

11 – Dividends

Details of the Company's dividends are set out in note 9 on page 126 to the Ferguson plc consolidated financial statements.

12 – Related party transactions

The Company is exempt under the terms of FRS 102 from disclosing related party transactions with entities that are 100 per cent owned.

13 – Post-balance sheet events

Details of post-balance sheet events are given in note 33 on page 149 to the Ferguson plc consolidated financial statements.

Five-year summary

	2019 \$m	2018 \$m	2017 \$m	2016 \$m	2015 \$m
Revenue					
USA	18,358	16,670	15,193	13,808	13,014
UK	2,281	2,568	2,548	2,915	3,100
Canada and Central Europe	1,371	1,514	1,543	1,602	1,775
Continuing operations	22,010	20,752	19,284	18,325	17,889
Trading profit					
USA	1,508	1,406	1,224	1,132	1,062
UK	65	73	96	108	140
Canada and Central Europe	76	83	71	77	86
Central and other costs	(43)	(55)	(50)	(66)	(67)
Continuing operations	1,606	1,507	1,341	1,251	1,221
Amortisation of acquired intangible assets	(110)	(65)	(81)	(70)	(64)
Impairment of goodwill and acquired intangible assets	–	–	–	(125)	(6)
Exceptional items	(94)	(82)	218	(6)	(3)
Operating profit	1,402	1,360	1,478	1,050	1,148
Net finance costs	(74)	(53)	(54)	(71)	(11)
Share of profit/(loss) after tax of associates	2	2	(1)	–	–
Gain on disposal of interests in associates	3	–	–	–	–
Impairment of interests in associates	(9)	(122)	–	–	–
Profit before tax	1,324	1,187	1,423	979	1,137
Tax	(263)	(346)	(370)	(307)	(335)
Profit from continuing operations	1,061	841	1,053	672	802
Profit/(loss) from discontinued operations	47	426	(133)	159	(409)
Profit for the year attributable to shareholders of the Company	1,108	1,267	920	831	393
Ordinary dividends	(449)	(390)	(328)	(350)	(345)
Special dividend	–	(974)	–	–	–
Total dividends	(449)	(1,364)	(328)	(350)	(345)
Net assets employed					
Intangible fixed assets	2,079	1,716	1,413	1,460	1,579
Property, plant and equipment	1,349	1,086	1,068	1,897	1,819
Other net assets, excluding liquid funds	2,117	2,336	2,768	1,721	1,922
	5,545	5,138	5,249	5,078	5,320
Financed by					
Share capital	30	45	45	45	45
Share premium	9	67	67	67	67
Retained earnings and other reserves	4,311	3,946	4,431	3,728	3,950
Equity attributable to shareholders of the Company	4,350	4,058	4,543	3,840	4,062
Net debt	1,195	1,080	706	1,238	1,258
Net assets employed	5,545	5,138	5,249	5,078	5,320

Continuing operations (unless otherwise stated)	2019	2018	2017	2016	2015
Organic revenue growth (ongoing)	4.4%	7.5%	6.0%	3.3%	7.8%
Gross margin (before exceptional items)	29.4%	29.2%	29.0%	28.6%	28.3%
Trading margin	7.3%	7.3%	7.0%	6.8%	6.8%
Headline earnings per share	517.4c	444.4c	366.1c	342.7c	322.4c
Basic earnings per share from continuing and discontinued operations	481.3c	515.7c	366.1c	327.8c	151.6c
Dividends per share (in respect of the financial year)	208.2c	189.3c	156.4c	132.1c	135.6c
Special dividend per share	–	400.0c	–	–	–
Cover for ordinary dividends	2.5	2.3	2.3	2.6	2.4
Net tangible assets per ordinary share	978.9c	925.7c	1,172.3c	891.4c	930.0c
Return on gross capital employed	26.2%	22.7%	18.6%	17.5%	16.2%
Cash generated from operations from continuing and discontinued operations (\$m)	1,609	1,323	1,410	1,488	1,462
Average number of employees	35,939	34,056	33,511	32,269	31,033
Number of shares in issue at year-end (million)	232	253	267	267	267
Number of branches at year-end					
Continuing operations	2,259	2,280	2,310	2,498	2,480
Discontinued operations	–	–	239	256	427
Total branches	2,259	2,280	2,549	2,754	2,907
Pounds sterling translation rate					
Income statement	0.78	0.74	0.79	0.68	0.64
Balance sheet	0.82	0.76	0.76	0.76	0.64
Euro translation rate					
Income statement	0.88	0.84	0.91	0.90	0.85
Balance sheet	0.90	0.86	0.84	0.89	0.91
Canadian dollars translation rate					
Income statement	1.32	1.27	1.32	1.33	1.19
Balance sheet	1.32	1.30	1.25	1.30	1.31

Group companies

The Ferguson Group comprises a large number of companies. This list includes only those subsidiaries owned by the Company at 31 July 2019 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
Ferguson Enterprises, LLC	Operating company	USA
Ferguson Finance (Switzerland) AG	Financing company	Switzerland
Ferguson Finance plc	Financing company	England and Wales
Ferguson Global AG	Operating company	Switzerland
Ferguson Group Services Limited	Service company	England and Wales
Ferguson Holdings (Switzerland) AG	Investment company	Switzerland
Ferguson US Holdings, Inc.	Investment company	USA
Wolseley Canada Inc.	Operating company	Canada
Wolseley Capital, Inc.	Financing company	USA
Wolseley Insurance Limited	Operating company	Isle of Man
Wolseley Limited	Investment company	England and Wales
Wolseley UK Limited	Operating company	England and Wales

1. All 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 2019. 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

8933111 Canada Inc. (Canada) ⁽ⁱ⁾⁽¹⁰⁾	Ferguson Finance (Switzerland) AG (Switzerland) ⁽ⁱⁱⁱ⁾⁽³⁾	Heating Replacement Parts & Controls Limited (England) ⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽²⁾
A. C. Electrical Holdings Limited (England) ^{(viii)(19)}	Ferguson Finance plc (England) ⁽ⁱⁱⁱ⁾⁽²⁾	Heatmerchants Limited (England) ⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽²⁾
A. C. Electrical Wholesale Limited (England) ⁽ⁱⁱⁱ⁾⁽¹⁹⁾	Ferguson Fire & Fabrication, Inc. (USA) ⁽ⁱⁱⁱ⁾⁽¹⁾	HM Wallace, Inc. (USA) ⁽ⁱⁱⁱ⁾⁽¹⁾
A C Ferguson Limited (Scotland) ⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽¹⁶⁾	Ferguson Global AG (Switzerland) ⁽ⁱⁱⁱ⁾⁽³⁾	Homeoutlet Online Limited (England) ^{(ii)(iii)(xv)(19)}
Advancechief Limited (England) ⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽²⁾	Ferguson Group Services Limited (England) ⁽ⁱⁱⁱ⁾⁽²⁾	HP Logistics, Inc. (USA) ^{(ix)(1)}
AMRE Supply Canada Inc. (Canada) ^{(ix)(10)}	Ferguson Holding A/S (Denmark) ⁽ⁱⁱⁱ⁾⁽¹⁴⁾	Improvement Brands Holdings, Inc. (USA) ^{(ix)(1)}
B Participations SAS (France) ⁽ⁱⁱⁱ⁾⁽⁶⁾	Ferguson Holdings (Switzerland) AG (Switzerland) ⁽ⁱⁱⁱ⁾⁽³⁾	James Electric Motor Services Ltd. (Canada) ^{(ix)(10)}
British Fittings Central Limited (England) ⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽²⁾	Ferguson Holdings Limited (Jersey) ⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽²⁾	James Martin Signature Vanities, LLC (USA) ^{(ix)(1)}
British Fittings Company (North Eastern) Limited (England) ⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽²⁾	Ferguson Investment Holdings Limited (England) ⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽²⁾	Jones Stephens Corp. (USA) ^{(ix)(1)}
British Fittings Group Limited (England) ⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽²⁾	Ferguson Nordic Holdings ApS (Denmark) ⁽ⁱⁱⁱ⁾⁽¹⁴⁾	Jones Stephens Global Sourcing (Wuxi) Ltd. (China) ⁽ⁱⁱⁱ⁾⁽²⁶⁾
British Fittings Limited (England) ⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽²⁾	Ferguson Panama, S.A. (Panama) ^{(ix)(4)}	Julise Limited (England) ⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽²⁾
Broughton's Limited (England) ⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽²⁾	Ferguson Property (Finland) Oy (Finland) ⁽ⁱⁱⁱ⁾⁽²²⁾	King & Company (1744) Limited (England) ⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽²⁾
Build Center Limited (England) ⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽²⁾	Ferguson Property (Sweden) AB (Sweden) ⁽ⁱⁱⁱ⁾⁽²³⁾	Living Direct, Inc. (USA) ^{(ix)(1)}
Build.com, Inc. (USA) ^{(ix)(1)}	Ferguson Property Denmark A/S (Denmark) ⁽ⁱⁱⁱ⁾⁽¹⁴⁾	M. A. Ray & Sons Limited (England) ⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽²⁾
Builder Center Limited (England) ⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽²⁾	Ferguson Puerto Rico, Inc. (Puerto Rico) ^{(ix)(1)}	Matera Paper Company, Inc. (USA) ^{(ix)(1)}
Building and Engineering Plastics Limited (England) ⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽²⁾	Ferguson Receivables, LLC (USA) ^{(ix)(1)}	Max Industries, LLC (USA) ^{(ix)(1)}
Caselco Limited (England) ⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽²⁾	Ferguson Sourcing (Switzerland) AG (Switzerland) ⁽ⁱⁱⁱ⁾⁽³⁾	Melanie Limited (England) ⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽²⁾
Clawfoot Supply, LLC (USA) ^{(ix)(1)}	Ferguson Swiss Holdings Limited (England) ⁽ⁱⁱⁱ⁾⁽²⁾	Millennium Lighting, Inc. (USA) ^{(ix)(1)}
Clayton International, LLC (USA) ^{(ix)(1)}	Ferguson US Holdings, Inc. (USA) ⁽ⁱⁱⁱ⁾⁽¹⁾	MPS Builders Merchants Limited (England) ^{(iii)(xv)(19)}
Controls Center Limited (England) ⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽²⁾	Fusion Provida Holdco Limited (England) ⁽ⁱⁱⁱ⁾⁽¹⁹⁾	Nevill Long Limited (England) ^{(iii)(xv)(19)}
Crew-Davis Limited (England) ⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽²⁾	G. L. Headley Limited (England) ⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽²⁾	Ningbo Ferguson Global Company Limited (China) ⁽ⁱⁱⁱ⁾⁽¹⁷⁾
DBS Holdings, Inc. (USA) ^{(ix)(1)}	Glegg & Thomson Limited (Scotland) ⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽¹⁶⁾	Northern Heating Limited (Scotland) ⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽¹⁶⁾
Drain Center Limited (England) ⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽²⁾	H P Products Corporation (USA) ^{(ix)(1)}	Northern Heating Supplies Limited (Scotland) ⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽¹⁶⁾
Energy & Process Corporation (USA) ^{(ix)(1)}	Hall & Co. Limited (England) ⁽ⁱⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽¹⁹⁾	
FEI Ventures, LLC (USA) ^{(ix)(1)}		
Ferguson Enterprises, LLC (USA) ^{(ix)(1)}		

Fully owned subsidiaries continued

Nu-Way Heating Plants Limited (England)⁽ⁱ⁾⁽ⁱⁱ⁾⁽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⁾
 Pipeline Controls Limited (England)⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽²⁾
 Plumb-Center Limited (England)⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽²⁾
 Plumbing Holdings Corporation^{(ix)(1)}
 Power Equipment Direct Inc. (USA)^{(ix)(1)}
 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)⁽ⁱⁱ⁾⁽¹⁴⁾
 Safe Step Walk In Tub, LLC (USA)^{(ix)(24)}
 Sellers of Leeds (Group Services) Limited (England)⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽²⁾
 Sellers of Leeds International Limited (England)⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽²⁾
 Sellers of Leeds Limited (England)^{(viii)(19)}
 SEMSCO Barbados, LLC (USA)^{(ix)(1)}
 Shanghai Du Te International Trading Company (China)⁽ⁱⁱ⁾⁽¹⁸⁾
 St. Nicholas Finance Limited (England)^{(ii)(viii)(2)}
 Stock Loan Services, LLC (USA)^{(ix)(1)}
 T & R Electrical Wholesalers Ltd (England)⁽ⁱⁱ⁾⁽¹⁹⁾
 Tellum Construction, LLC (USA)^{(ix)(1)}
 Thames Finance Company Limited (England)⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽²⁾
 Thomson Brothers Limited (Scotland)⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽¹⁶⁾
 Uni-Rents Limited (England)⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽²⁾
 Utility Power Systems Limited (England)^{(v)(19)}
 Wholesale Group Operations, Inc. (USA)^{(ix)(1)}
 Wholesale Supplies (C.1.) Ltd (Jersey)^{(ii)(ix)(19)}
 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)^{(ii)(v)(16)}
 William Wilson Ltd (Scotland)⁽ⁱⁱ⁾⁽¹⁶⁾
 WM. C. Yuille & Company Limited (Scotland)⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽¹⁶⁾
 Wolseley (Barbados) Ltd (Barbados)^{(ix)(1)}
 Wolseley Bristol Limited (England)⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽²⁾
 Wolseley Canada Inc. (Canada)^{(ix)(1)}
 Wolseley Capital, Inc. (USA)^{(ix)(1)}
 Wolseley Centers Limited (England)⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽²⁾
 Wolseley Centres Limited (England)⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽²⁾
 Wolseley de Puerto Rico, Inc. (Puerto Rico)^{(ix)(1)}

Wolseley Developments Limited (England)⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽²⁾
 Wolseley Directors Limited (England)⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽²⁾
 Wolseley ECD Limited (Northern Ireland)^{(ii)(iii)(xv)(8)}
 Wolseley Engineering Limited (England)⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽²⁾
 Wolseley Europe Limited (England)⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽²⁾
 Wolseley Finance (Isle of Man) Limited (Isle of Man)^{(ii)(viii)(xv)(7)}
 Wolseley Finance (Thames) Limited (England)⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽²⁾
 Wolseley Finance (Theale) Limited (England)^{(ii)(viii)(2)}
 Wolseley Group Holdings Limited (England)⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽²⁾
 Wolseley Haworth Limited (England)⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽¹⁹⁾
 Wolseley Holding A/S (Denmark)⁽ⁱⁱ⁾⁽¹⁴⁾
 Wolseley Holdings (Ireland) Unlimited Company (Republic of Ireland)^{(ii)(iii)(xv)(5)}
 Wolseley Holdings Canada Inc. (Canada)^{(ix)(1)}
 Wolseley Industrial Canada Inc. (Canada)⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽¹⁾
 Wolseley Insurance Limited (Isle of Man)^{(viii)(20)}
 Wolseley Integrated de Mexico, S.A. de C.V. (Mexico)^{(ix)(2)}
 Wolseley Integrated Services Inc. (Canada)^{(ix)(1)}
 Wolseley Investments Limited (England)⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽²⁾
 Wolseley Limited (England)⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽²⁾
 Wolseley NA Construction Services, LLC (USA)^{(ix)(1)}
 Wolseley Nordic Holdings AB (Sweden)⁽ⁱⁱ⁾⁽²³⁾
 Wolseley Overseas Limited (England)⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽²⁾
 Wolseley Pension Trustees Limited (England)⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽²⁾
 Wolseley Properties Limited (England)⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽²⁾
 Wolseley (Shanghai) Holdings AG (Switzerland)⁽ⁱⁱ⁾⁽³⁾
 Wolseley QUEST Limited (England)⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽²⁾
 Wolseley Trinidad Ltd (Trinidad and Tobago)⁽ⁱⁱ⁾⁽¹³⁾
 Wolseley UK Directors Limited (England)⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽¹⁹⁾
 Wolseley UK Finance Limited (Guernsey)^{(ii)(iii)(xv)(15)}
 Wolseley UK Limited (England)^{(viii)(19)}
 Wolseley Utilities Limited (England)⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽¹⁹⁾
 Wolseley-Hughes Limited (England)^{(ii)(iii)(xv)(2)}
 Wolseley-Hughes Merchants Limited (England)⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽²⁾
 Wright (Bedford) Limited (England)⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽²⁾
 Yorkshire Heating Supplies Limited (England)⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾⁽²⁾

Associated undertakings

Group Silverline Limited (England)^{(xii)(25)}
 GTP Services, LLC (USA)^{(xiii)(27)}

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 ordinary and preference shares
- (ix) Ownership held in common stock
- (x) Ownership held in common stock and preferred stock
- (xi) Ownership held as membership interests
- (xii) Ownership held as 100% of preference shares
- (xiii) Ownership held as 85% of series A preferred units
- (xiv) Companies controlled by the Group based on management's assessment
- (xv) Applied for strike off

Registered office addresses:

- (1) 12500 Jefferson Avenue, Newport News VA 23602, United States of America
- (2) 1020 Eskdale Road, Winners Triangle, Wokingham, RG41 5TS, United Kingdom
- (3) Grafenauweg 10, CH-6301, Zug, Switzerland
- (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) 26 New Street, St Helier, Jersey, JE2 3RA, Channel Islands
- (13) Building no 6, Fernandes Industrial Centre, Eastern Main Road, Laventille, Port of Spain, Trinidad and Tobago
- (14) Sundkrogsgade 21, 2100, København, Denmark
- (15) Gategny Court, Gategny Esplanade, St Peter Port, GY1 1WR, Guernsey
- (16) Hareness Road, Altens Industrial Estate, Aberdeen, AB12 3QA, United Kingdom
- (17) Room 1203, Building 1 (Beilun Financial Building), 527 Baoshan Road, Xinqi, Beliu District, Ningbo, China
- (18) Room 306-1 Building 2, 3000 Yixian Road, Baoshan district, Shanghai, China
- (19) 2 Kingmaker Court, Warwick Technology Park, Gallows Hill, Warwickshire, CV34 6DY, United Kingdom
- (20) Tower House, Loch Promenade, Douglas, Isle of Man, IM1 2LZ, Isle of Man
- (21) Carretera a General Cepeda 8395, Derramadero, Coahuila, 25300, Mexico
- (22) Bulevardi 1, FI-00100 Helsinki, Finland
- (23) Box 162 85, 103 25, Stockholm, Sweden
- (24) 402 BNA Drive, Suite 350, Nashville, TN 37217, United States of America
- (25) Boundary Way, Lufton Trading Estate, Yeovil, Somerset, BA22 8HZ, United Kingdom
- (26) No. 18 Xinxu Street, Suite 620, Liangxi District, Wuxi City, Juiangsu, China
- (27) 9375 Spruce Mountain Rd., Larkspur, CO 80118, United States of America

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 the remainder of calendar year 2019 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.

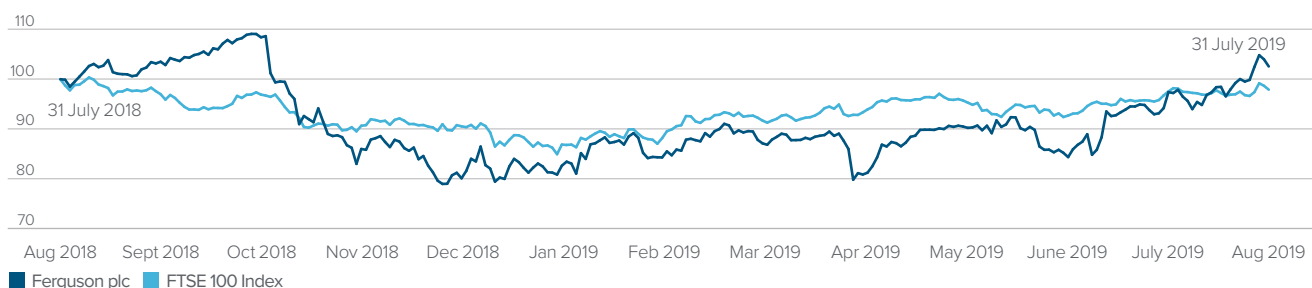
21 November 2019, 12.30pm	Ferguson plc 2019 Annual General Meeting
28 November 2019	2019 final dividend payment date
3 December 2019	Announcement of first-quarter trading results

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 six events affecting the share capital of Ferguson plc:

2019 – Scheme of arrangement and redomiciliation and consequential redenomination of shares as 10 pence.

2018 – Special dividend, share consolidation and consequential redenomination of shares as $11\frac{22}{63}$ 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 $10\frac{5}{4}$ 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 Depository:

J.P. Morgan Depository Receipts
383 Madison Avenue, Floor 11
New York, NY 10179
Email enquiries: adr@jpmorgan.com

Telephone: Within the USA toll free: +1 800 990 1135
Outside the USA: +1 651 453 2128
Global Invest Direct: +1 800 428 4267
Website: www.adr.com

Dividend

Proposed final dividend

145.1 cents per share

The Directors have recommended a final dividend of 145.1 cents per share. Payment of this dividend is subject to approval at the 2019 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	24 October 2019
Record date	25 October 2019
Last day for DRIP and USD currency elections	7 November 2019
USD/pounds sterling exchange rate announcement	18 November 2019
AGM (to approve final dividend)	21 November 2019
Payment date	28 November 2019
DRIP certificates posted/CREST accounts credited	3 December 2019





Dividend history

Details of dividends paid in the financial years 2017/18 and 2018/19 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
2018/19	Interim 2019	63.10 cents ¹	5 April 2019	30 April 2019	£54.4866
2017/18	Final 2018	131.9 cents ²	26 October 2018	5 December 2018	£49.5851
2017/18	Special 2018	400.00 cents ³	8 June 2018	29 June 2018	£61.3223
2017/18	Interim 2018	57.40 cents ⁴	6 April 2018	27 April 2018	£56.1354

1. Shareholders who elected to receive the 2019 interim dividend of 63.10 cents per share in pounds sterling received 48.11 pence per share.
2. Shareholders who elected to receive the 2018 final dividend of 131.90 cents per share in pounds sterling received 102.46 pence per share.
3. Shareholders who elected to receive the 2018 special dividend of 400.00 cents per share in pounds sterling received 300.83 pence per share.
4. 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 currency¹. 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 2019 final dividend, our Registrars, Equiniti, must have received the instruction by 7 November 2019. Instructions received by Equiniti after this date will be applied to the next dividend.

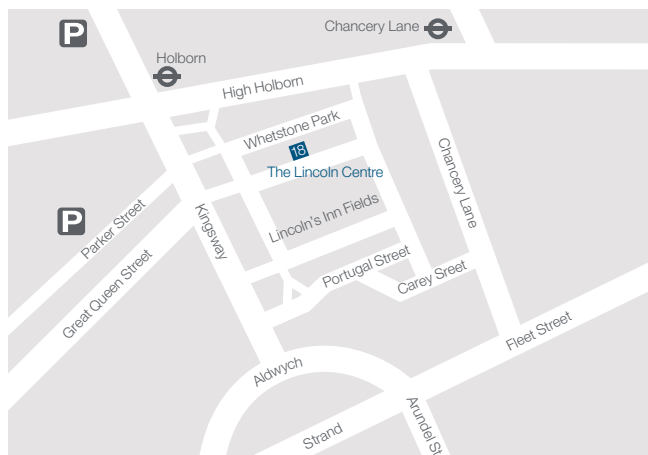
1. Please note that a payment charge would be deducted from each individual payment before conversion into your local currency.

Shareholder information (continued)

Shareholder communications**Annual General Meeting (“AGM”)**

The 2019 AGM will be held on Thursday, 21 November 2019 at The Lincoln Centre, 18 Lincoln's Inn Fields, London WC2A 3ED, United Kingdom and will commence at 12.30pm.

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. A venue location map is provided below.

London: AGM 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 (0049)
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

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. 128484 Jersey

Registered in the UK as Ferguson Group Holdings, UK
Establishment No. BRO21199

Corporate Headquarters and Group Services Office

Ferguson plc
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

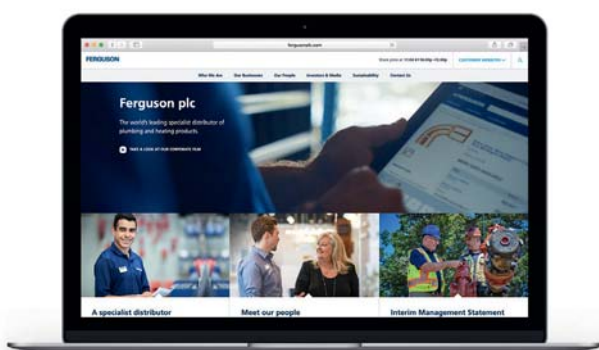
Corporate brokers

Barclays
JP Morgan Cazenove

Solicitor

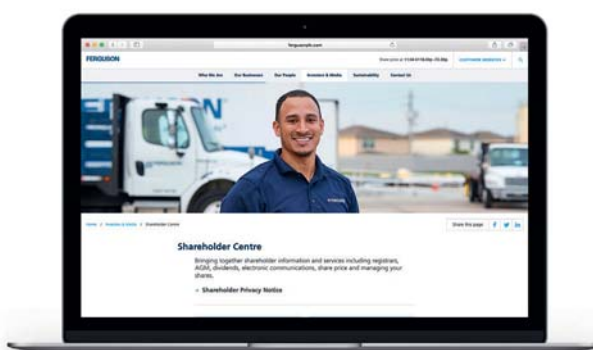
Freshfields Bruckhaus Deringer LLP

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.

Group information (continued)

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.

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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 CO₂ 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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